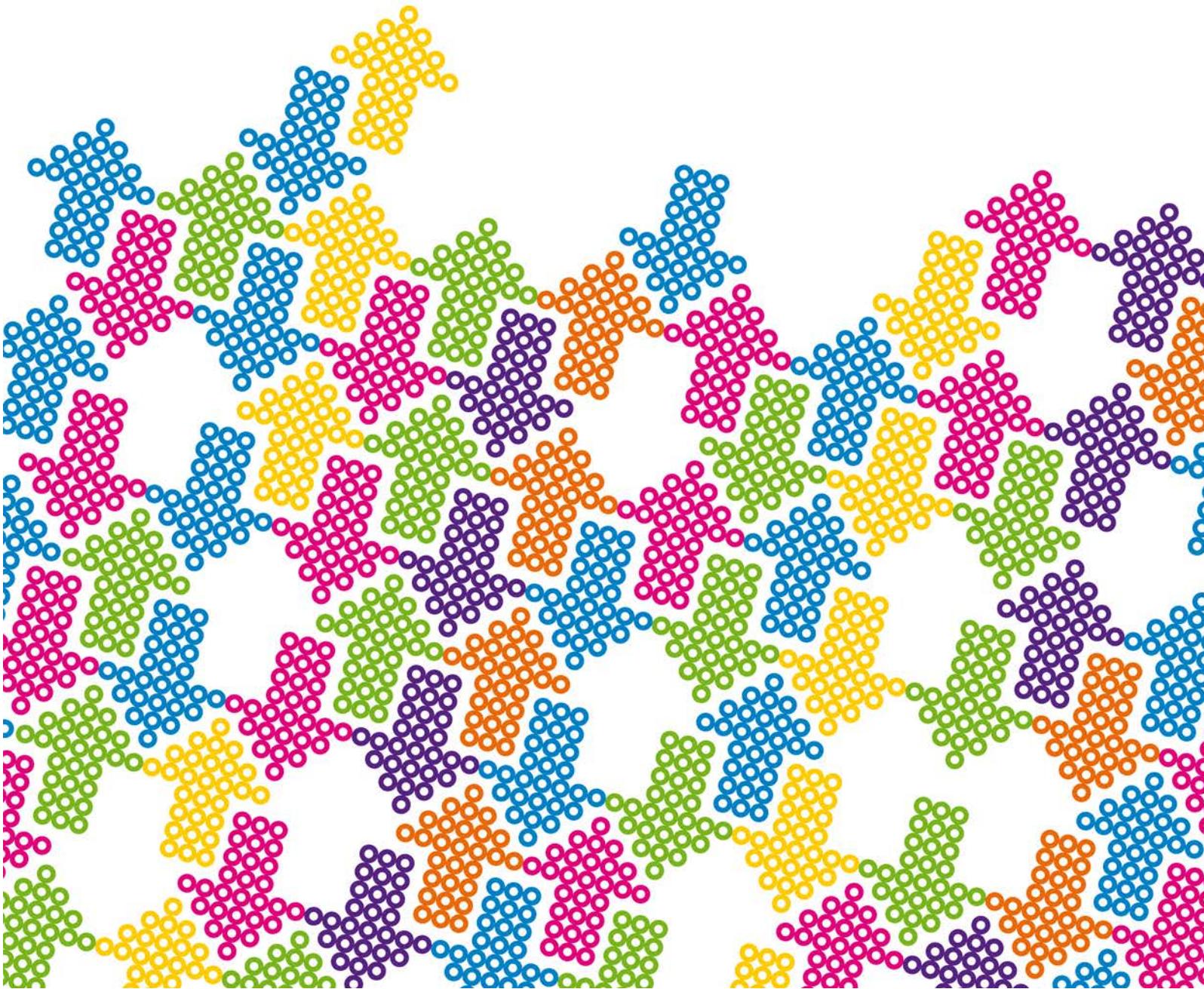




Costs of Doing Business in Ireland 2016

April 2016



Introduction to the National Competitiveness Council

The National Competitiveness Council reports to the Taoiseach and the Government, through the Minister for Jobs, Enterprise and Innovation on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

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.

The work of the National Competitiveness Council is underpinned by research and analysis undertaken by the Strategic Policy Division of the Department of Jobs, Enterprise and Innovation.

National Competitiveness Council Members

| | |
|-------------------|--|
| Prof Peter Clinch | Chair, National Competitiveness Council |
| Kevin Callinan | Deputy General Secretary, IMPACT Trade Union |
| Micheál Collins | Senior Research Officer, Nevin Economic Research Institute |
| Isolde Goggin | Chair, Competition and Consumer Protection Commission |
| Declan Hughes | Assistant Secretary, Department of Jobs, Enterprise and Innovation |
| Danny McCoy | Chief Executive Officer, Ibec |
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| Seán O'Driscoll | Chairman and Chief Executive Officer, Glen Dimplex Group |
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| Martin Shanahan | Chief Executive, IDA Ireland |
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Executive Summary

The National Competitiveness Council defines competitiveness as the ability of firms based in Ireland to compete in international markets. Competitiveness is a result of a diverse range of factors and policy inputs including, a supportive regulatory, tax and finance environment, good economic and technological infrastructure, a supply of quality talent and skills, productivity and costs.

The improved competitiveness of our exporting sector has been one of the economy's greatest strengths in recent years and has been key to economic growth and job creation. Competitiveness is critical to withstanding the vagaries of the global economic cycle. In general, countries rated as more competitive before the 2008 to 2010 global economic and financial crisis tended either to withstand it better or bounce back more quickly. The openness of the Irish economy means the competitiveness of the enterprise sector is particularly vulnerable to negative economic shocks which are outside the influence of domestic policymakers. These include unfavourable exchange rate movements, higher interest rates or oil prices or reduced demand from our major trading partners. Cost competitiveness is a critical foundation to withstand economic shocks.

At present, the headline level of economic growth in Ireland is remarkably strong, and the outlook is positive¹. There is, however, no opportunity for complacency. While the Irish economy is experiencing rapid growth the global economy is not proving as robust. The OECD estimates that global growth eased to around 3 per cent in 2015, well below its long-run average. Growth prospects in emerging and advanced economies are far from certain. While growth in the US and the UK, is set to remain relatively solid, at around 2.5 to 3 per cent per annum (although concerns about the impact of a possible Brexit create further uncertainty), euro area growth remains relatively subdued with forecasts hovering around 1.75 to 2 per cent per annum out to 2017.

The outlook for China is an important vector for global growth, given its large and rising contribution to global trade, investment and overall economic activity. Chinese exports and GDP growth rates continued to moderate in 2015, to just over 6.75 per cent, as the economy transitions from industrial- to services-based growth. A sharp slowdown in China would have an adverse impact on the global economy. While supportive macroeconomic policies and lower commodity prices are projected to strengthen global growth gradually through 2016 and 2017, a slowdown in emerging market economies is a drag on global trade. Subdued investment and productivity growth is checking the momentum of the recovery in advanced economies, particularly those in the Euro area. In addition, changes in monetary policy and interest rates, exchange rate and commodity price volatility, and geo-political uncertainty, particularly as regards the UK's membership of the EU all have the potential to weaken Ireland's positive growth trajectory.

Domestically, a number of short and medium term downside risks for Ireland have already emerged and these could potentially undermine national competitiveness, and ultimately growth. These pressures include emerging infrastructure bottlenecks, skills shortages and increasing levels of industrial unrest. Maintaining fiscal sustainability and a broad tax base; supporting structural reform, innovation, and productivity; and growing our enterprise and export base will remain significant immediate challenges for Irish policymakers.

¹ The difficulty of interpreting Irish national accounts data has been well publicised, for instance, see FitzGerald, J. Special Article: Problems Interpreting National Accounts in a Globalised Economy in ESRI. Quarterly Economic Commentary, Summer 2015. More recently, the NTMA have noted that the nature of growth in Ireland is distorted by intellectual Property imports and aircraft trade by aircraft leasing companies: both lead to an increase in investment but at the same time there is an equal increase in imports (impacting upon net exports). These impacts cancel each other at the aggregate level (i.e. they have no effect on GDP and GNP), but they do overestimate investment and underestimate net exports in the national accounts. See NTMA, Investor Presentation on Ireland: Outstanding Growth in a Sluggish World, March 2016

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 foreign direct 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 inflation, wage expectations and cost competitiveness.

The cost base for enterprise has improved across a range of metrics since 2009, (e.g. the cost of starting a business, communications costs and average income taxes) making Irish firms more competitive internationally and making Ireland a more attractive location in which firms can operate. However, Ireland remains a relatively high cost location and, therefore, addressing our cost competitiveness must remain a key economic priority for enterprise and the new Government. A range of downside risks exist here too and a series of upward cost pressures have emerged. As a result, the Council is concerned that recent improvements in competitiveness in Ireland are at serious risk of being reversed as the economy returns to growth, demand increases and capacity constraints develop².

Based on the summary cost profiles considered in Chapter 2, it is clear that the cost of labour is the most significant driver of business costs for most firms – particularly for services firms. While labour cost growth has remained modest in recent quarters, it has grown by more in Ireland (2.1%) than on average across the EU-28 (1.9%) and euro area (1.2%). It is to be expected that as the labour market tightens further, upward pressures will increase. While demands for wage increases are understandable after a period of economic stagnation and wage cuts, our relative competitive position will be negatively affected if wage growth outpaces that in competitor countries. Therefore, to ensure that wages are sustainable, wage growth should not outpace productivity growth but, at the same time, there must be a relentless focus on protecting real living standards by avoiding, as best as possible, significant increases in the costs of living. This is why the Council is advocating that attention be paid to a broad range of costs in an effort to promote a virtuous circle encompassing the costs of living, wage expectations, productivity and cost competitiveness.

Following several years of significant cost reductions the availability and cost of property is again a significant threat to sustained cost competitiveness. Increases in commercial rents are occurring alongside rapid growth in house prices and residential rents. On the commercial side, concerns persist about the availability of prime office space for rent in large urban centres in the short term as the market tightens and vacancy rates decline. Across Ireland, the rental price of prime retail units continues to increase: in 2015 retail rents increased by 22 per cent compared with 2014 levels. Within the euro area, commercial rents are the 6th highest in Ireland. Sharp and sustained rental price pressure and any shortage of supply³ of new commercial space could adversely impact on Ireland's competitiveness in attracting FDI, the expansion of existing Irish enterprises and startups.

² At present, Ireland is experiencing a very low inflationary environment. Year-on-year inflation in Ireland was recorded at 0.1 per cent in January 2016. Across the Euro area the corresponding rate was 0.4 per cent - well below the European Central Bank price stability target of a HICP below, but close to, 2 per cent over the medium term. The inflation outlook for both Ireland and the euro area is for a moderate increase in 2016.

³ Recent research conducted by the ESRI noted that Dublin is the only European capital where there was no office space construction between 2011 and 2013. The same research notes the high level of demand for commercial property amongst FDI firms - 70 per cent of the take-up of such office space in Dublin in 2015 was by new and existing FDI, primarily tech-based companies, indicating the importance of ensuring a predictable and sustainable supply of commercial property. See Duffy, D. and Dwyer, H., ESRI Research Note: FDI and the Availability of Dublin Office Space, September 2015

On the residential side, for example, rental costs for apartments in Dublin are now at similar levels to those witnessed in 2007. The link between house prices and wage expectations means that developments in the residential property sector have a direct impact on international competitiveness.

Energy costs account for a significant proportion of production costs for some particularly energy-intensive sectors (such as chemicals, food) and the SME sector. On average, expenditure by SMEs on electricity accounts for approximately 9 per cent of non-wage costs. Generally, water and waste water costs for enterprise in Ireland compare favourably to those in competitor markets. There is significant variation between water and waste water tariffs across Local Authorities. Ireland is relatively cost competitive for telecoms, although, concerns persist around quality (speed) and the regional availability of high speed services. Ireland is characterised by high taxes on motor fuel and 65.8 per cent of total diesel costs are made up of various taxes, the 3rd highest proportion in the euro area. The impact of these taxes is currently being masked by low international fuel prices. World oil prices were fairly stable for the first half of this decade oscillating around \$110 a barrel. But since mid-2014 prices have fallen by more than 70 per cent. The reasons for this change are threefold:

- Firstly, weak demand for oil in many countries due to low economic growth.
- Secondly, US oil production levels are, at present, at their highest in almost 30 years due primarily to the process of hydraulic fracturing or 'fracking'.
- Thirdly, the limited response by OPEC to this oversupply and its initial reluctance to cut, (as opposed to freezing) production. However, if current supply levels were to fall, for example due to a reduction in US shale output, there is a likelihood that prices could re-bounce and damage Ireland's competitiveness given the aforementioned high taxes on petrol and diesel here.

Access to competitively priced sources of finance is essential to facilitate enterprises establish, survive, expand their operations, improve productivity and ultimately scale. Limited or costly credit flows damage the environment for entrepreneurship, scaling and investment. The CSO's 2014 Access to Finance survey shows that bank finance is by far the most popular type of finance sought by enterprise: 21 per cent of all SMEs applied for bank finance in 2014. Larger firms tend to be more likely to apply for traditional bank finance: while 20 per cent of micro sized enterprises applied for bank finance, the rate is 35 per cent for small sized enterprises and 40 per cent for medium sized enterprises.

As access to finance becomes easier and more sources of funding become available, the differential in bank interest rates between Ireland and the euro area assumes greater importance. Irish interest rates on business loans have been consistently higher (and more volatile) than equivalent euro area rates and it is vital that cost competitiveness in this area does not weaken further. For example, in November 2015 the interest rate in Ireland on a business loan of up to €250,000 was 6.56 per cent, compared with a euro area average of 3.15 per cent.

The effective application of competition to all sectors of the economy remains an essential element underpinning national competitiveness. The Council remains concerned about the price of business services in Ireland. In relation to legal costs, throughout the recession, and relative to professions such as accountancy, prices for legal services did not adjust downwards to the degree that might have been expected given economic circumstances. While prices dipped for a brief period in 2013, in Q4 2015 legal service prices were 5.8 per cent higher than 2010 levels. The recent enactment of the Legal Services Act is welcome but procedural

reforms, for example, making better use of ICT and improved case management need to be implemented as a matter of urgency. Although not captured in this Report⁴, CSO inflation data shows that increases in insurance prices in Ireland are well in excess of EU trends. The absence of micro-level price data, however, makes it very difficult to assess market conditions and commercial insurance cost competitiveness. The Council is reiterating the need for the Department of Finance, the Central Bank and the CSO to benchmark comprehensively insurance costs and the drivers of commercial insurance costs in Ireland, with costs in our key competitors.

Over the course of the recession, the Irish economy underwent a sharp correction in terms of our cost competitiveness. The recent appreciation of the euro vis-à-vis sterling provides a timely warning about just how vulnerable Irish firms are to external shocks: given the importance of the UK as a destination for Irish exports, the appreciation of the euro has placed Irish exporters under increased cost competitiveness pressure. In light of these recurring and immediate cost issues, cumulatively there is a role for both the public and private sectors alike to proactively manage the controllable portion of their respective cost bases, drive efficiency and continue to take action to address unnecessarily high costs. Such actions will ensure that improvements in relative cost competitiveness are more sustainable, leaving Ireland less dependent on a benign external environment.

At the same time, 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. Increasing productivity across all sectors and occupations, particularly in the indigenous economy remains a significant issue.

The Council has set out a number of key recommendations for structural reform to address Ireland's cost base in its December 2015 Competitiveness Challenge report. These are summarised on page 15 of this report. Further policy recommendations will be included in the Council's next annual Competitiveness Challenge report, which will be published in late-2016.

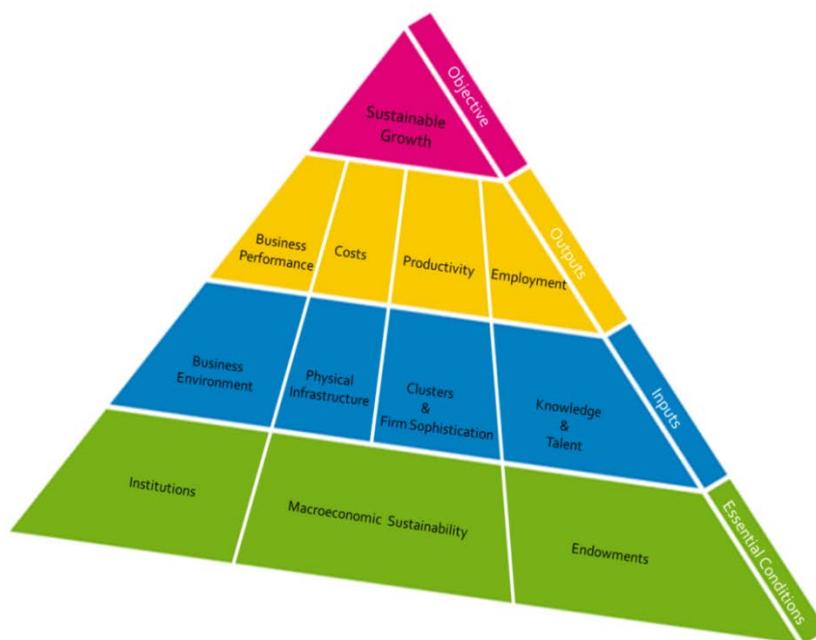
⁴ See National Competitiveness Council, Competitiveness Bulletin 16-2: Insurance Costs Competitiveness, January 2016

Chapter 1 – How Does Ireland Perform?

Introduction

Competitiveness is a complex concept, encompassing many different drivers. Cost is just one of the elements which determine a country's ability to compete in international markets. As it is enterprises that compete in international markets, their levels of productivity, innovation, investment and profitability are the key determinants of their ability to compete and grow. The success of the enterprise sector affects overall prosperity and steps towards this prosperity also indicate progress in national competitiveness. Competitiveness is not an end in itself, but a means of achieving sustainable improvements in living standards and quality of life.

The National Competitiveness Council Competitiveness Framework



Source: National Competitiveness Council

The NCC currently uses a pyramid to outline the framework within which it assesses Ireland's competitiveness.

- 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 *Costs of Doing Business 2016* report concentrates on the costs that are largely domestically determined such as labour, property, transport, utility, credit and financial, and business services, and considers both price levels, and changes in those levels (i.e. price inflation). It is structured as follows:

- Chapter 1 summarises the key cost trends for enterprise in Ireland;
- Chapter 2 provides 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;
- Chapters 3 to 7 examine the main cost categories in greater detail. The primary costs analysed in these chapters relate to labour, property, transport, utilities, and credit;
- Chapter 8 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
- Finally, acknowledging the interlinked nature of all sectors and participants of the economy, Chapter 9 considers the broader consumer cost environment.

In each chapter, a range of internationally comparable, enterprise-focussed cost indicators are collected for Ireland and a number of our key trading partners. We have endeavoured to collect data from high-quality, internationally respected sources, and where necessary, caveats on data issues are set out in the relevant text and footnotes.

The majority of charts are given a traffic light colour, green, yellow or red, in order to provide a general indication of Ireland's performance. Generally, green indicates a strong performance (e.g. top third of OECD, euro area, or comparator group), orange signals an average performance, while red means that Ireland is ranked within the bottom third of the comparator group.

Measuring and benchmarking cost competitiveness performance relative to third countries highlights Ireland's strengths in a number of areas but is also intended to identify potential threats and elaborate on weaknesses and to determine corrective actions. Nonetheless, there are well recognised 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. Where this occurs and where more current national data is available, this is reflected in the text.
- The Council is also constrained in terms of the availability of metrics in terms of their impact on enterprises of different sizes and sectors and across a number of important areas such as childcare.
- 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.

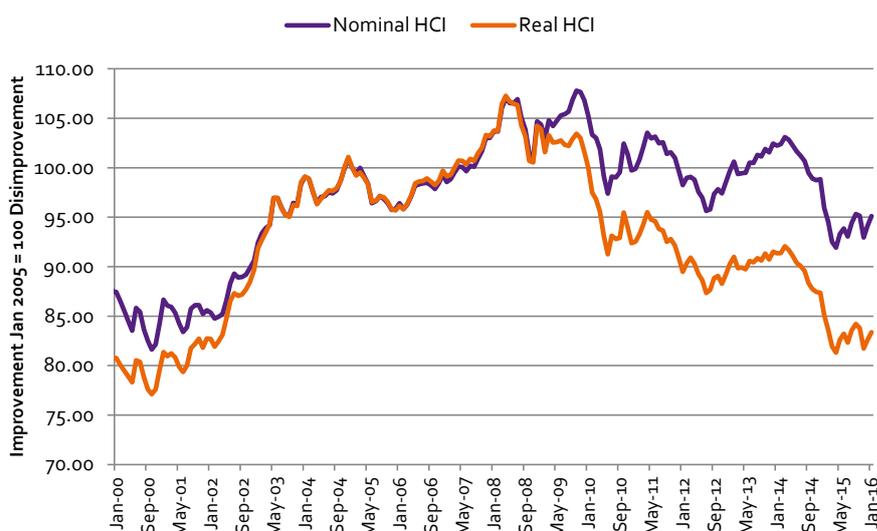
Where possible, Irish cost levels are compared to a relevant peer group average (e.g. the OECD and euro area average). It is also worth noting that individual cost metrics have strengths and weaknesses (i.e. in terms of definitions used, in how the data is collected etc.). When analysing the individual metrics, it is important, therefore, to consider all of the data as a whole – does the analysis of the individual metrics combine to tell a coherent story about Ireland's current cost competitiveness performance?

Measures of Overall Cost Competitiveness

Changes in international cost and price competitiveness depend on a combination of exchange rate movements and movements in relative prices between trading partners. Much of Ireland's competitiveness story can be illustrated using Harmonised Competitiveness Indices (HCIs)⁵. The HCI is prone to significant fluctuations – particularly over the past two years. Between January 2000 and April 2008, Irish cost competitiveness (the real HCI) deteriorated by over 32 per cent (while the nominal HCI deteriorated by 22.5 per cent). This reflects a strong appreciation of the euro against the currencies of our trading partners (nominal HCI) and higher price inflation in Ireland. This confirms the loss in relative price competitiveness experienced throughout the mid-2000's in Ireland.

Following the onset of the financial crisis and the recession, Ireland's relative competitiveness improved as a result of reductions in relative prices and favourable exchange rate movements⁶. Between April 2008 and July 2012, Ireland regained much of its competitiveness as the real HCI improved by 18.5 per cent (and the nominal improved by 10.6 per cent - reflecting lower inflation in Ireland than amongst our trading partners, and in some cases price reductions).

Figure 1: Harmonised Competitiveness Indicators, January 2000 – January 2016 (January 2005 = 100)



From March 2014, renewed euro depreciation provided a boost to Irish cost competitiveness. The latest data up to November 2015 show that nominal and real HCI improved by 5.8 per cent and 6.5 per cent respectively over the previous 12 months.

Source: Central Bank of Ireland, DJEI calculations

These HCI developments, which suggest an improvement in competitiveness, largely reflect movements in the exchange rate. As a result of the scale of Ireland's non-euro denominated trade, movements in euro

⁵ The purpose of HCIs is to provide meaningful and comparable measures of euro area countries' price and cost competitiveness that are also consistent with the real effective exchange rates (REERs) of the euro. HCIs are constructed using the same methodology and data sources as the euro effective exchange rates. The Central Bank of Ireland produces both a nominal and real Harmonised Competitiveness Index. The nominal HCI is a nominal effective exchange rate for the Irish economy that reflects, on a trade weighted basis, movements in the exchange rate vis-à-vis 56 trading partners. The real HCI (deflated by consumer prices) takes into account relative price changes along with exchange rate movements. In Figure 1, an upward sloping line indicates a loss of competitiveness, whilst a downward sloping line indicates improving competitiveness.

⁶ See Brendan Walsh, Regaining Competitiveness, 24th July 2012 at www.irisheconomy.ie/index.php/2012/07/24/regaining-competitiveness/

exchange rates have a greater impact on our relative international competitiveness, than is the case in many European countries.

Figure 2: Real HCI Movements in Ireland, Germany, Spain and euro area (January 2005 – November 2015) (January 2005 = 100)

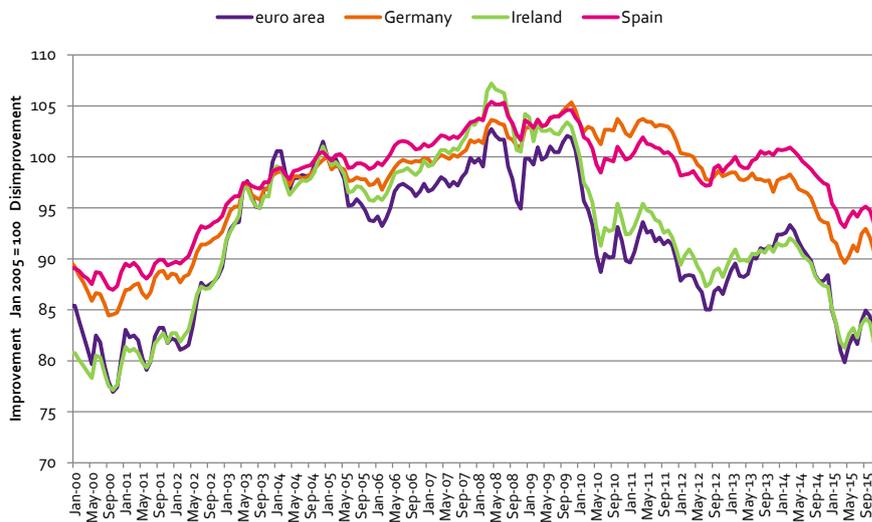


Figure 2 shows that improvements in competitiveness were recorded across the euro area during 2014 and the first half of 2015 as the euro depreciated.

Source: Eurostat

Exchange Rate Volatility

Ireland cannot depend on external factors (i.e. beyond the direct influence of domestic policy makers) such as benign currency movements, to protect our international cost competitiveness. Such gains can be erased as quickly as they are accrued.

Volatility in exchange rates can affect the Irish economy through a number of channels. It may generate expenditure switching effects between foreign and domestic goods 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 relative prices, exchange rate movements may also affect firms' profit margins, with possible second-round effects on investment.

Compared to other EU Member States, Ireland has a high share of trade outside the euro area – meaning that Ireland is more exposed to the impact of exchange rate fluctuations: Ireland has the second highest ratio in the EU in terms of exports to non-euro area countries (goods and services) relative to GDP.

The value of the euro against the dollar and sterling plays a crucial role in determining our international export competitiveness. The euro has remained weak relative to the dollar and sterling throughout most of 2013, 2014 and 2015. As of March 2016, the euro/dollar exchange rate was \$1.09 having settled around this level in Q4 2015. In year-on-year terms, the euro has declined against the dollar by 7 per cent.

As regards the euro vis-à-vis sterling, the exchange rate has been more unstable in recent months. It was at £0.77 in March 2016 – down 7 per cent on a year-on-year basis. In the six months to March 2016, however, the euro appreciated over 14 per cent against sterling amid concerns over the UK's economic performance and EU referendum uncertainty. Between mid-2013 and mid-2015, a very favourable exchange rate vis-a-vis sterling helped to boost the competitiveness of Irish exports to the UK. A sustained fall in the value of sterling would

represent a significant challenge for enterprise, particularly for indigenous exporters who are focused on the UK market and compete against UK firms in other markets.

Merchandise and in particular services exports to and imports from the UK account for a significant share of Irish trade. The UK is the top export destination for Enterprise Ireland (EI) supported companies. In value terms, 37 per cent of EI companies' exports are to the UK. The value of the euro against sterling is, therefore, critical for Irish exporters, particularly those in employment intensive sectors such as the agri-food sector which remain very dependent on strong trading activity with the UK.

A competitive cost base can help to create a virtuous circle between inflation, wage expectations and productivity, and can provide a buffer against such exchange rate fluctuations and other uncontrollable, external factors.

While the trade performance of an economy such as Ireland's will always be conditional on the ebb and flow of global markets, a more diverse export base can reduce exposure to external demand shocks, exchange rate fluctuations, instability in export earnings, upgrade value-added, and enhance growth and jobs.

Irish based exporters must scale and diversify sustainably and strategically to reduce exposure to external economic shocks. To increase competitiveness, economic growth and sustainable jobs, we need a strong and dynamic range of FDI firms, Irish owned businesses that export, an increased level of startups with the potential to scale and internationalise supported by an administrative and regulatory framework that facilitates enterprise and exports.

Focus on Individual Cost Categories

Harmonised competitiveness indicators can be difficult to translate into real world experience. From the perspective of the firm or an individual, in order to fully appreciate changes in prices and costs, it is necessary to examine more tangible indicators such as wage rates, rents, and the prices paid for various utilities and services. In this regard, *Costs of Doing Business 2016* examines over 50 different metrics across a range of business cost categories to provide an overview of the cost environment for enterprise in Ireland. The key messages are summarised below.

Summary of Business Cost Trends in Ireland

| | |
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| Labour Costs | <p>Labour costs in Ireland have been growing marginally more quickly than in the euro area since 2014 and the wider EU-28 since the latter part of 2015. While demands for wage increases are understandable after a period of economic stagnation and wage cuts, our relative competitive position will be negatively affected if wage growth outpaces that in competitor countries. We must ensure that wage growth is sustainable and thereby avoid finding ourselves in a position where wage growth outpaces productivity growth.</p> <p>Furthermore, our focus must be on protecting real living standards. In this regard, the Council's focus on addressing a wide range of costs can help to create a virtuous circle encompassing the costs of living, wage expectations, productivity and cost competitiveness.</p> <p>In 2014 the minimum wage as a percentage of average wages ranged from 33% in the Czech Republic, 43.7% in Ireland to 52.9% in Slovenia. As a percentage of average wages, Ireland has the 11th highest minimum wage. In 2016 Ireland had the 2nd highest monthly minimum wage (€1,546) and 5th highest monthly minimum wage in PPP terms (€1,264). In its first report to Government, the Low Pay Commission (LPC) recommended that the national</p> |
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| | <p>minimum wage should increase by €0.50 (5.8 per cent) to €9.15 per hour from 1 January 2016 after concluding that moderate increases in the national minimum wage are unlikely to have a significantly adverse effect on employment. This increase coincides with similar recent increases in the US and the UK⁷.</p> <p>According to the OECD, the levels of taxation in Ireland are below the euro area on average income levels and on marginal income levels for married couples. The corresponding marginal levels are, however, high for single earners. Ireland is currently very reliant on taxes on income as a source of revenue, particularly when compared with other developed economies. On the other hand, significantly less revenue is generated through social security contributions in Ireland. Ireland has the 8th lowest rate of social security contributions in the OECD. Employers' contributions are the 10th lowest, and employee contributions are the 5th lowest (although benefits are also correspondingly low in Ireland).</p> |
| <p>Property Costs</p> | <p>The last number of years has witnessed a sustained recovery in the Irish commercial property market. The cost of constructing a prime office unit and a High Tech Factory / Laboratory facility in Ireland both fell by almost 6 per cent between 2013 and 2015. Commercial rents for both office and retail space grew strongly in 2015. Rental growth has been driven by an increase in demand, reflecting the improving economy. This in turn, has boosted capital values, the price that would have been paid for property if it had been purchased at the point of valuation, in all commercial sectors (e.g., office, industrial and retail). Overall growth was 7.7 per cent in Q3 2015.</p> <p>The availability of competitive property solutions is a key requirement for the expansion of enterprises and winning foreign direct investment (FDI). In 2015 prime retails rents increased by 22 per cent year-on-year. Concerns persist about the availability of prime office space for rent in large urban centres in the short term as the market tightens and vacancy rates decline. This could result in future rent increases and any shortage of supply⁸ of new commercial space could adversely impact our competitiveness.</p> |
| <p>Transport Costs</p> | <p>Since mid-2015 world oil prices have fallen by more than 70 per cent. This sharp fall in oil prices has led to a reduction in consumer prices for petroleum products across the EU. Irish petrol and diesel prices decreased by 2.5 and 8 per cent respectively in the 12 months to January 2016. However, the cost of 1,000 litres of diesel in Ireland (€1,199) was 9.2 per cent above the euro area average (€1,097) in January 2016. Ireland was the 4th most expensive country with taxes on diesel accounting for the majority of this differential, representing 65.8 per cent of total diesel costs in Ireland, the 3rd highest proportion in the euro area. With regard to service prices in the transport sector, prices have been relatively stationary in recent</p> |

⁷ The Federal NMW in the US increased to \$9.00 per hour on 1 January 2016. In the UK, the NMW rose by 3 per cent (£0.20) to £6.70 in October 2015. From April 2016 in the UK, the national living wage will be £7.20 an hour for workers aged 25 and older with the corresponding rate for London set at £9.15.

⁸ Recent research conducted by the ESRI noted that Dublin is the only European capital where there was no office space construction between 2011 and 2013. The same research notes the high level of demand for commercial property amongst FDI firms - 70 per cent of the take-up of such office space in Dublin in 2015 was by new and existing FDI, primarily tech-based companies, indicating the importance of ensuring a predictable and sustainable supply of commercial property.

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|---|---|
| | <p>quarters. Air transport is a notable exception with rapid price growth in recent years.</p> |
| <p>Utility Costs</p> | <p>The EU is among the most expensive locations for electricity and gas globally, and within the EU, Ireland is one of the most expensive countries for electricity for both large and small users - it is the 5th most expensive location in the euro area 17 for large electricity users. Ireland is mid-table in the euro area in terms of industrial gas prices, but comparable prices in the US are substantially lower than in the EU.</p> <p>On average, water and waste water costs for enterprise in Ireland compare favourably to those in competitor markets. Within Ireland, water costs vary significantly by local authority. In terms of waste costs, the cost of landfill has increased from €93 per tonne in 2010 to €113 in 2014 because of increases in the landfill levy. Irish landfill costs are amongst the most expensive of the benchmarked countries/regions. Thermal treatment costs (gate fees) in Ireland, although lower than landfill costs, are also among the most expensive in the benchmarked countries/regions.</p> <p>Ireland is relatively cost competitive for telecoms although concerns persist around the issues of quality (speed) and the regional availability of high speed services. The data available, however, is based on purchasing power parities which may be making Irish prices appear to be more competitive.</p> |
| <p>Credit and Financial Costs</p> | <p>The supply and demand for credit has improved significantly since the height of the crisis. However, the cost of credit continues to act as a drag on the enterprise sector, inhibiting investment and growth, particularly amongst startups and SMEs. In November 2015, the interest rate in Ireland on loans of up to €0.25 million was more than twice the euro area average rate for new business; the rate on loans of up to €1 million was more than 80 per cent more expensive in Ireland. Furthermore, Irish interest rates for loans both under- and over the €1m threshold have been noticeably more volatile than euro area rates. Irish and euro area interest rates diverged further in 2014 and 2015. It is vital that cost competitiveness in this area does not weaken further.</p> <p>Changes in the value of the euro impact significantly upon Irish competitiveness. Since 2013 the depreciation of the euro has aided Irish competitiveness. Export figures to two of our main trading partners, the US and the UK, have increased accordingly. However, in recent months, sterling has weakened.</p> |
| <p>Business Services and Other Input Costs</p> | <p>Services prices in Ireland have risen continuously since the beginning of 2012 and the magnitude of the increase has been higher than the EU-15 average during this period also. Overall since 2010, service prices have risen by more than manufacturing prices perhaps reflecting the greater exposure of the manufacturing sector to international competition.</p> <p>While the price of legal services dipped for a brief period in 2013, in Q4 2015 legal service prices were 5.8 per cent higher than 2010 levels. According to the World Bank, in international terms Ireland remains an expensive location in which to enforce a business contract and is the 8th most expensive in the OECD³². It also takes significant time (650 days) to enforce a contract in Ireland (compared with an OECD average of 538 days – this is the 7th longest amongst the OECD³²).</p> <p>The Council has recently expressed concerns about insurance costs in Ireland. CSO data show</p> |

| | |
|--|---|
| | <p>that insurance prices have increased by 29.6 per cent since 2011; motor insurance prices have increased by 33.5 per cent over the same period and by 26.4 per cent in the last 12 months. These increases are well in excess of EU trends.</p> |
| <p>Broader Cost Environment</p> | <p>Ireland remains an expensive location in which to do business with a price profile which can be described as “high cost, rising slowly”. Irish consumer prices remain over 20 per cent above the euro area-18 average.</p> <p>The affordability of residential property is a key issue in overall competitiveness as both rental costs and purchase prices feed through into increased wage demands and rising living costs. However, rents have now reached the pre-bust levels of 2007. A sustainable housing market is an essential element of a functioning economy - high or rapidly increasing house prices and rents are not good for competitiveness, notwithstanding the wealth effects for existing owners. A range of factors are currently driving rising residential property prices in Ireland – rapid economic growth, demographic pressures, and a sluggish supply side response. As set out in detail in the Competitiveness Challenge 2015, the Council believes a whole-of-Government response is required to deliver affordable, high quality housing in the right areas to support quality of life and labour market mobility.</p> <p>Childcare costs in Ireland are the second highest in the OECD for couples and the highest in the OECD for lone parents.</p> |

Policy Recommendations

Based on the benchmarking analysis contained in both the Costs of Doing Business 2015 and Competitiveness Scorecard 2015 reports, the Council identified a range of policy areas relating to costs requiring action in order to enhance Ireland’s competitiveness performance. These recommendations, largely drawn from the Council’s most recent Competitiveness Challenge 2015 report are summarised below.

Cost Competitiveness Policy Recommendations

Labour Costs

- Review income taxes (e.g., credits, thresholds, rates, etc.) to support improvements in after-tax income - while protecting labour cost competitiveness.
- Continue to reform and simplify the current regime of taxes and charges on employment, with the specific goal of further encouraging the take-up of employment opportunities and job creation, whilst simultaneously maintaining a broad personal tax base. Anomalies in relation to PAYE and the USC should be removed to support the self-employed, job creation and entrepreneurship.
- Undertake a comprehensive data collection exercise and develop a methodology to determine the impact of changes in the national minimum wage on employment, productivity and competitiveness.
- Clearly signal changes arising from the annual Low Pay Commission review of the minimum wage. Changes should generally take effect on the same date each year to provide certainty to employers and employees.

Property Costs

- Implement the Social Housing Strategy in full and on time as a matter of urgency. Specifically, ensure that the funding allocation outlined in the Strategy is provided in full and in a timely manner so that all of those

on social housing lists are accommodated by 2020. Monitor progress by Local Authorities to ensure that each achieves a 25 per cent reduction in social housing lists by 2017.

- Develop short to medium term measures to address pressures in the rental market – these should balance the need to provide tenants with a degree of rent certainty and security of tenancy, with the need to encourage investment and construction activity.
- Assess the factors impacting upon housing supply in Ireland from a competitiveness perspective.
- Implement in full the Construction 2020 Strategy.
- Map current commercial developments underway in key urban centres that are due to come on-site over the medium term and highlight areas available for further development.

Utility Costs

- Complete the review of supports for renewable electricity generation.
- Review the existing energy regulatory framework to ensure that it is best placed to support the delivery of the revised priorities in the new energy policy.
- Ensure the optimal functioning of the Integrated Single Electricity Market (I-SEM).
- Evaluate the effectiveness of investments made to date through the National Energy Efficiency Fund, and determine whether another round of capital funding should be raised.
- Ensure that the energy saving commitments and targets set out in the National Energy Efficiency Action Plan (and the related Public Sector Energy Action Plan) are adhered to.
- Address planning delays and inefficiencies, which impede the delivery of necessary economic infrastructure as a matter of urgency. This is particularly crucial in relation to the rollout of advanced broadband services. In this regard, prioritise the removal of barriers to private sector investment by harmonising costs and access conditions across local authorities; delivering the IT road management and utility licensing system; facilitating access to and the optimal use of existing State assets.

Business Services Costs

- Incorporate the competition-enhancing and cost-reducing provisions of the planned regulatory framework contained in the Legal Services Act into the regulations to be issued by the Legal Services Regulatory Authority.
- Review the outstanding procedural reforms recommended by the Legal Cost Working Group and implement those which remain relevant and feasible, making reference to the findings of the OECD.
- Undertake a comprehensive benchmarking exercise to collect improved price data for a range of the principle commercial insurance types.
- Publish more detailed data regarding personal injury award levels. Benchmark personal injury award levels in Ireland vis-a-vis award levels in other jurisdictions.
- Undertake a review of the book of quantum.
- Building on recent Central Bank research examining the reasons for the persistent divergence in SME interest rates between Ireland and the euro area, there remains a need to also understand the factors causing the volatility in Irish SME interest rates.
- Maintain efforts to bring new banks into the Irish market to boost competition among SME lenders.
- Continue to develop and support credible and transparent alternative sources of non-bank finance.

Chapter 2 – How Do Costs Impact on Enterprise?

The NCC framework for analysing competitiveness performance considers inputs and outputs can be illustrated on a pyramid. Under the framework, competitiveness is not an end in itself, but a means of achieving sustainable improvements in living standards and quality of life. The NCC currently uses a pyramid to outline the framework within which it assesses Ireland's competitiveness. 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), productivity, prices and costs and employment. These can be seen as the metrics of current competitiveness. Below this are the policy inputs covering three pillars of future competitiveness, namely the business environment (taxation, regulation, finance and social capital), physical infrastructure and knowledge and talent, clusters and firm sophistication. Finally, at the base of the pyramid are the essential conditions for competitiveness, these foundations are macroeconomic sustainability, institutions and natural endowments.

Why Costs Matter

Generating sustainable broad based export-led growth is essential to rebuilding the Irish economy. 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 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 a number of ways.

- High costs make Ireland less attractive in terms of foreign direct investment and business expansion;
- High costs make firms which rely on domestically sourced inputs less competitive when they are selling into foreign markets – this is a particular concern for large indigenous exporting sectors such as the food and drink sector; 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, 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.

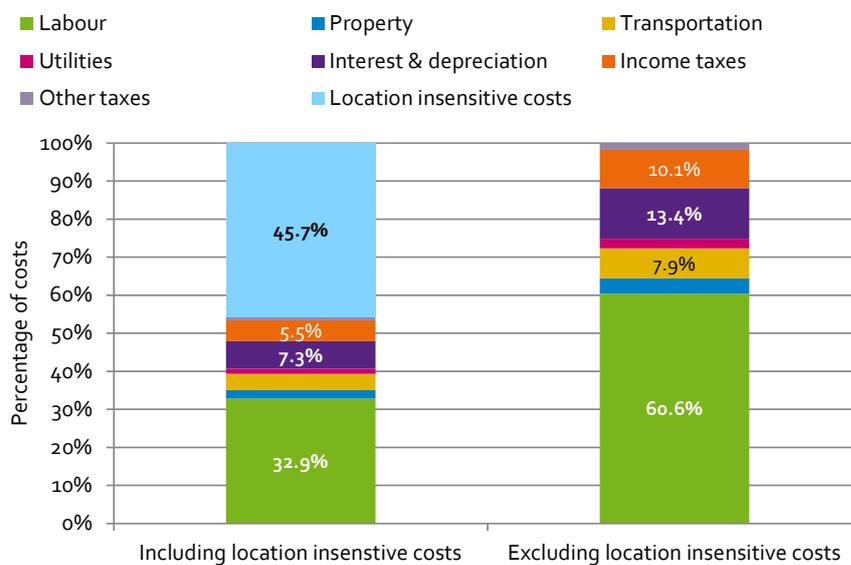
Given Ireland's return to growth, and the reductions in business costs which have been achieved to date, further across-the-board reductions in costs will be difficult to attain. It remains vital, however, that Ireland protects the gains made to date, and that we continue to take action to address unnecessarily 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.

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 data for a range of sectors and locations⁹.

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



The column on the right hand side, 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 significant variations occurring between services and manufacturing firms.

Source: KPMG Competitive Alternatives 2016, NCC Calculations

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

⁹ 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 3 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 Taxes¹⁰</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 costs. 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.

¹⁰ 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.

- 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.

What Drives Costs?

During a boom such as Ireland experienced in the early and mid-2000s, it is to be expected that prices and costs will increase. Wealthy countries are generally expensive countries. Recent analysis, however, suggests that price rises in Ireland were not necessarily a result of price convergence between Irish and European price levels, arising from faster growth rates here. Higher inflation due to this 'convergence effect' is not, in itself, a major concern, reflecting a natural rise in the cost of domestic services justified by higher incomes and living standards. In an economy catching up with its richer neighbours, labour productivity tends to rise faster in sectors producing internationally tradable goods (particularly in capital intensive manufacturing industry) than in those involved in the more labour intensive and generally non-traded service sector. Increases in labour productivity growth in traded manufacturing industries are usually followed by wage growth throughout the economy. Thus, a combination of wage growth across both traded and non-traded sectors, but lower labour productivity gains in the services sector, leads to more rapid increases in the cost of services. In this way, services inflation is often higher in those regions of a monetary union enjoying the most rapid growth in productivity and incomes. This is known as the 'Balassa-Samuelson effect'.

Irish price levels were above the euro area average in 1999, and movements in price levels since then served to widen the existing gap¹¹. This mirrors analysis by the European Commission which has found that even allowing for Ireland's relatively high level of GDP per capita, the price level in Ireland prior to the recent crisis had been relatively high in comparison with other euro area economies. Notwithstanding the price adjustments which have occurred as a result of the recession, the Irish price level remains elevated compared with many of our competitors (see Figure 51).

In the past (i.e. during the boom years of the Celtic Tiger), a number of factors contributed to the rise in costs including:

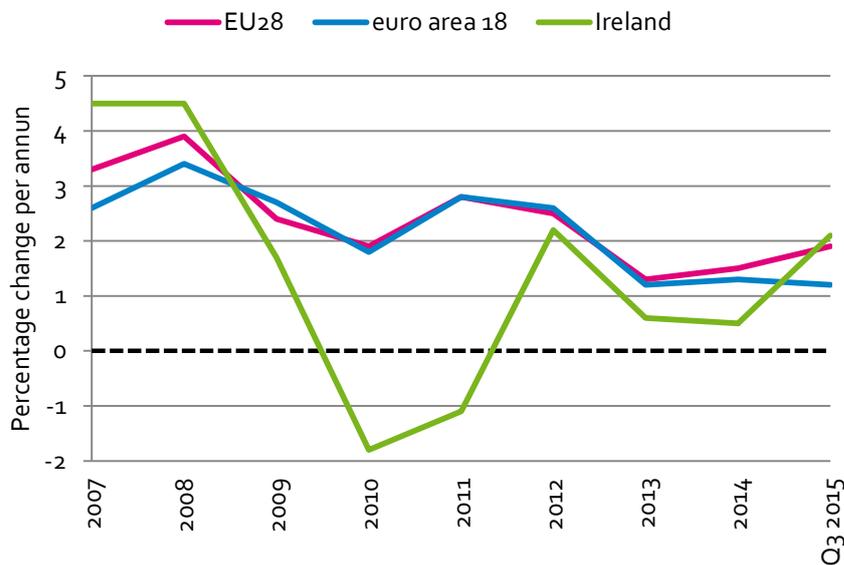
- Economic overheating caused by pro-cyclical fiscal policy (fast growth in public spending and tax cuts) while euro area interest rates were low;
- Rapid credit growth and the unsustainable boom in the construction industry;
- The circular impact of rapid house price inflation on wage growth; and
- Regulatory and other restrictions to competition.

With the onset of recession, many of these cost drivers dissipated. However, there are signs that upward cost pressures are emerging again across a range of business inputs.

¹¹ Forfás, Consumer Costs and Inflation, February 2013

Chapter 3 – Labour Costs

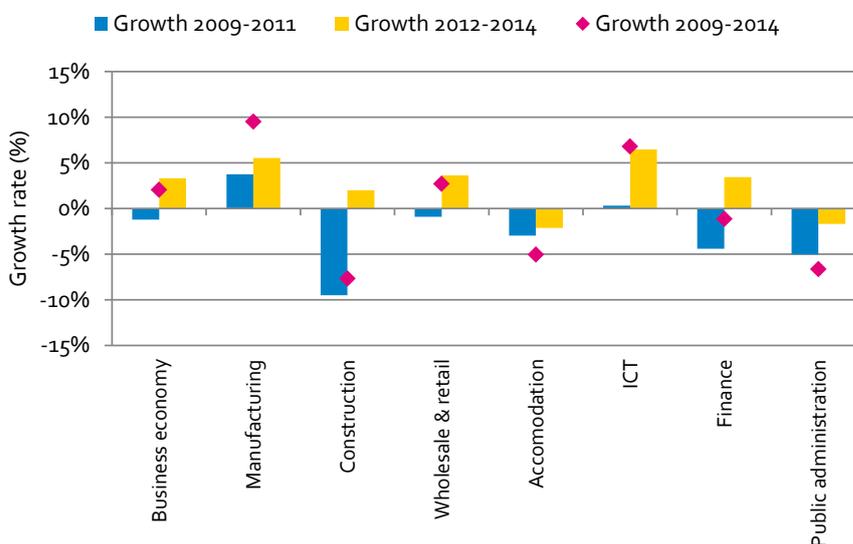
Figure 4: Growth in labour costs, 2007-Q3 2015



Irish labour costs fell in both 2010 and 2011. There was a return to growth in 2012 although the rates recorded between 2012 and 2014, were below EU and euro area averages. However, in the year to Q3 2015, Irish labour costs grew by 2.1%, compared with growth of 1.9% and 1.2% respectively in the EU28 and the euro area.

Source: Eurostat

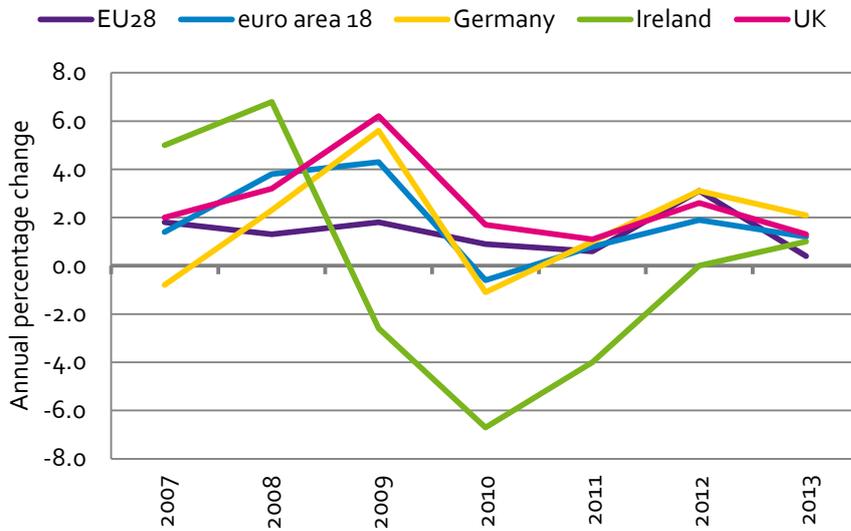
Figure 5: Average growth rate in labour costs in Ireland by sector, 2009-2014



Between 2009 and 2011, labour costs fell in most sectors. Over the period 2012 to 2014, however, recovery has been evident and labour costs have increased in most sectors examined – the exceptions being the accommodation and public sectors. In sectors such as construction and finance, despite recent increases, labour costs remain below 2009 levels.

Source: Eurostat

Figure 6: Annual change in nominal unit labour costs (ULC)¹², 2007-2013



Between 2009 and 2011, significant reductions in nominal ULCs were recorded in Ireland, while increases occurred across most of the euro area, representing a competitiveness gain for Ireland. In 2012, Irish nominal ULCs remained flat. There was an increase of 1% in 2013 - below the German, UK and euro area rates (2.1%, 1.3% and 1.2%)¹³.

Source: Eurostat

Figure 7: Average hourly labour costs in Ireland by sector, Q4 2015

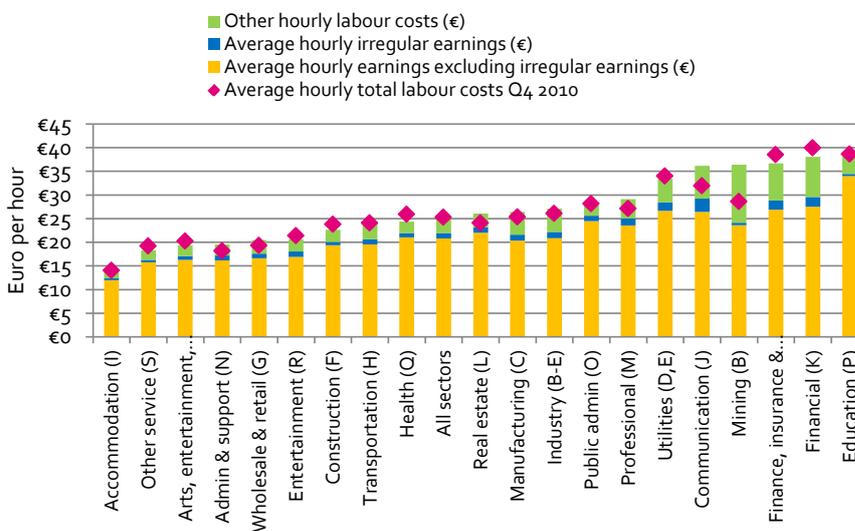


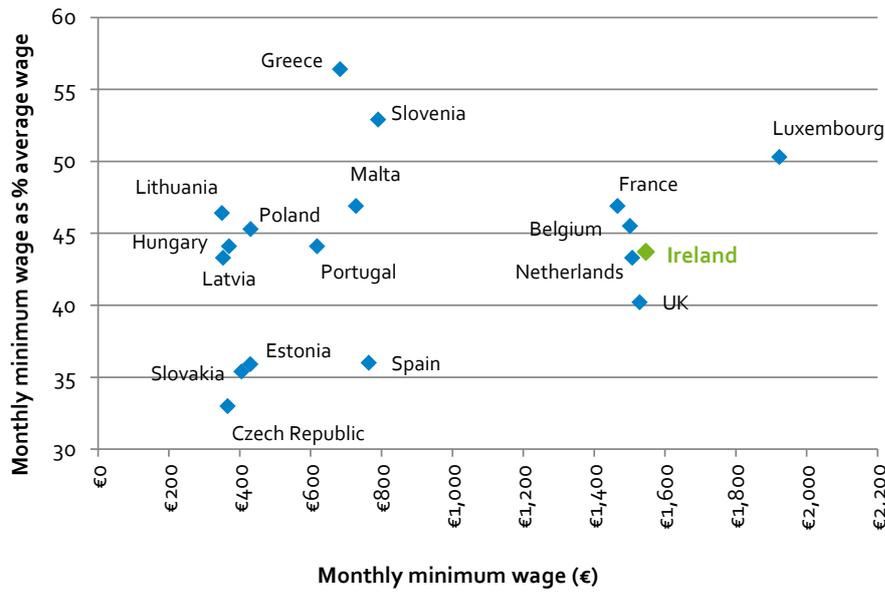
Figure 7 examines hourly Irish labour costs for a range of sectors. It includes data on regular and irregular earnings as well as "other labour costs". The highest hourly labour costs occur in sectors such as finance, insurance and real estate, and education.

Source: CSO, Earnings, Hours and Employment Costs Survey

¹² ULCs measure the average cost of labour per unit of output. ULCs represent a direct link between productivity and the cost of labour used in generating output. Nominal ULCs are defined as total wage compensation per unit of output (i.e. the nominal wage rate per worker divided by labour productivity).

¹³ The latest forecasts from the European Commission suggest that in nominal ULC terms Ireland's competitiveness will improve further vis-à-vis other EU states over the 2016-2017 period. See European Commission, European Economic Forecast, Institutional Paper 020, February 2016

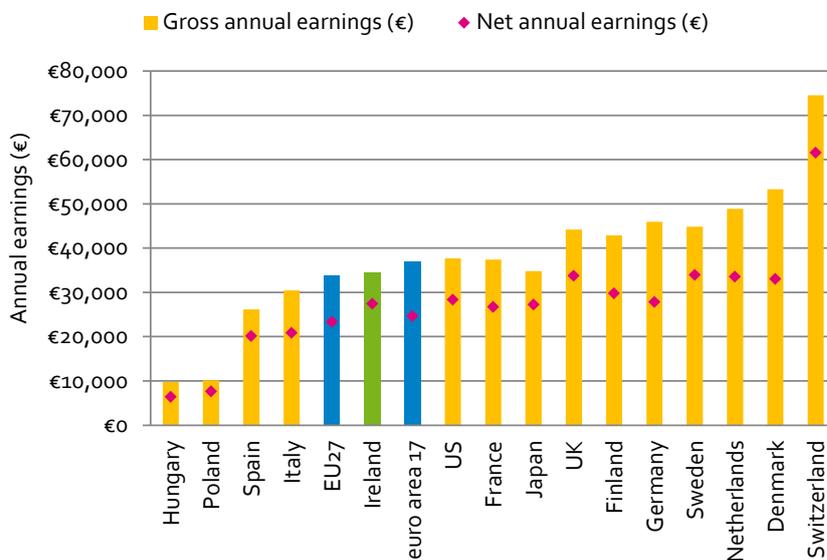
Figure 8: Monthly minimum wage (2016) and minimum wage as a percentage of average wage (2014)¹⁴



In 2016 Ireland had the 2nd highest monthly minimum wage (€1,546) and 5th highest monthly minimum wage in PPP terms (€1,264). In 2014 the minimum wage as a percentage of average wages ranged from 33% in the Czech Republic to 43.7% in Ireland (11th highest) to 52.9% in Slovenia.

Source: Eurostat

Figure 9: Average annual gross & net earnings, single individual, no children, 100% of average earnings¹⁵, 2014



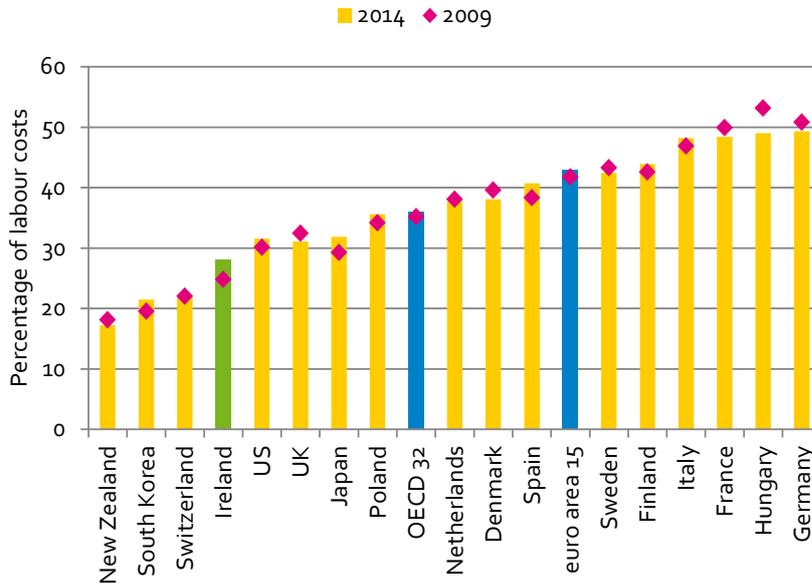
Ireland has the 8th highest gross and net wage level in the euro area-17. While gross earnings are 7% below the euro area average, net earnings are over 10% above the euro area average, partly a result of the relatively small gap between before and after-tax wages in Ireland (primarily a result of low social security contributions).

Source: Eurostat

¹⁴ 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 2016, apart from Slovenia which uses data from S2 2015. Rankings are based on 21 countries for which data is available.

¹⁵ Gross wages include wages, taxes on income and employer and employee social security contributions. EU27 and euro area 17 excludes Cyprus.

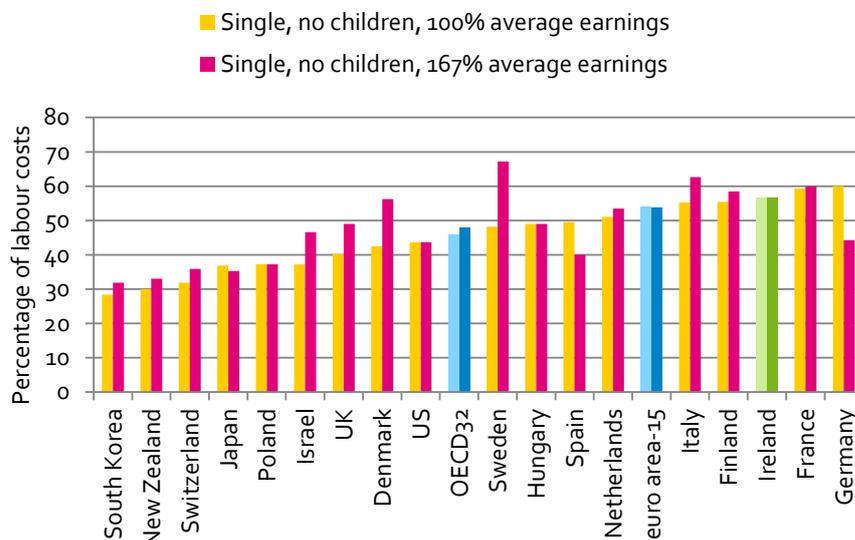
Figure 10: Average income tax plus employee and employer contributions less cash benefits, single individual earning 100% of average earnings¹⁶, 2014



For a single person earning 100% of the average wage, average income tax in Ireland (28.2%) was the 6th lowest in the OECD, and was below the OECD (35.9%) and euro area (42.9%) averages, despite an upward trend since 2009. At 167% of average earnings, the average tax rate in Ireland increases (39.6%) but is below the euro area (48%).

Source: OECD, Taxing Wages 2014

Figure 11: Marginal income tax, single individual, no children, 2014

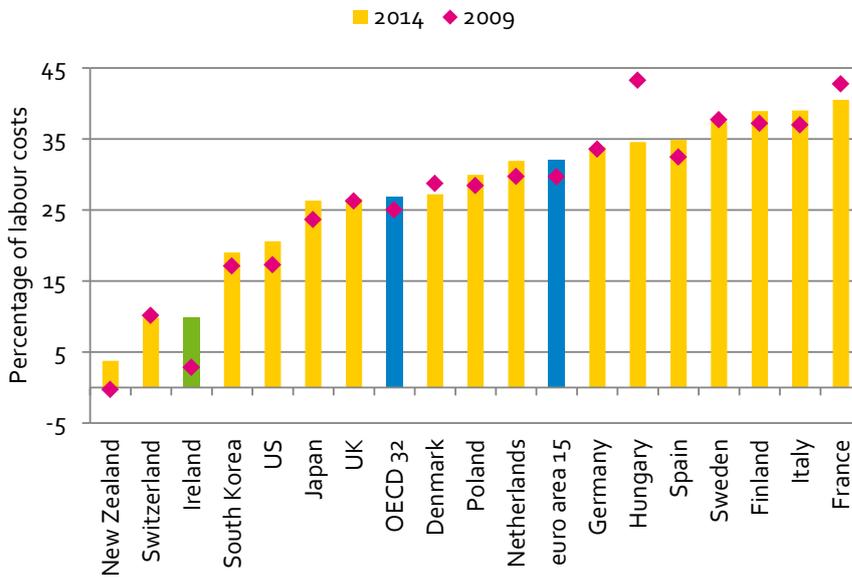


The marginal tax rate (i.e. the amount of tax paid on an additional unit of income) for a single individual earning 67% of average earnings in Ireland (37.7%) is below the OECD average (42.3%). The Irish rate rises quickly as incomes increase: for those earning 100% or 167% of average earnings, the rate increases to 56.7%.

Source: OECD, Taxing Wages 2014

¹⁶ Where relevant, the Universal Social Charge is included in the Irish data in Figures 10-14. Euro area 15 excludes Cyprus, Latvia, Malta and Lithuania; OECD 32 excludes Mexico and Turkey.

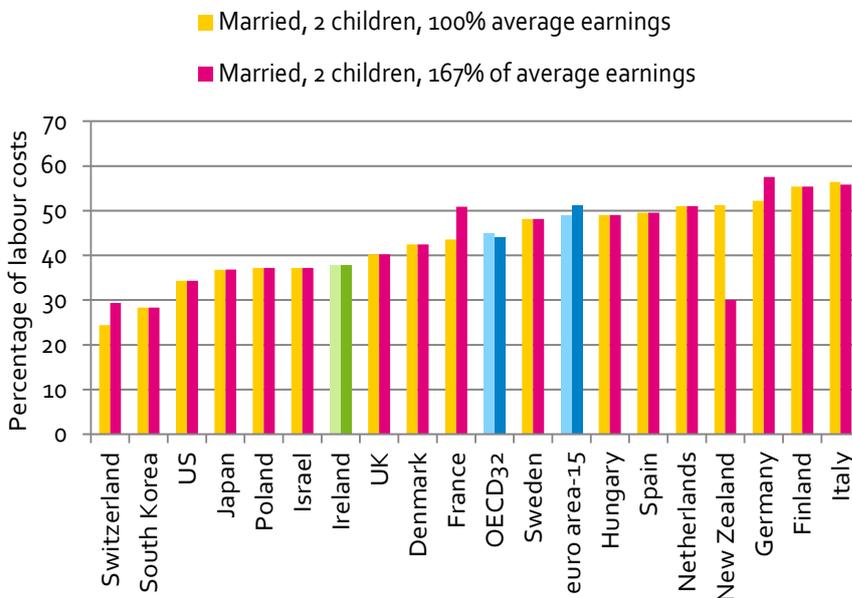
Figure 12: Average income tax plus employee and employer contributions less cash benefits, married couple with two children, earning 100% of average earnings, 2014



The combined total of income tax and social security contributions in Ireland is the 4th lowest in the OECD for married couples with 2 children and 100% of average earnings. At higher income levels (167% of average earnings), the average rate in Ireland remains competitive and is below both OECD and euro area averages.

Source: OECD, Taxing Wages 2014

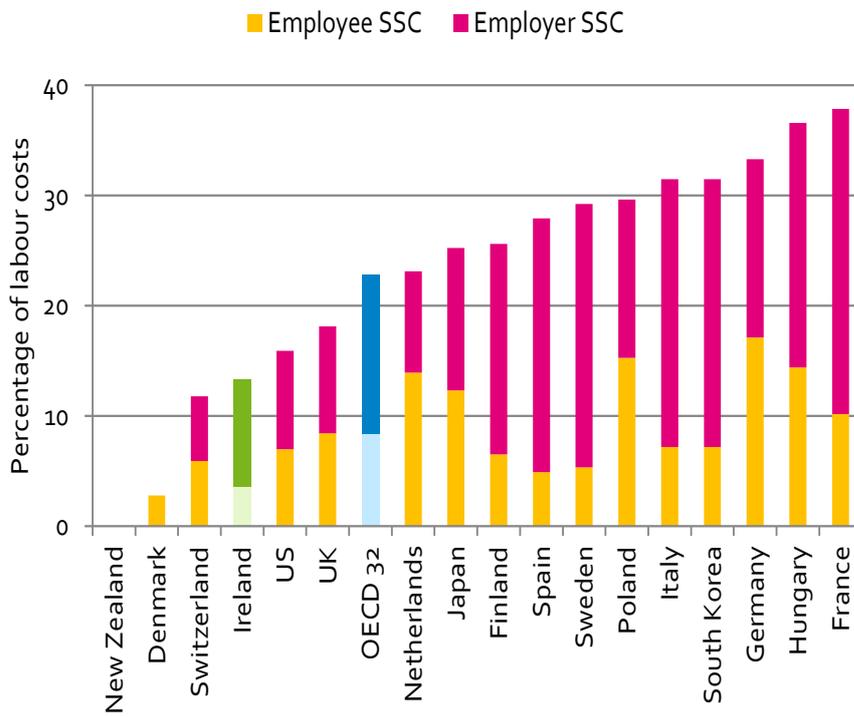
Figure 13: Marginal income tax, two-earner married couple, one earning 100% and the other earning 67% of average earnings, 2 children, 2014



Married couples fare better than single people in terms of the marginal rate in Ireland. Married couples earning 100% and 167% of average earnings pay a marginal rate of 37.7% in Ireland compared with marginal rates of over 44% in the OECD.

Source: OECD, Taxing Wages 2014

Figure 14: Employer and employee social security contributions (SSC), 2014

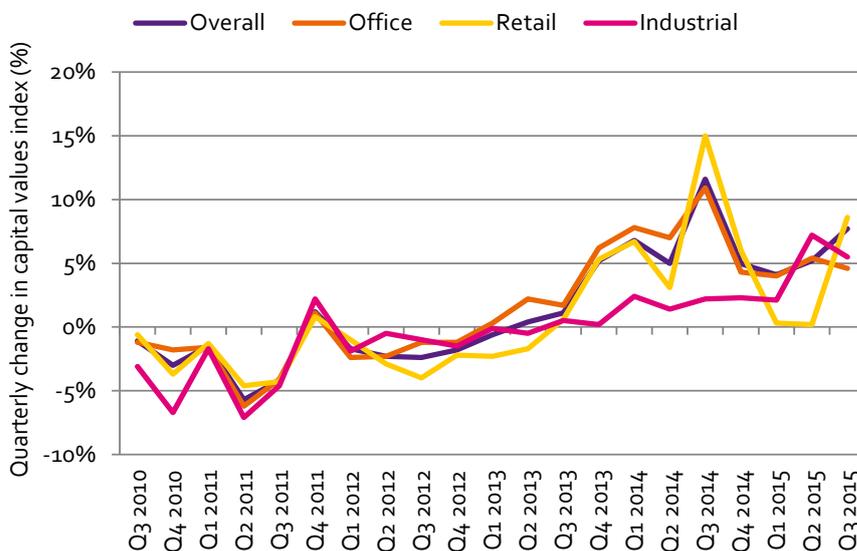


Ireland has the 8th lowest rate of social security contributions in the OECD. Employers' contributions are the 10th lowest, and employee contributions are the 5th lowest. In many countries, there is either a cap on employer social security costs or a reduced rate above a certain income threshold; in Ireland, a flat rate is charged on the full salary: as salaries increase, Ireland's competitive position is quickly eroded.

Source: OECD, Taxing Wages 2014

Chapter 4 – Property Costs

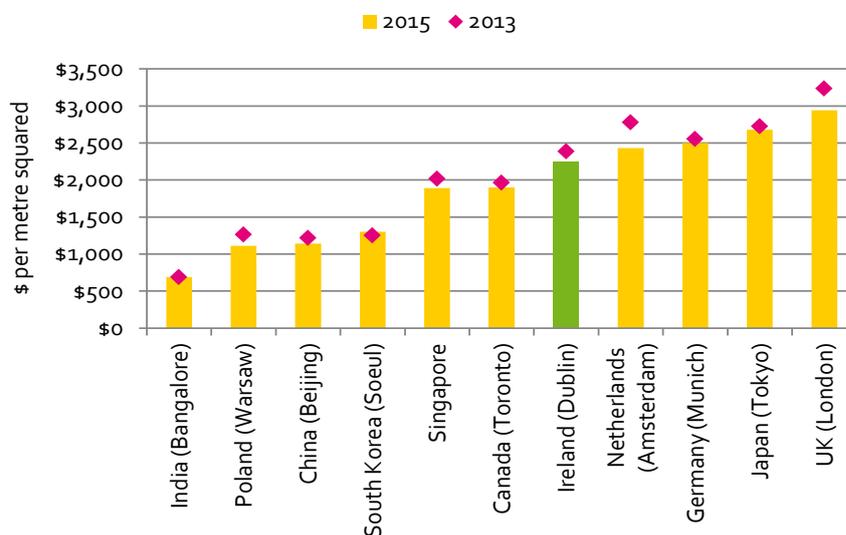
Figure 15: Quarterly change in capital values in Ireland, Q3 2010-Q3 2015



This indicator illustrates the change in capital values in Ireland for a range of commercial property classes. Since Q3 2013, values across all categories have consistently increased. Overall growth was recorded at 7.7% in Q3 2015 – this comprised of quarterly increases of 4.6%, 5.6% and 8.5% in Office, Industrial and Retail values.

Source: Jones Lang LaSalle, Irish Property Index

Figure 16: Cost of constructing an A-Grade Office¹⁷, \$ per square metre, 2015

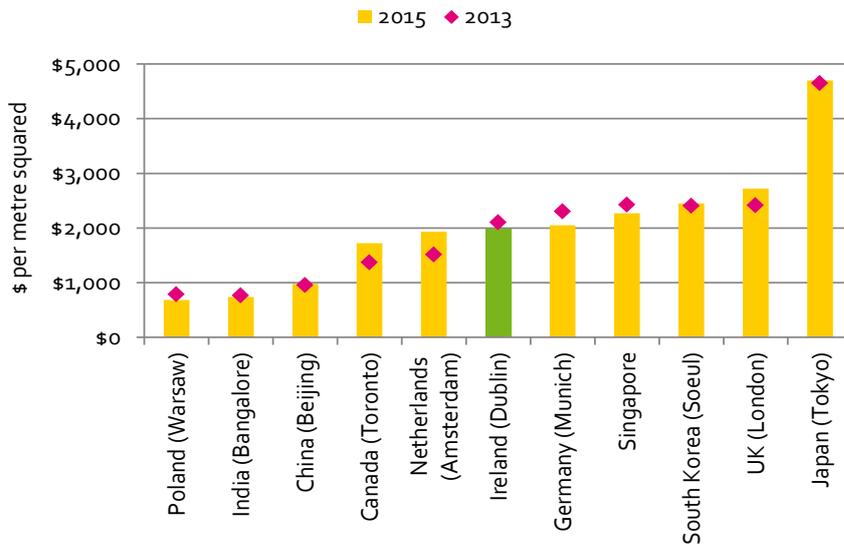


Construction costs data takes account of building, labour and material costs. The cost of constructing a prime office unit in Ireland has fallen by almost 6% since 2013. The decline in office construction costs was almost 10% in London and 12% in Amsterdam over the corresponding period.

Source: Turner and Townsend, International Construction Cost Survey 2015

¹⁷ Prices quoted are the costs associated with the construction of a prime office unit (up to 20 floors) in the Central Business District (CBD)

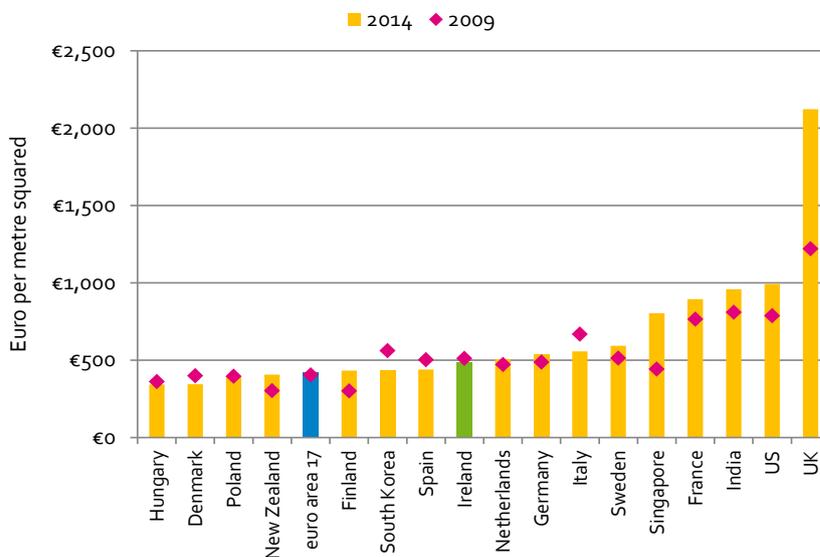
Figure 16: Cost of constructing a High Tech Factory / Laboratory¹⁸, \$ per square metre, 2015



The cost of constructing a High Tech Factory / Laboratory in Ireland has fallen by over 6% since 2013, which was slightly less than the reduction witnessed in Munich (11%). The cost of construction actually increased over the two year period in London (12.6%), Toronto (25.6%), and Amsterdam (27.6%).

Source: Turner and Townsend, International Construction Cost Survey

Figure 17: Cost of renting a prime office unit, € per square metre per year, 2013



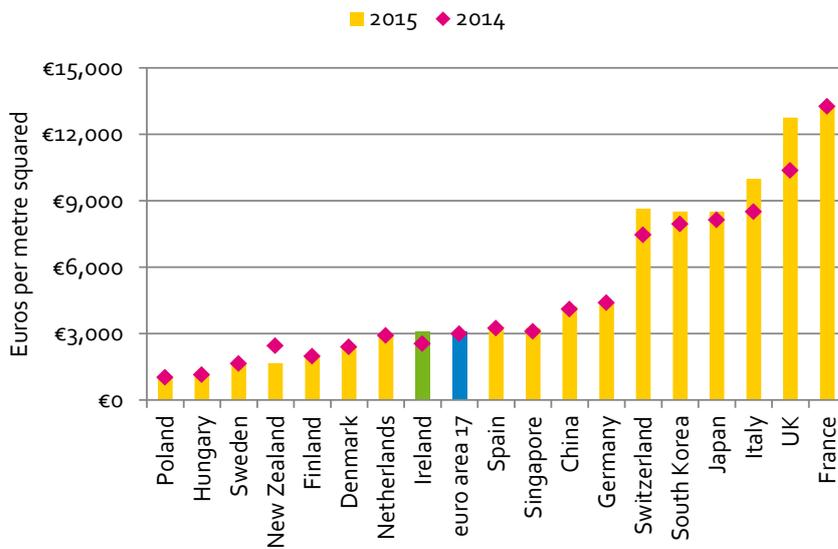
Office rents on new leases in Dublin fell by 47% between their peak in 2007 and 2012. The majority of this decline was realised early in the recession. Thereafter prices stabilised. Between 2009 and 2014, rents fell in Ireland by a recorded 5%. In spite of this in 2014, Ireland was the 6th most expensive location in the euro area¹⁹.

Source: Cushman and Wakefield, Office Space Across the World,

¹⁸ These units describe facilities where complex, high-technology products are both tested and produced.

¹⁹ UK data refers to the West End in London; prices in other locations in the UK were significantly lower. For example, London City rates were slightly more than half those of the West End, with rates in Manchester around one quarter the price of the West End. Euro area 17 excludes Cyprus and Malta.

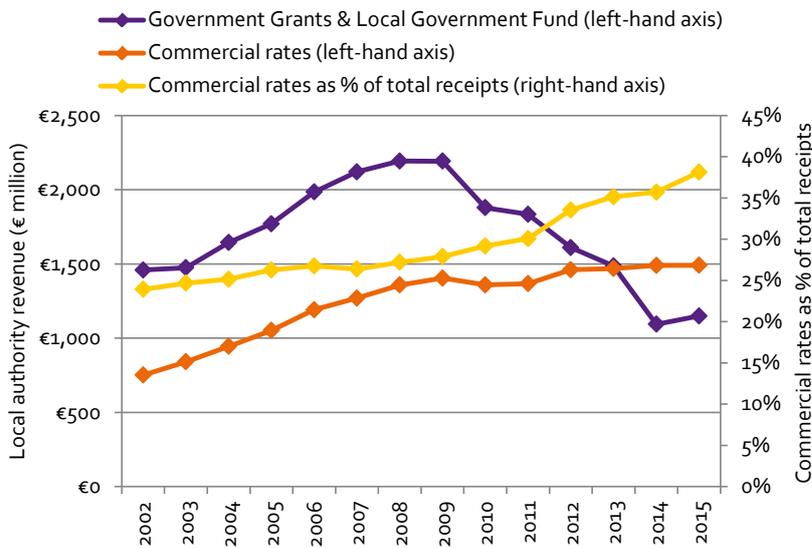
Figure 18: Cost of Renting a Prime Retail Unit, € per square metre per month²⁰, 2014



Trading conditions and occupier activity improved across Europe in 2015. In 2015 prime retail rents increased by 22% in Ireland over the year. Ireland was the 6th most expensive location in the euro area and rents range from €550 per square metre in O’Connell Street, Limerick to €5,500 in Grafton Street, Dublin.

Source: Cushman and Wakefield, Main Streets Across the World, 2015/2016

Figure 19: Commercial rates, and rates as a percentage of total local authority revenue, 2002-2015



Revenue collected by Local Authorities (LA) through commercial rates doubled over the period 2002 to 2015 (primarily between 2002 and 2009). Rates as a proportion of total LA revenue grew from 24% in 2002 to 38% in 2015. At the same time, the proportion of revenue received from Central Government fell from 46% to 29%²¹.

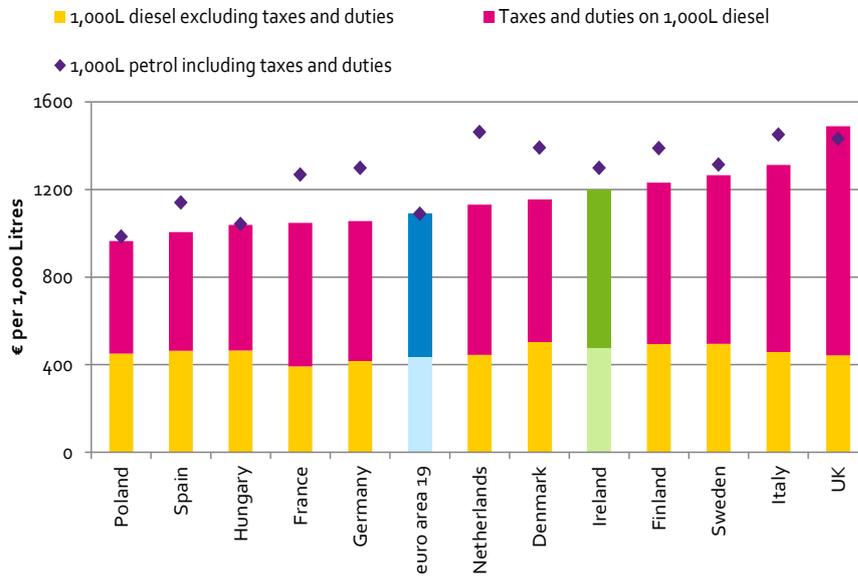
Source: Department of the Environment, Community and Local Government

²⁰ The chart is based on the most expensive retail location in each country, and uses data collected in September 2015. Data relates to the expected rent obtainable on a standard unit and/or shopping centre in a prime pitch in 500 locations across 65 countries around the world. Rents in most countries are supplied in local currency and converted to a common currency for purposes of international comparison. Data for Ireland is based on rents for Grafton St. in Dublin. The chart excludes data on the US (New York - €33,812 per metre squared) for presentational purposes.

²¹ The reduction in central government funding is also linked to the introduction of the Local Property Tax.

Chapter 5 – Transport Costs

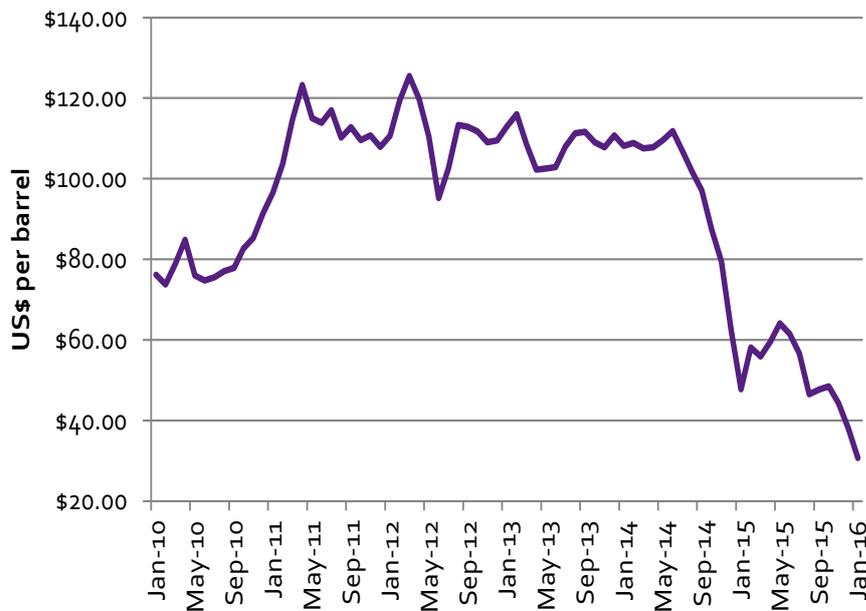
Figure 20: Diesel and petrol costs per 1,000 litres, January 2016



The cost of 1,000 litres of diesel in Ireland (€1,199) was 9.2% above the euro area average (€1,097) in January 2016 making Ireland the 5th most expensive country in Europe. Taxes on diesel account for the majority of this differential, representing 65.8% of total diesel costs in Ireland, the 3rd highest proportion in the euro area. This position is unchanged from 2015.

Source: European Commission, Energy Statistics & Market Observatory

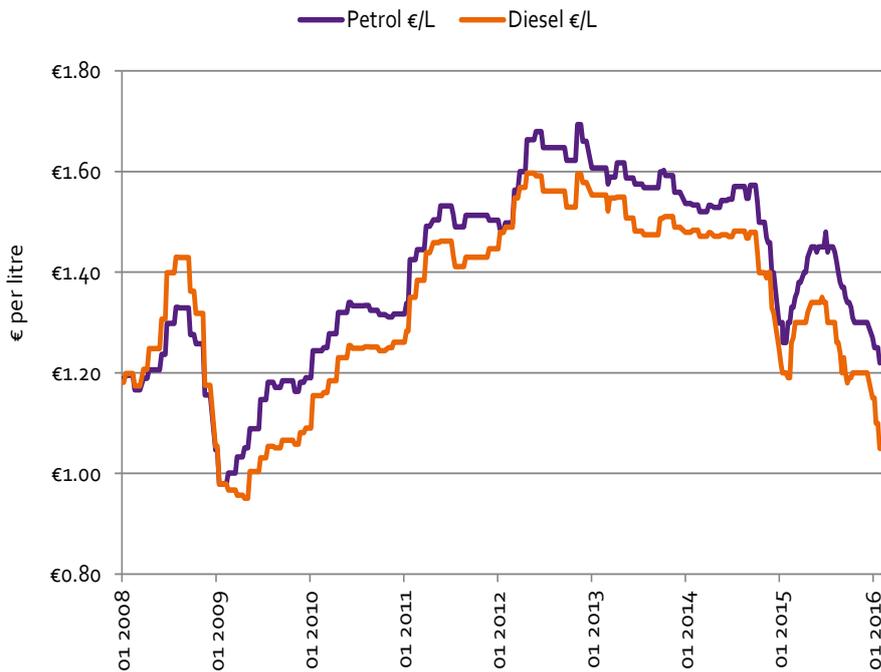
Figure 21: Europe Brent Spot Oil Price, USD per Barrel



The price for Brent Crude is one of the primary benchmarks for oil prices globally. Persistent decreases in the price of energy have been a feature of the economic landscape over the past two years culminating in spot prices falling to a low of \$27 per barrel in January 2016.

Source: US Energy Information Association

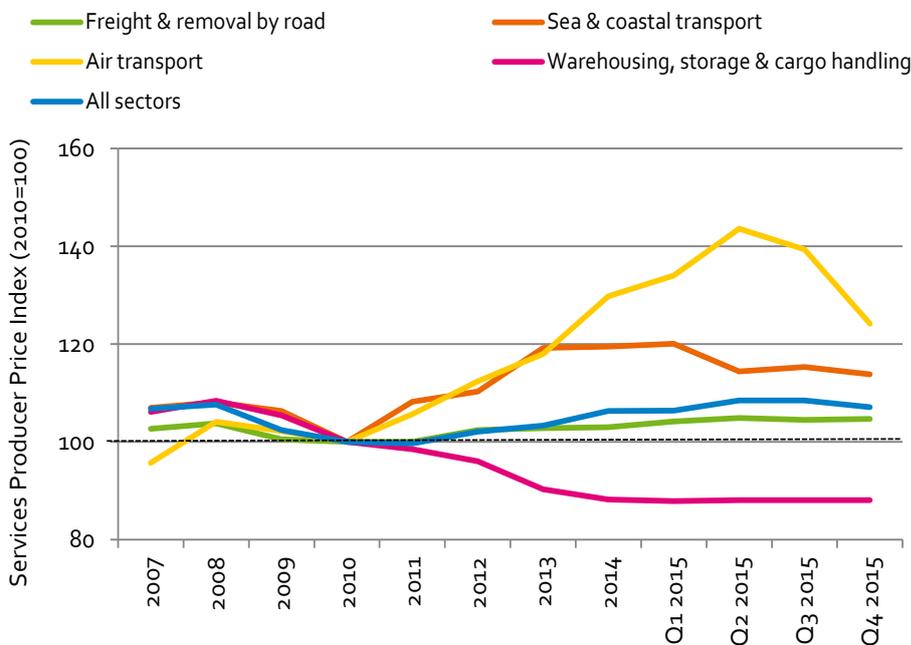
Figure 22: Average diesel and petrol costs per litre in Ireland, January 2008-January 2016



The sharp fall in oil prices in global commodities markets that began towards the second half of 2015 has led to a reduction in consumer prices for petroleum products across the EU. In Ireland, petrol and diesel prices decreased by 2.5% and 8% respectively in the 12 months to January 2016.

Source: European Commission, Energy Statistics & Market Observatory

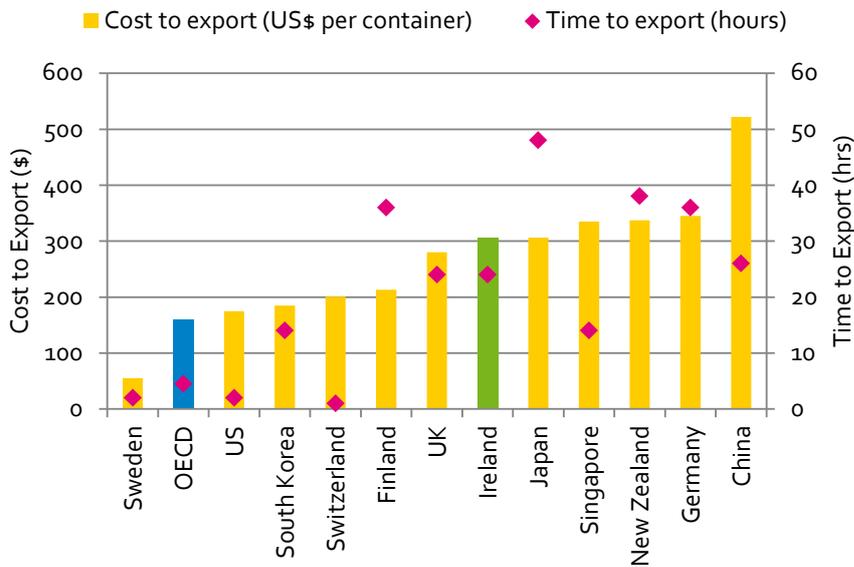
Figure 23: Trends in Transport Related Prices In Ireland, 2010-Q4 2015



In the 12 months to quarter 4 2015, overall services prices were 1.7% higher. In the transport sector, prices have been relatively stable in recent quarters. Air transport is the notable exception with rapid price growth recorded in recent years, albeit some slowdown occurred in the last quarters of 2015.

Source: CSO, Services Producer Price Index

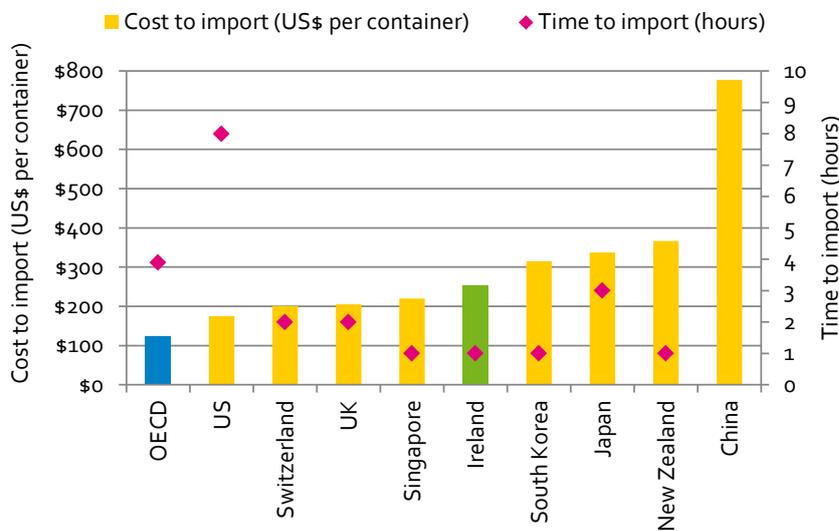
Figure 24: Administrative costs and time to export, 2015



The ease and cost of customs and admin procedures has a significant impact on trade flows. Compliance costs to export in Ireland were \$305 compared with an average of \$160 in the OECD. It takes 24 hours to complete the required procedures in Ireland²², which is significantly slower than the OECD average.

Source: World Bank, Doing Business 2016

Figure 25: Administrative costs and time to import, 2015



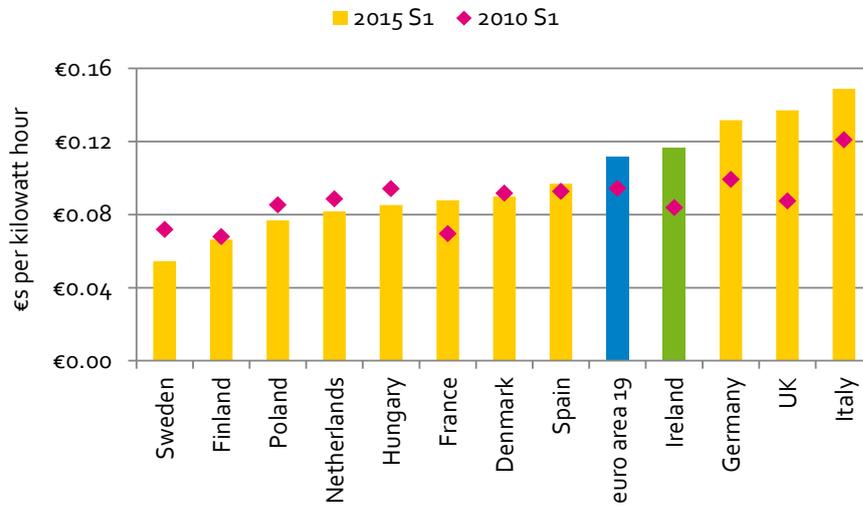
Irish costs to import a container were \$253, significantly higher than the OECD average (\$123). The time taken to complete the necessary procedures is one hour in Ireland, the joint-lowest time recorded with Singapore, South Korea and New Zealand. This is significantly lower than the OECD average.

Source: World Bank, Doing Business 2016

²² The Doing Business Report looks at domestic enterprises, predominantly SMEs, and measures national regulations applying to them through their life cycle. The Report's methodology is based on standardised case studies, chosen to be illustrative of the business regulatory environment. Doing Business presents quantitative indicators on selected regulations that can be compared across the 189 economies. The methodology for "Trading Across Borders" and the case studies underlying these indicators have been revised since previous editions. Due to these changes some of the countries benchmarked in previous Costs of Doing Business reports are now reporting zero or negligible costs and times to export. OECD data refers to "OECD High Income" countries.

Chapter 6 – Utility Costs

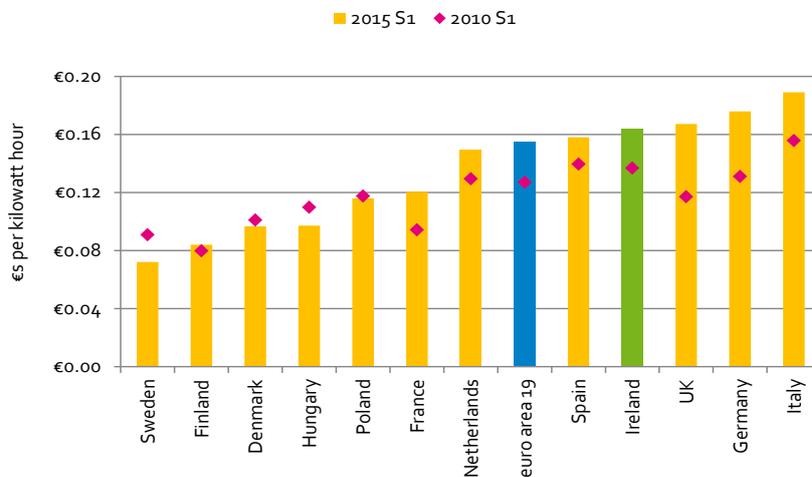
Figure 26: Industrial electricity prices for large energy users²³ (excluding VAT), S1 2015



In the first half of 2015, industrial electricity prices for larger energy users in Ireland were 4% higher than the euro area average. Ireland is the 5th most expensive euro area location. Nominal prices in 2015 here were 38.9% higher than in 2010 when the Large Energy Users Rebate was available.

Source: Eurostat-Environment and Energy

Figure 27: Industrial electricity prices for SMEs (excluding VAT)²⁴, S1 2015



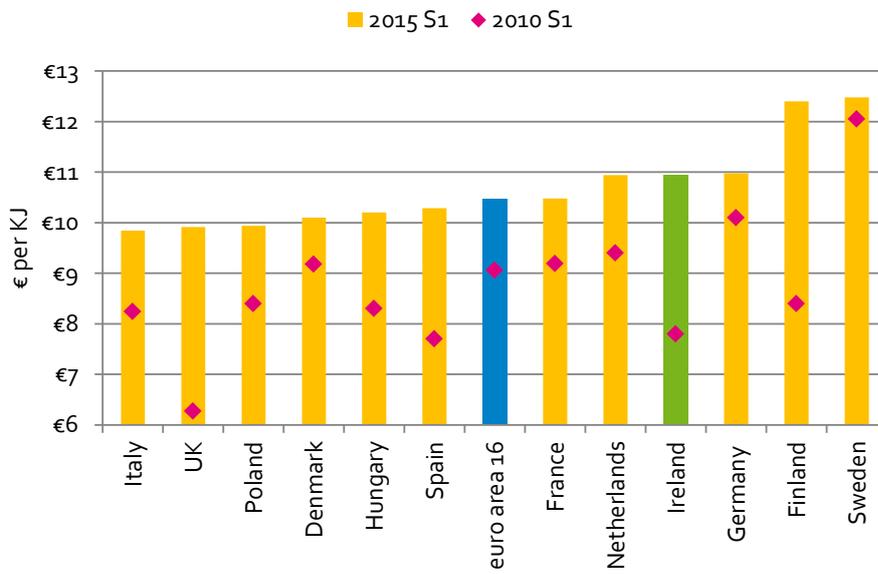
At €0.164 per kilowatt hour, industrial electricity prices for SME energy users in Ireland are almost 6% higher than the euro area average, making Ireland the 6th most expensive location. Since 2010, Irish prices for SMEs have increased by just over 20%.

Source: Eurostat-Environment and Energy

²³ Electricity prices for large users are based on an annual consumption of 2,000 to 20,000 MWh (Band ID). Data refer to half-yearly prices for each year (i.e. S1 represents the first six months of the year). Prices exclude VAT and other recoverable taxes and levies.

²⁴ Electricity prices for SMEs are based on an annual consumption of 20 and 500 MWh (Band IB). Prices exclude VAT and other recoverable taxes and levies.

Figure 27: Industrial gas prices (excluding VAT)²⁵, S1 2015



In the first half of 2015 industrial gas costs in Ireland were the 6th highest in the euro area (almost 5% above the average euro area price). The price of US natural gas has fallen significantly in recent times due to the increased usage of fracking and shale gas, and is projected to remain low over the medium term.

Source: Eurostat-Environment and Energy

Figure 28: Water services costs²⁶, 2013

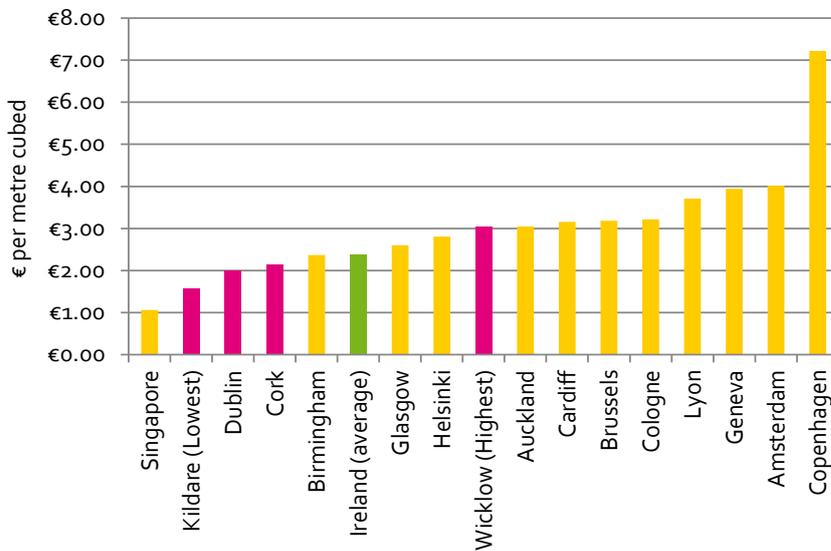


Figure 28 places Irish water and waste water costs for industrial users into an international context. On average, water and waste water costs in Ireland compare favourably to those in competitor markets.

Source: DKM/RPS Consulting for DJEI

²⁵ Based on band I3: 10 000 GJ < Consumption < 100 000 GJ. Euro area 16 excludes Cyprus, Greece and Malta. Prices are based the first half of the year (S1).

²⁶ Data for Dublin relates to Dublin City Council; data for Birmingham is based on > 50,000 m³ annual water consumption in May-Sept and 50,000-249,000m³ waste water annual consumption; data for Glasgow is based on > 25,000 m³ annual water consumption 23,750m³ waste water annual consumption; data for Auckland is based on 10,000-88,310 m³ annual waste water consumption; data for Cardiff is based on 50,000 -99,000 m³ annual water consumption; data for Brussels is based on >5,000 m³ annual water consumption.

Figure 29: Business water service costs in Ireland by Local Authority, 2015

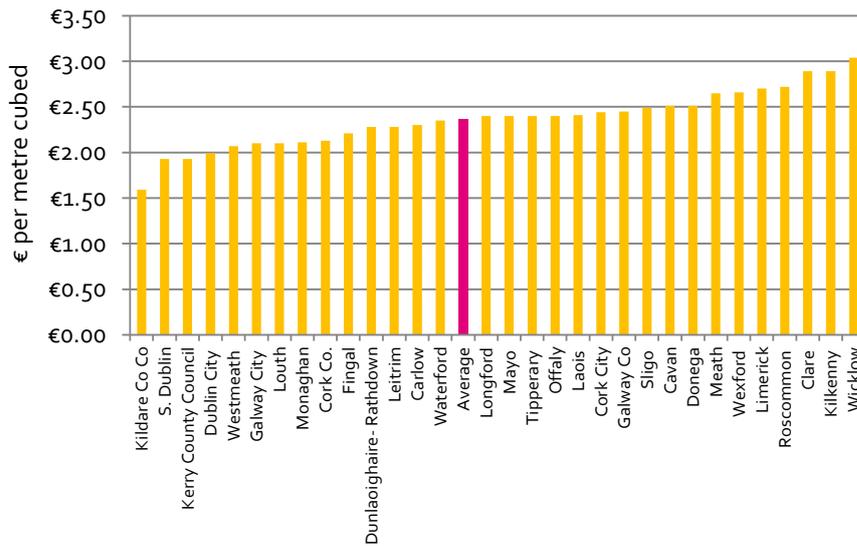


Figure 29 shows the combined charge per m³ of water in each Irish Local Authority area. The average cost of water for business in Ireland is €2.38 per m³. The Commission for Energy Regulation is embarking on a project to develop a more harmonised suite of tariffs for non-domestic customers²⁷.

Source: Irish Water

Figure 30: Landfill Costs in Comparator Countries/Regions²⁸, 2008-2014

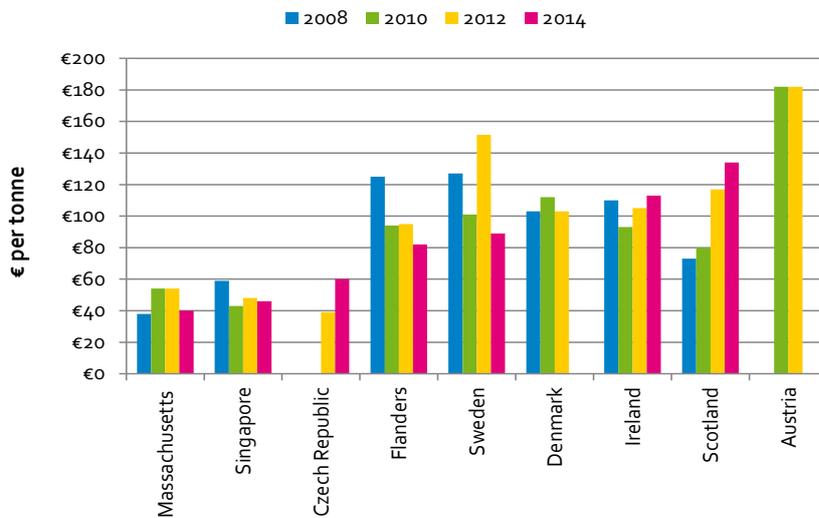


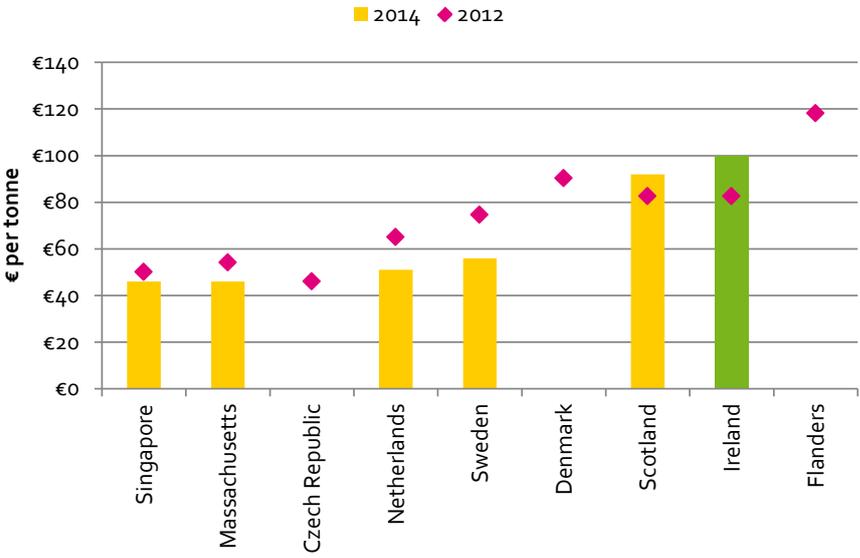
Figure 30 compares Irish and international landfill costs. Although landfill costs in Ireland declined in 2010, they are once again among the most expensive of the benchmarked competitor and comparator countries/regions for which data is available.

Source: RPS Consulting for DJEI

²⁷ Due to the limited information on the tariff/consumption profiles of non-domestic users available when the CER undertook its review of water tariffs in 2014, it was decided to defer designing the new tariff framework until that information is available. Non-domestic tariff arrangements as set by the local authorities prior to 1st January 2014 will be applied by Irish Water until the CER approves the new tariff framework (See Irish Water, Irish Water Charges Plan – Scheme of Charges Applicable from 1st October 2014 to 31st December 2016, March 2015). Currently there is a wide range of non-domestic tariff levels, tariff categories, methodologies, applications, billing arrangements and billing cycles across the country. There are 44 distinct billing authorities, with over 500 different tariff price points in operation for non-domestic water and wastewater services.

²⁸ Where relevant, data is based on a simple average of a range of waste charges available. For Singapore, 2013 data is used instead of 2014; for Sweden, 2007 data is used for 2008 and 2013 data for 2014; for Denmark, 2007 data is used for 2008. Disposal at landfill represents the least desirable environmental outcome and is resource inefficient. No Member State wants to reduce the cost of landfilling.

Figure 31: Non-hazardous thermal treatment gate fees²⁹, € per tonne, 2014³⁰



Until very recently, landfill had dominated waste treatment in Ireland. However, our reliance on landfill is at its lowest rate in the history of the State. The importance of thermal treatment (incineration) is growing. Irish thermal treatment costs (gate fees) are amongst the most expensive in the benchmarked countries/regions.

Source: RPS Consulting for DJEI

Figure 32: High Usage Mobile Phone Basket, 2014

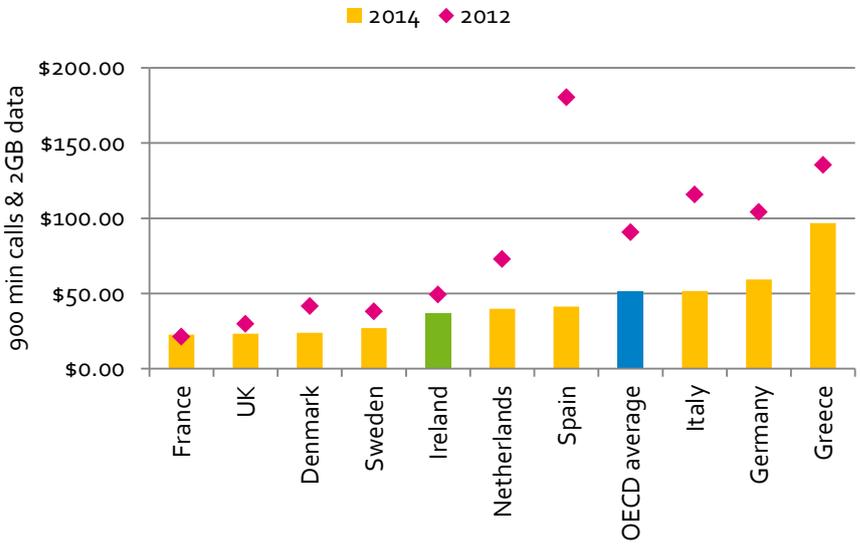


Figure 32 shows that in 2014 the price of a High Usage Mobile Basket (900 mins and 2GB Data) was almost 40% lower in Ireland than the average price across the OECD average. Between 2012 and 2014 the cost of this Basket fell by almost one-third. The only increase in cost over this period was recorded in France.

Source: OECD Digital Economy Outlook, 2015

²⁹ Note that 2014 data was not available for the Netherlands, Singapore or Sweden - 2013 data is used instead. Neither 2013 nor 2014 data was available for the Czech Republic or Denmark. The 2012 fee for Denmark includes a levy of €44 per tonne. Data for Ireland 2012 and 2014 is based on a simple average of price range data.

³⁰ No 2014 data available for the Czech Republic, Denmark or Flanders.

Figure 33: Business Standalone Fixed Voice Basket³¹ € per month excluding VAT, Q3 2015

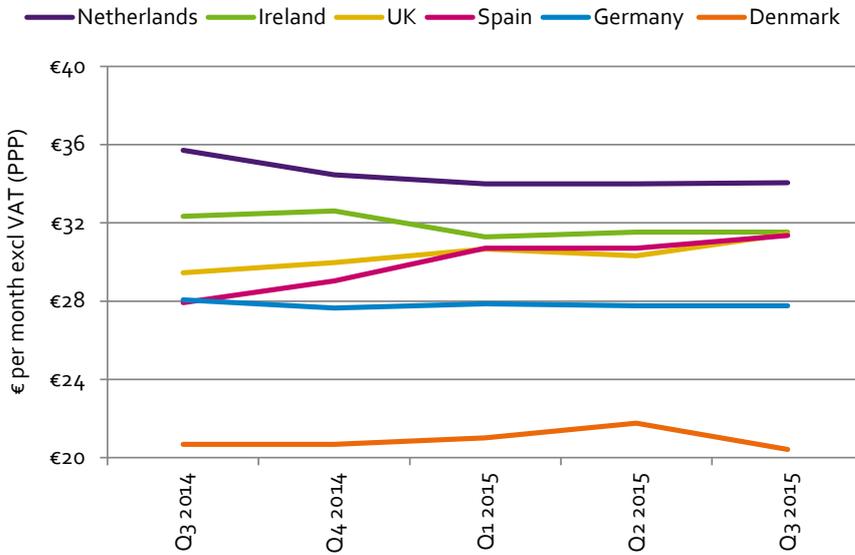


Figure 33 shows that in Q3 2015 a basket of Standalone Fixed Voice charges for Business was €31.53 in Ireland, which was 13.5% more expensive than in the corresponding basket in Germany and 54.3% higher than in Denmark.

Source: ComReg

Figure 34: Business Fixed Broadband, € per month excluding VAT, Q3 2015

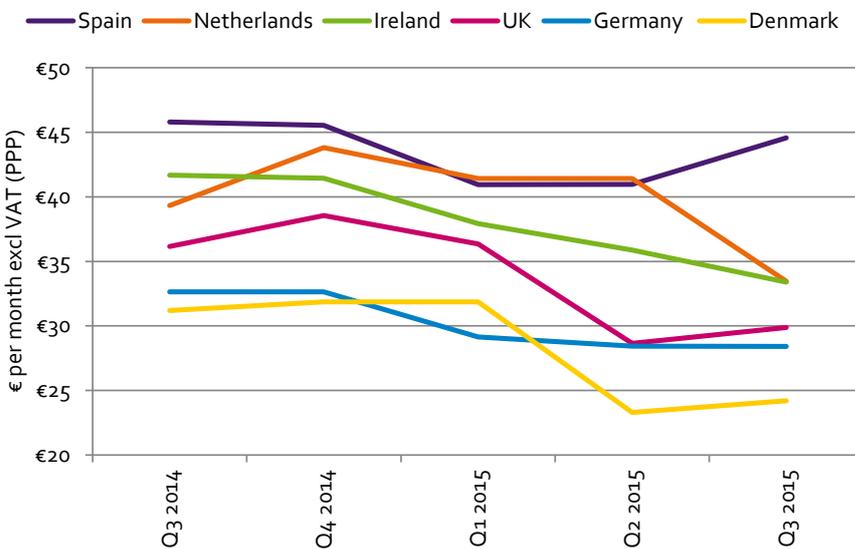


Figure 34 shows that in Q3 2015 Fixed Broadband charges for Irish Business were €33.40, roughly halfway between the most expensive (Spain at €44.56) and the least expensive (Denmark at €24.20). Over the previous five quarters Fixed Broadband services fell by 24.7%.

Source: ComReg

³¹ Standalone fixed voice services are voice services not sold as part of a bundle or other services.

Figure 35: Business Mobile Broadband, € per month excluding VAT, Q3 2015

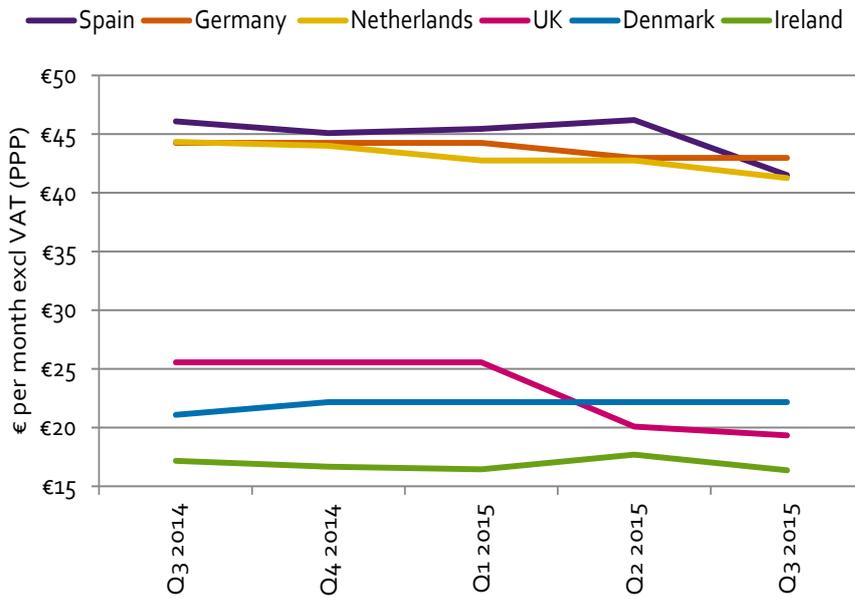


Figure 35 shows that Ireland had the lowest Business Mobile Broadband costs in the sample of countries. Mobile broadband charges for business baskets in Ireland were €16.36 in Q3 2015. Similar charges in Germany in the corresponding period were over two-and-a-half times more expensive.

Source: ComReg

Figure 36: Business Post-Paid Mobile Phone Service Basket, € per month, Q3 2015

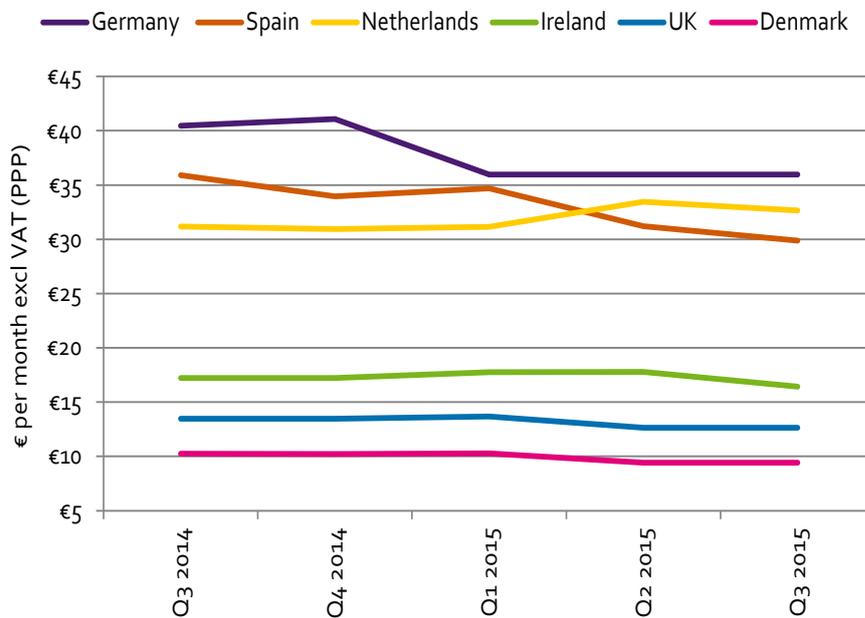
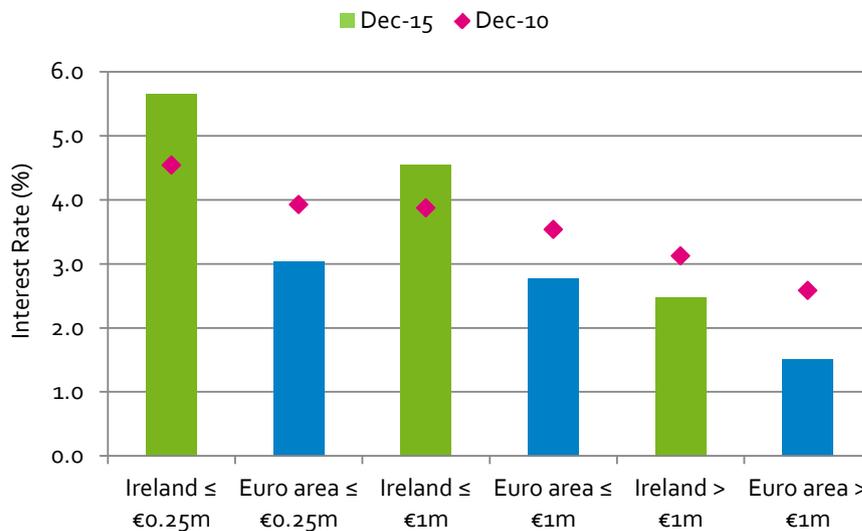


Figure 36 shows that Ireland had the 3rd lowest Post-Paid mobile costs for Business in the sample of countries behind Denmark and the UK, at €16.42 per month. Post-Paid Mobile charges fell universally over the period from Q3 2014 to Q3 2015.

Source: ComReg

Chapter 7 – Credit and Financial Costs

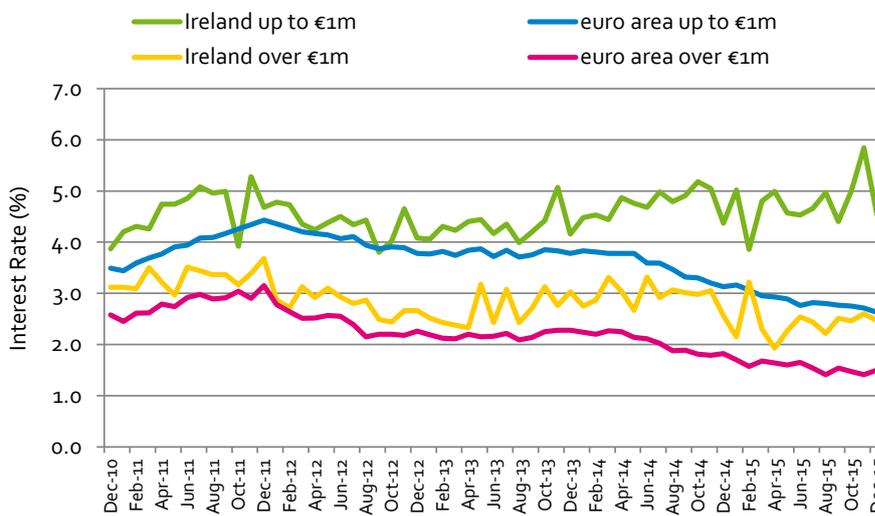
Figure 37: Interest rates for non-financial corporations (new business) by loan size³², December 2015



Irish interest rates on business loans have been consistently higher than equivalent euro area rates. In December 2015, the interest rate in Ireland on loans of up to €0.25 million was more than 80% higher than the euro area average rate for new business; the rate on loans of up to €1 million was more than 60% more expensive in Ireland.

Source: European Central Bank

Figure 38: Interest rates for non-financial corporations (new businesses) by loan size, 2010- 2015



Looking at the same data in time series from 2010 to 2015, it is clear that not only are interest rates in Ireland above average for loans of up to €1 million and for loans over €1 million, Irish rates have been noticeably more volatile than euro area rates. Irish and euro area interest rates diverged further in 2014 and 2015.

Source: European Central Bank

³² Data in Figures x and y refer to loans other than revolving loans and overdrafts, convenience and extended credit card debt; Euro area average is based on changing composition.

Figure 39: Revolving loans and overdraft interest rates for non-financial corporations, 2010- 2015

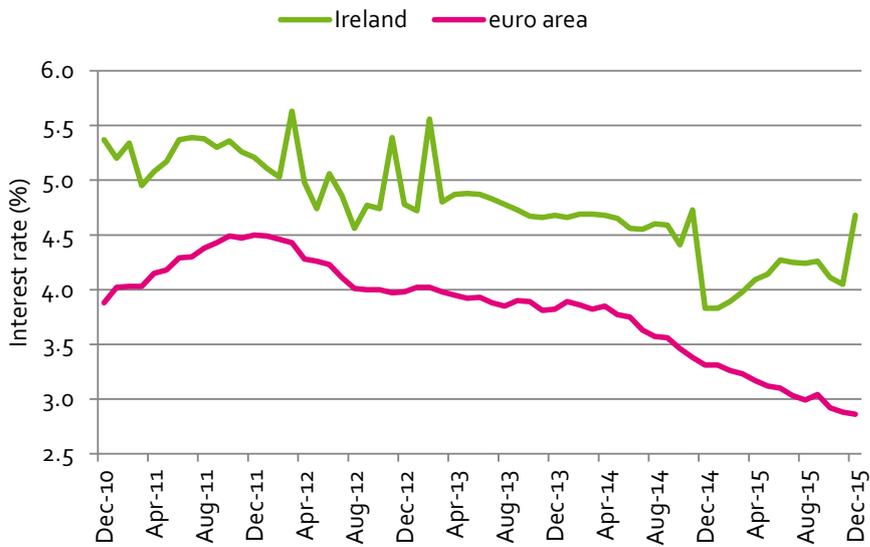
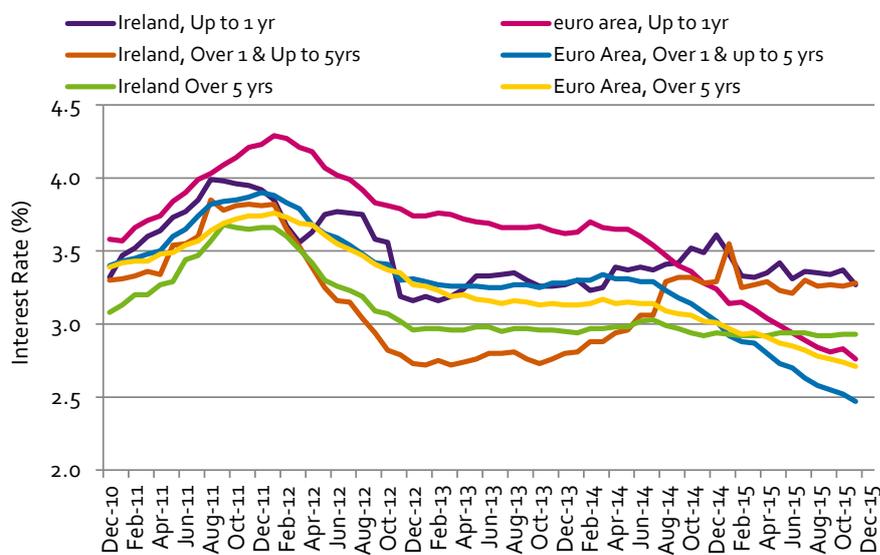


Figure 39 highlights the continuing difference between Irish and euro area interest rates for revolving loans and overdrafts. As of December 2015 Irish interest rates were 182 basis points higher than the euro area.

Source: European Central Bank

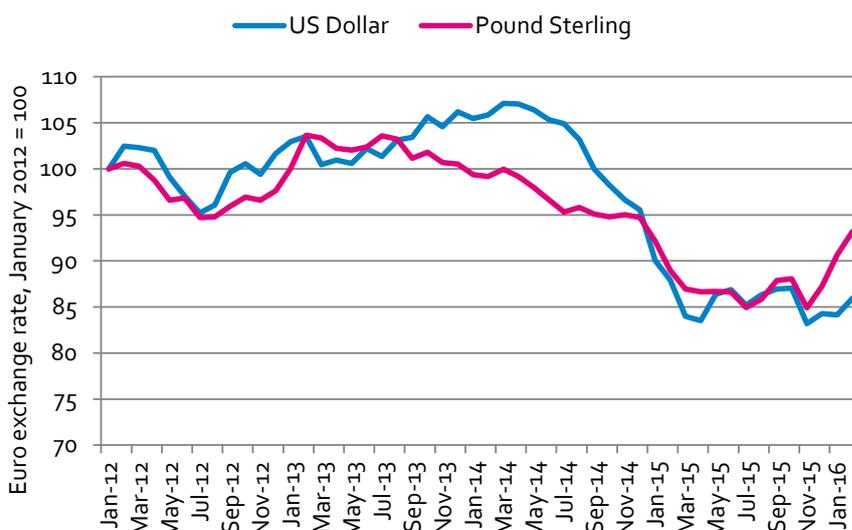
Figure 40: Retail interest rates (%), outstanding amounts by duration, December 2010-December 2015



Central Bank data shows that gross new draw-downs by non-financial SMEs increased by 24% in 2015. It also shows that new lending rates declined for SMEs in most economic sectors over 2015. However, following a degree of convergence between retail interest rates in Ireland and the euro area in 2014, rates for all durations have once again diverged in 2015.

Source: European Central Bank

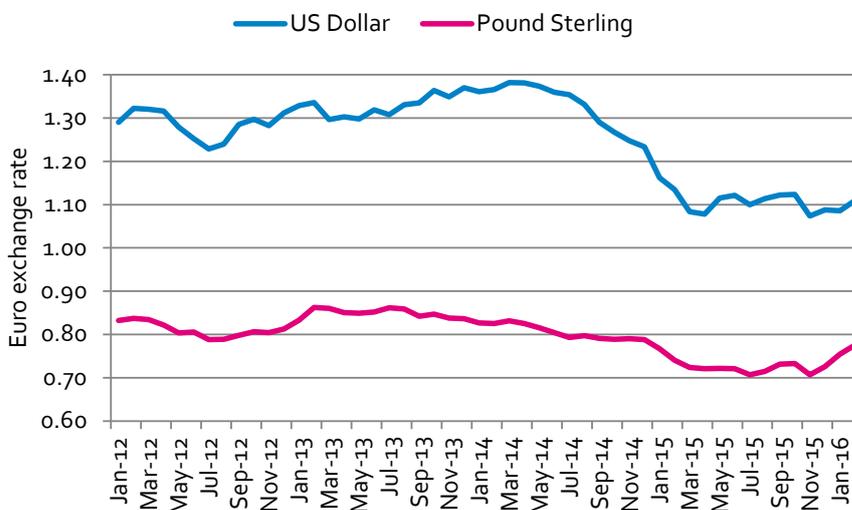
Figure 41: Index of euro/pound sterling and euro/dollar exchange rate, January 2012-February 2016



The relative value of the Euro against the Dollar and Sterling has fluctuated considerably in recent years. Whereas previously euro weakness boosted Irish competitiveness; in recent months, the relative value of sterling in particular has weakened against the euro (reflecting weaker UK growth prospects and concerns about Brexit).

Source: Central Bank of Ireland

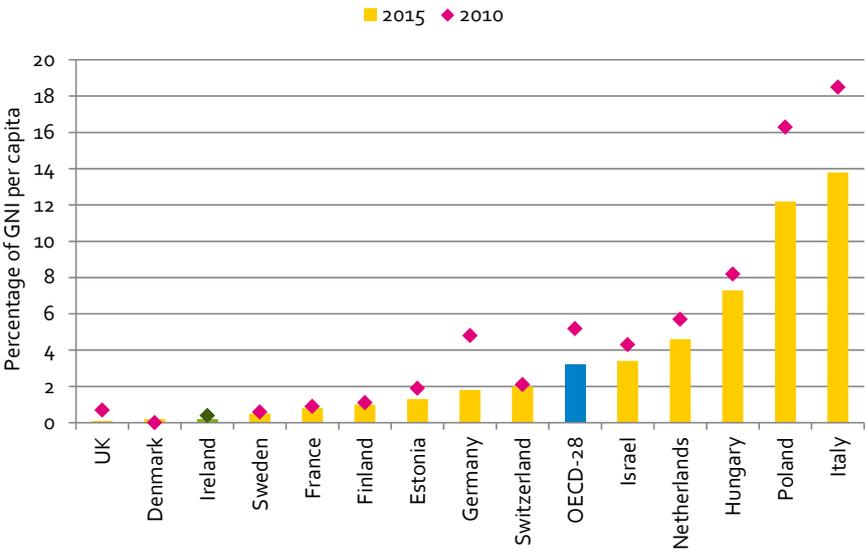
Figure 42: Actual euro/pound sterling and euro/dollar exchange rate, January 2012-February 2016



Given the importance of trade with the UK and US for Ireland, changes in the value of the euro impact significantly upon Irish competitiveness. The recent depreciation of sterling and the dollar has adversely impacted the cost competitiveness of Irish exports, but conversely has made imports relatively cheaper.

Source: Central Bank of Ireland

Figure 43: Cost of starting a business, percentage of GNI per capita³³, 2015



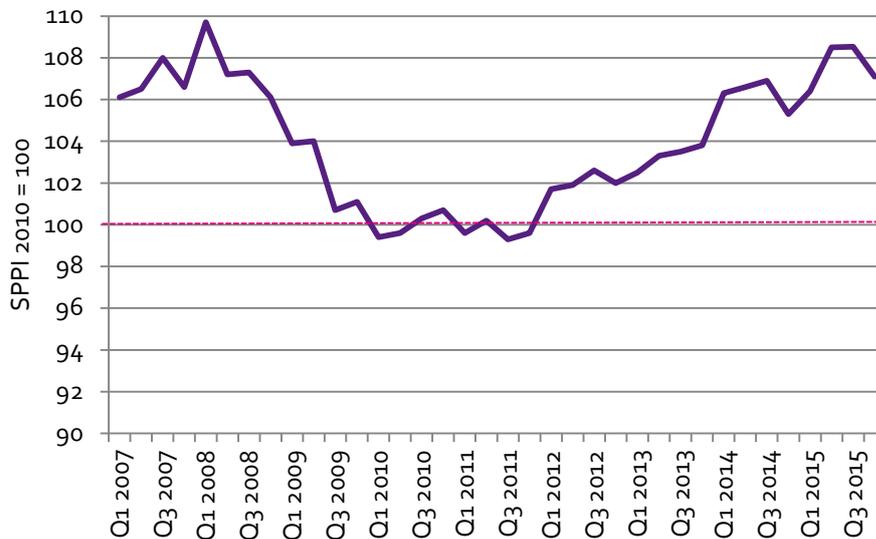
The cost to register a business as a percentage of gross national income per capita in Ireland was 0.2% in 2015, half the percentage it was in 2010. The percentage recorded in 2015 was the joint-third lowest percentage recorded across the OECD-28 where the average was 3.22% in the corresponding year.

Source: World Bank

³³ Cost to register a business is normalized by presenting it as a percentage of gross national income (GNI) per capita.

Chapter 8 – Business Services and Other Input Costs

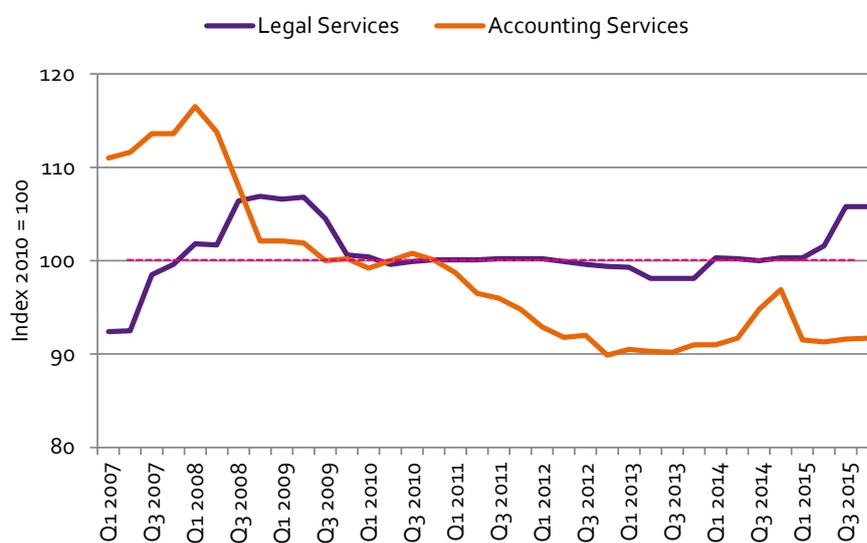
Figure 44: Services producer price index (SPPI)³⁴, Q1 2007-Q4 2015



The SPPI measures changes in the average prices charged for a range of business services. In Q4 2015, the SPPI stood at 107.1. Following a period of decline during the recession, an upward trend has been evident since 2011. Recent increases were driven by computer programming and consultancy, air transport and legal costs

Source: CSO, Services Producer Price Index

Figure 45: Accountancy and legal services³⁵ costs, Q1 2007-Q4 2015



The cost of accounting services declined steadily during the recession. Prices for legal services did not adjust downwards to the same extent. While prices dipped briefly in 2013, they increased by over 5% in 2015. In Q4 2015 legal service prices were 5.8% higher than 2010 levels.

Source: CSO, Services Producer Price Index

³⁴ 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).

³⁵ The legal services data is based on 16 respondents to the CSO survey and 90 separate price observations. Reported legal service costs cover solicitor fees.

Figure 46: European services producer price index, Q1 2010-Q3 2015

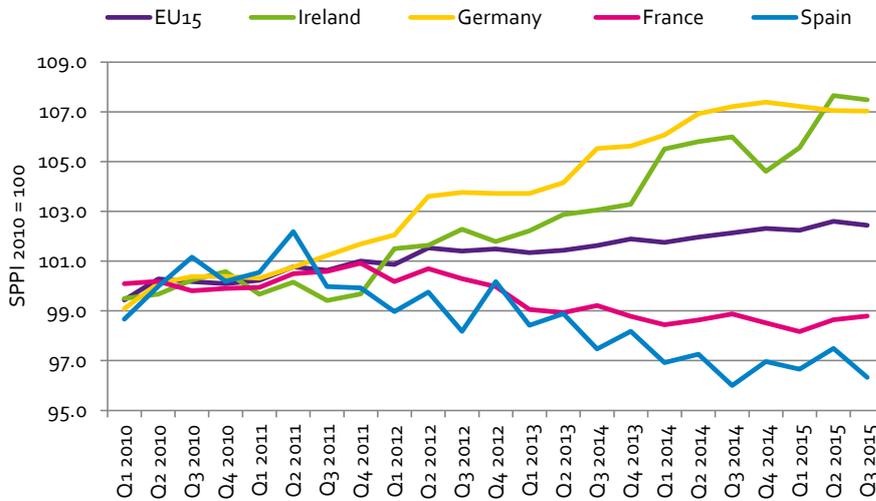


Figure 46 compares the evolution of SPPI's across the EU³⁶. Since 2010, service prices have risen markedly in both Ireland and Germany compared to the EU-15. Corresponding prices in France and Spain were lower in 2014 than in 2010.

Source: Eurostat, Services Producer Price Index

Figure 47: Comparison of business services prices and wholesale manufacturing prices, 2010-Q4 2015

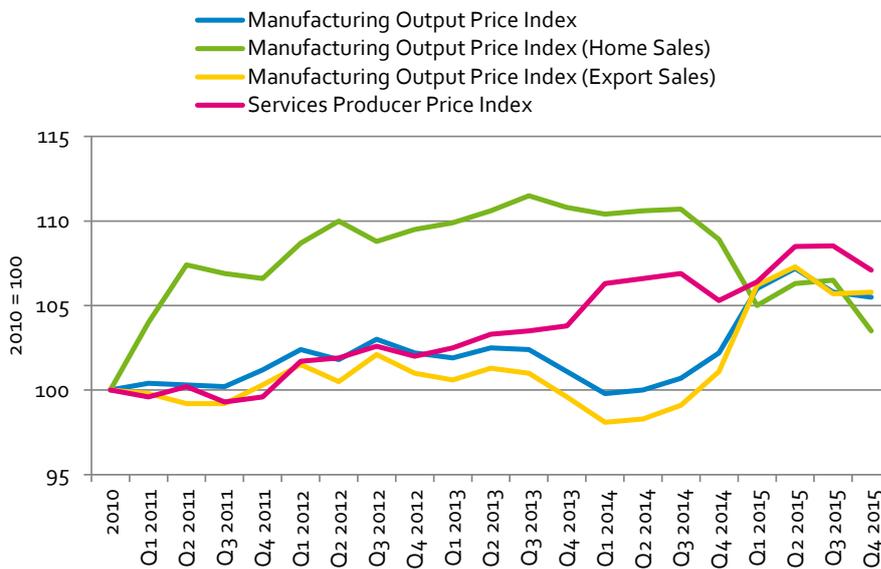


Figure 47 compares the evolution of prices for manufacturing products and services – both of which input into the overall cost base for enterprise. Overall since 2010, service prices have risen by more than manufacturing prices. This may reflect the greater exposure of the manufacturing sector to international competition.

Source: CSO, Services Producer Price Index & Wholesale Price Index

³⁶ The European Services Producer Price Index is calculated differently from the CSO SPPI and includes data from a slightly different set of sectors. The EU SPPI has increased from 100 in 2010 to 102.2 in 2014; using the EU methodology, the Irish SPPI has increased to 105.48 over the same period.

Figure 48: Accountancy, legal and consultancy services costs, Q1 2007-Q3 2015

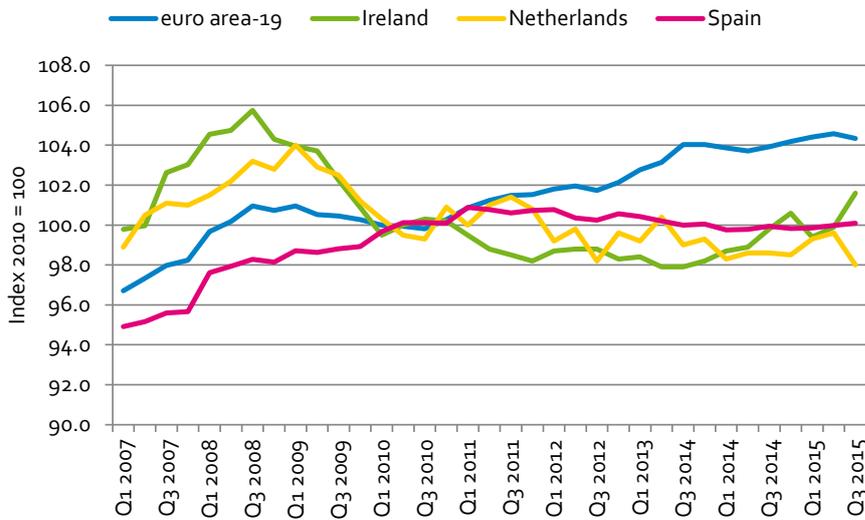
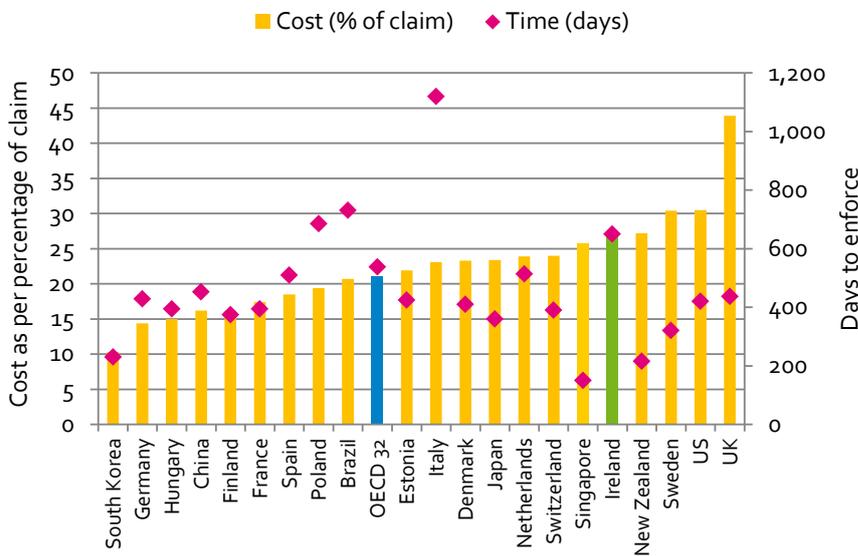


Figure 48 compares the evolution of a basket of accountancy, legal and consultant services across the euro area. Overall since 2010, the price of this basket of services has risen markedly across the euro area-19. Corresponding prices in Spain were stationary with a decrease recorded in the Netherlands. The increase recorded in Ireland was 2.1%.

Source: Eurostat, Services Producer Price Index

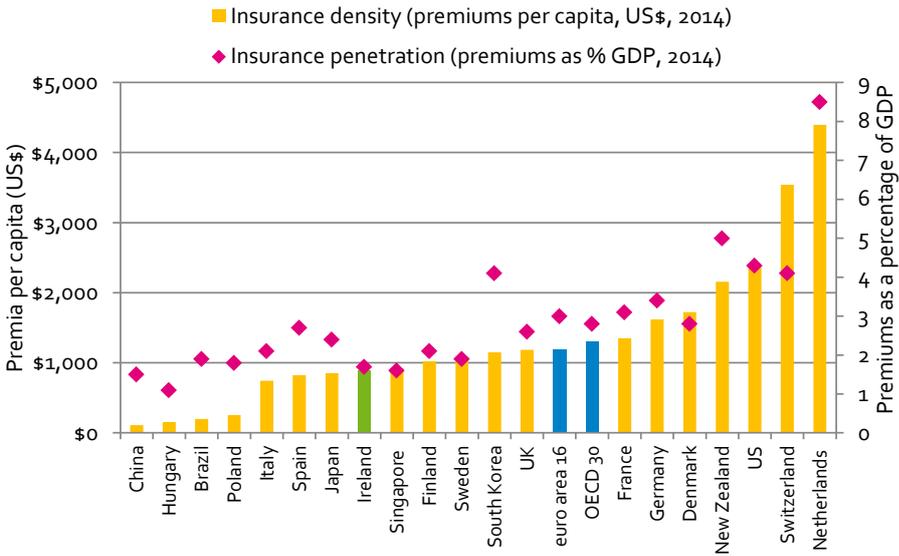
Figure 49: Legal fees – the cost of enforcing a business contract, 2015



Ireland remains an expensive location in which to enforce a business contract (8th most expensive in the OECD₃₂). The World Bank estimates that the total cost of contract enforcement in Ireland amounts to 26.9% of a claim, compared with 21.1% in the OECD. It also takes longer to enforce a contract in Ireland (650 days) than in the OECD (538).

Source: World Bank, Doing Business 2016

Figure 50: Non-life and Commercial insurance density and penetration³⁷, 2014



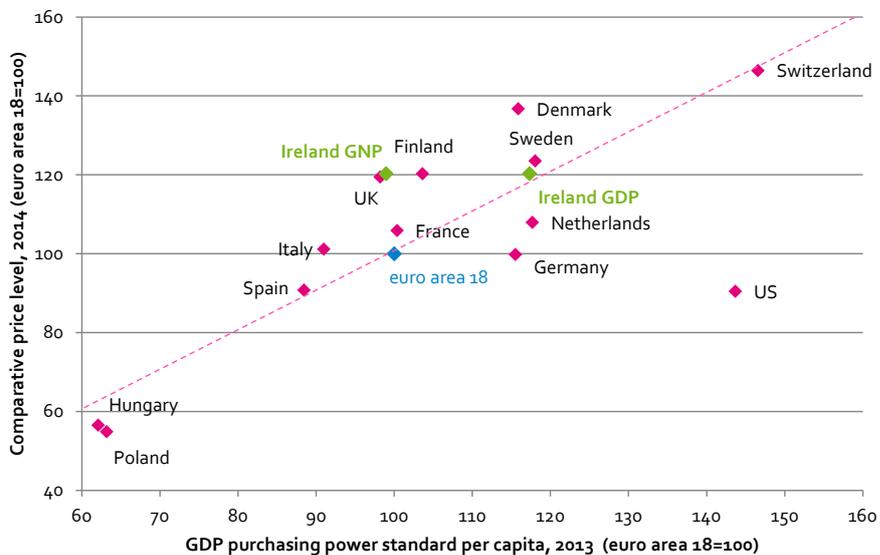
High insurance density (premiums per capita) is a function of both high insurance costs and the requirement for high coverage levels. Non-life and commercial insurance relates to motor, property, employer’s liability, public liability, travel and other business insurance. The density of non-life insurance in Ireland (\$885) is below the euro area-16 (\$1,189). At 1.7% of GDP, insurance penetration in Ireland is low compared to the euro area average.

Source: Swiss Re, Sigma No.4, 2015

³⁷ OECD 30 excludes Estonia, Iceland, Mexico and Turkey

Chapter 9 – Broader Costs Environment

Figure 51: Price levels, 2014 and GDP per capita, 2013



Irish consumer prices remain over 20% above the euro area-18 average. In 2014, Ireland was the most expensive location in the euro area for consumer goods and services. Prices in Ireland appear particularly high relative to income when measured in GNP terms.

Source: Eurostat

Figure 52: Irish price levels relative to the euro area 19 (including indirect taxes), 2014

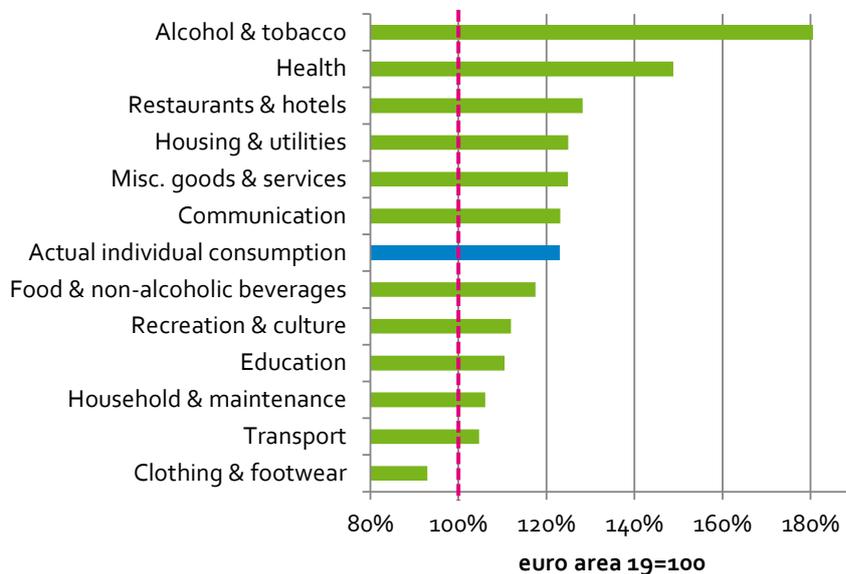


Figure 52 compares relative prices for a range of goods and services in Ireland with the average euro area price. Irish prices are above the euro area average for 11 out of 12 categories of goods and services (clothing and footwear being the exception). The wide differential in alcohol and tobacco prices is primarily a consequence of taxation policy.

Source: Eurostat

Figure 53: Consumer price level comparison (New York = 100)³⁸, 2015



This chart shows the cost of goods and services worldwide, relative to New York. A basket of comparable goods and services in Dublin costs 70.3% of the cost of a similar basket in New York. The basket in London would cost 84.7% of New York levels. When rents are included, most city indices decrease relative to New York (i.e. New York rents are higher than elsewhere).

Source: UBS Prices and Earnings 2015

Figure 54: Consumer price levels, 2014, and average annual inflation, 2012-2015

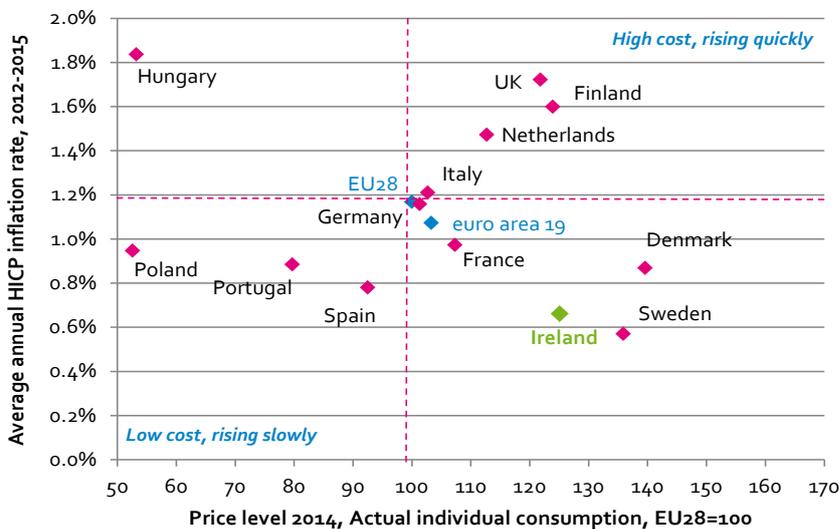
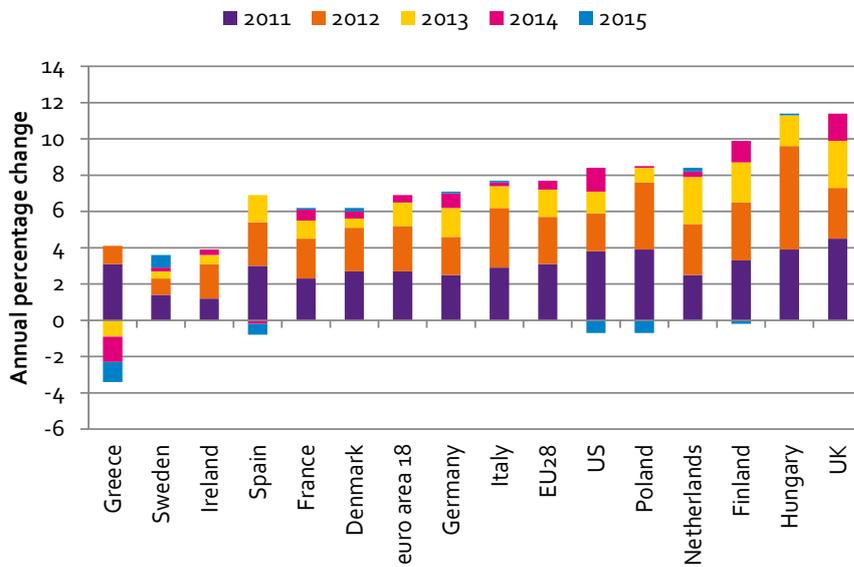


Figure 54 examines both changes in prices (inflation) and the price level. It shows that Ireland's current price profile is "high cost, rising slowly". Europe, in recent years, has been characterised by low inflation – indeed, the threat of deflation persists across the euro area.

Source: Eurostat, DJEI Calculations

³⁸ Changing exchange rates should – in theory and in the long run – compensate for differences in inflation across countries and cities. If US inflation is 2% higher than the euro area's for an extended time, the dollar should depreciate 2% per year against the euro. However, exchange rates tend to fluctuate more than inflation differences across currency areas, and this explain the relative movements of cities in UBS rankings over time; the euro lost almost one-quarter of its value against the US dollar from mid-2014 until the end of the first quarter of 2015, resulting in relative prices in euro area cities falling dramatically.

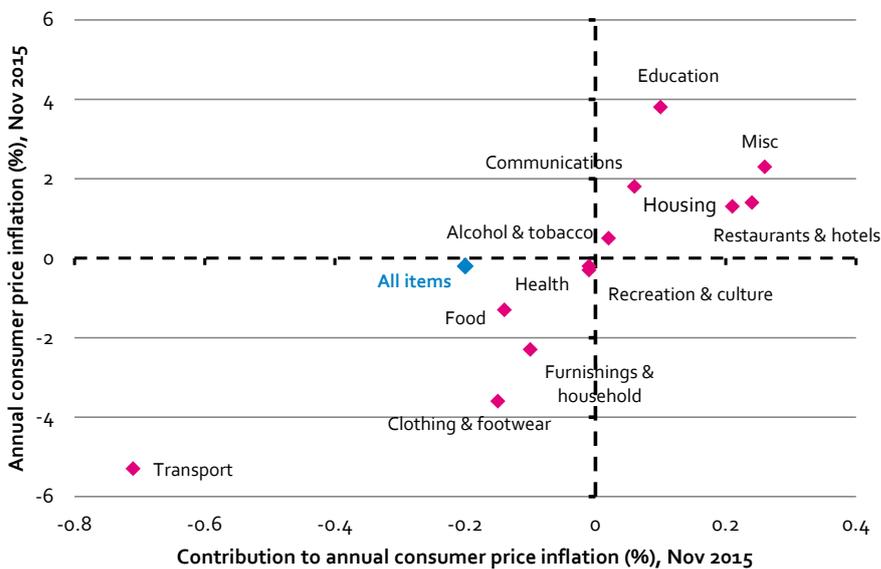
Figure 55: Harmonised index of consumer prices³⁹: annual percentage change, 2011-2015



During the course of the recession, Irish inflation (in some years Irish prices actually declined) was consistently amongst the lowest in Europe, resulting in a narrowing price differential. Inflation remains muted. As Europe struggles to return to growth, inflation across the euro area fell to 0.4% in 2014 and to 0% in 2015.

Source: Eurostat, DJEI Calculations

Figure 56: Annual CPI inflation and contribution to total CPI inflation, November 2015

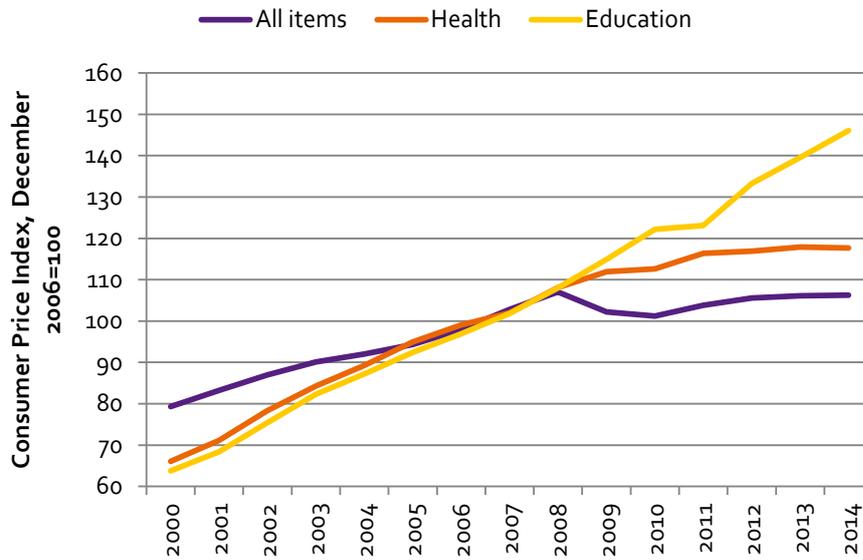


This chart examines the contribution of individual categories of goods and services to overall inflation (i.e. taking account of inflation rates and the weighting attached to each good or service). The highest inflation rate was recorded for education, while “miscellaneous” and restaurants and hotels contributed most to overall inflation.

Source: CSO, DJEI Calculations

³⁹ The European Union-Harmonised Indices of Consumer Prices (EU-HICP) is calculated in each Member State of the EU. The purpose of this index is to allow the comparison of consumer price trends in the different Member States. The methodology adopted for the construction of the national CPI is identical to that recommended for the HICP. Thus the two indices only differ in respect of the coverage of certain goods and services and the treatment of insurance.

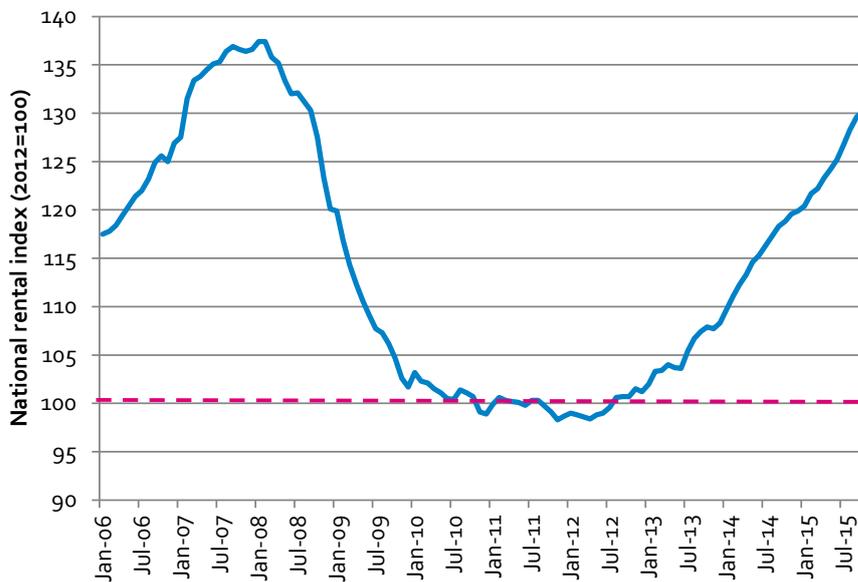
Figure 57: Consumer price inflation in health and education (December 2006=100), 2000-2014



Health⁴⁰ and education⁴¹ consumer costs have increased at a faster rate than overall consumer costs since 2000. In 2014, education costs were 46.1% above what they were in 2006 while health costs were approximately 17.7% above 2006 prices. By comparison, the overall consumer price level increased by 6.3% over the same period.

Source: CSO

Figure 58: National rental index (2012=100), January 2006-October 2015



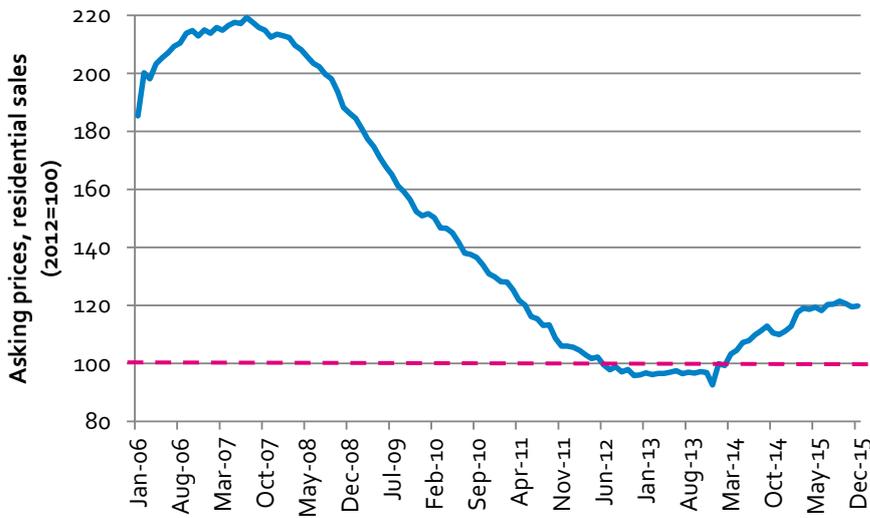
Rents rose by 9.3% in the year to October 2015. Average rent was €964 per month. Having risen by almost 30% since 2011, average rent nationally is now just 6.3% below the 2008 peak. Dublin inflation (8.9%) remains lower than elsewhere. There were fewer homes available to rent in November than at any point in the last 10 years.

Source: Daft.ie

⁴⁰ "Health" includes medical products, appliances and equipment, hospital charges and outpatient services supplied by doctors, dentists, opticians, physiotherapists and practitioners of alternative and complementary medicine.

⁴¹ "Education" includes pre-primary and primary (comprised of playschools and private primary fees), secondary (private second level day fees), third level fees (third level tuition fees and third level accommodation), and other education and training such as night courses and examination fees.

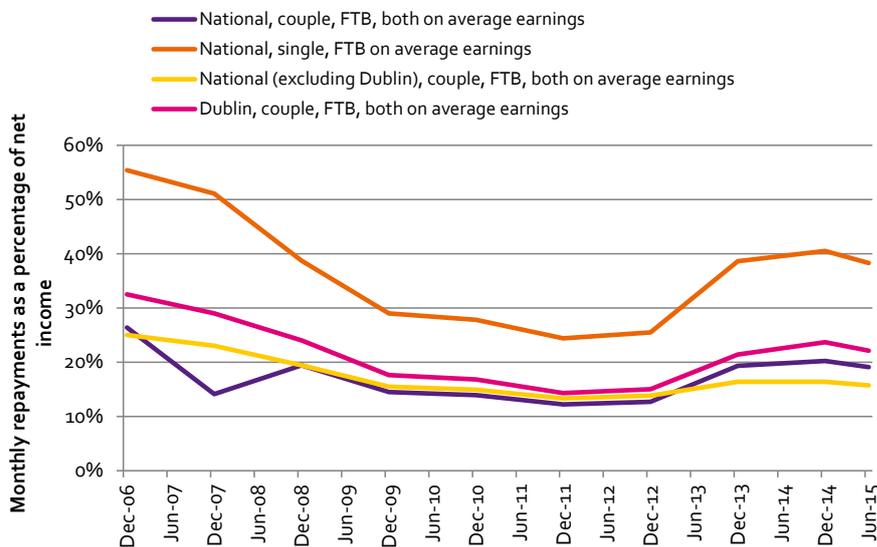
Figure 59: Residential sales asking prices (2012=100), January 2006–December 2015



The latest figures from Daft.ie confirm that the housing market has levelled off in Dublin, while it is still recovering in most other parts of the country. Inflation in Dublin has fallen from nearly 25% in mid-2014 to less than 3% by the end of 2015; elsewhere in the country, inflation has risen from 2% to 13% in the same period.

Source: Daft.ie

Figure 60: House price affordability for first time buyers (FTB): monthly repayments as a percentage of net income⁴², December 2006–June 2015



While affordability has improved slightly in both Dublin and nationally in the first half of 2015 (reflecting a slight dip in prices), subsequent growth in prices, continuing supply shortages, and the growing economy are likely to lead to a further deterioration in affordability. This is particularly challenging for single individuals.

Source: EBS - DKM Affordability Index

⁴² Affordability refers to the potential buyer's ability to fund a mortgage.

Figure 61: Childcare-related costs and benefits, percentage of average wage⁴³, 2012

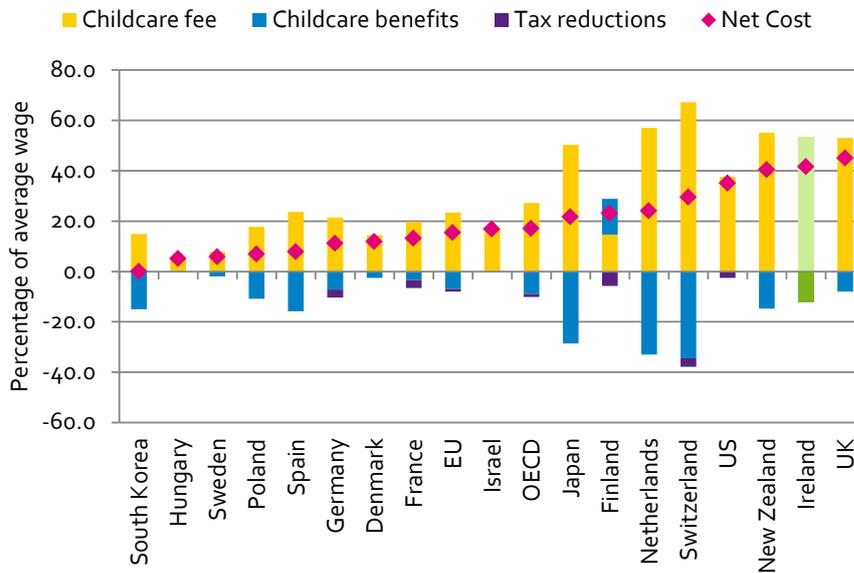


Figure 61 illustrates the net costs of childcare, and takes account of childcare fees, child benefit and relevant tax reductions. Ireland is the 2nd most expensive country benchmarked (marginally cheaper than the UK), resulting in relatively low rates of female labour force participation, and contributes to Ireland having one of the highest proportions of people living in households with low work intensity in the EU.

Source: OECD

⁴³ Data for couples refers to a situation where the first earner earns 100% of the average wage and the second earns 67% of the average wage. EU and OECD averages exclude Chile, Italy, Mexico and Turkey.

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