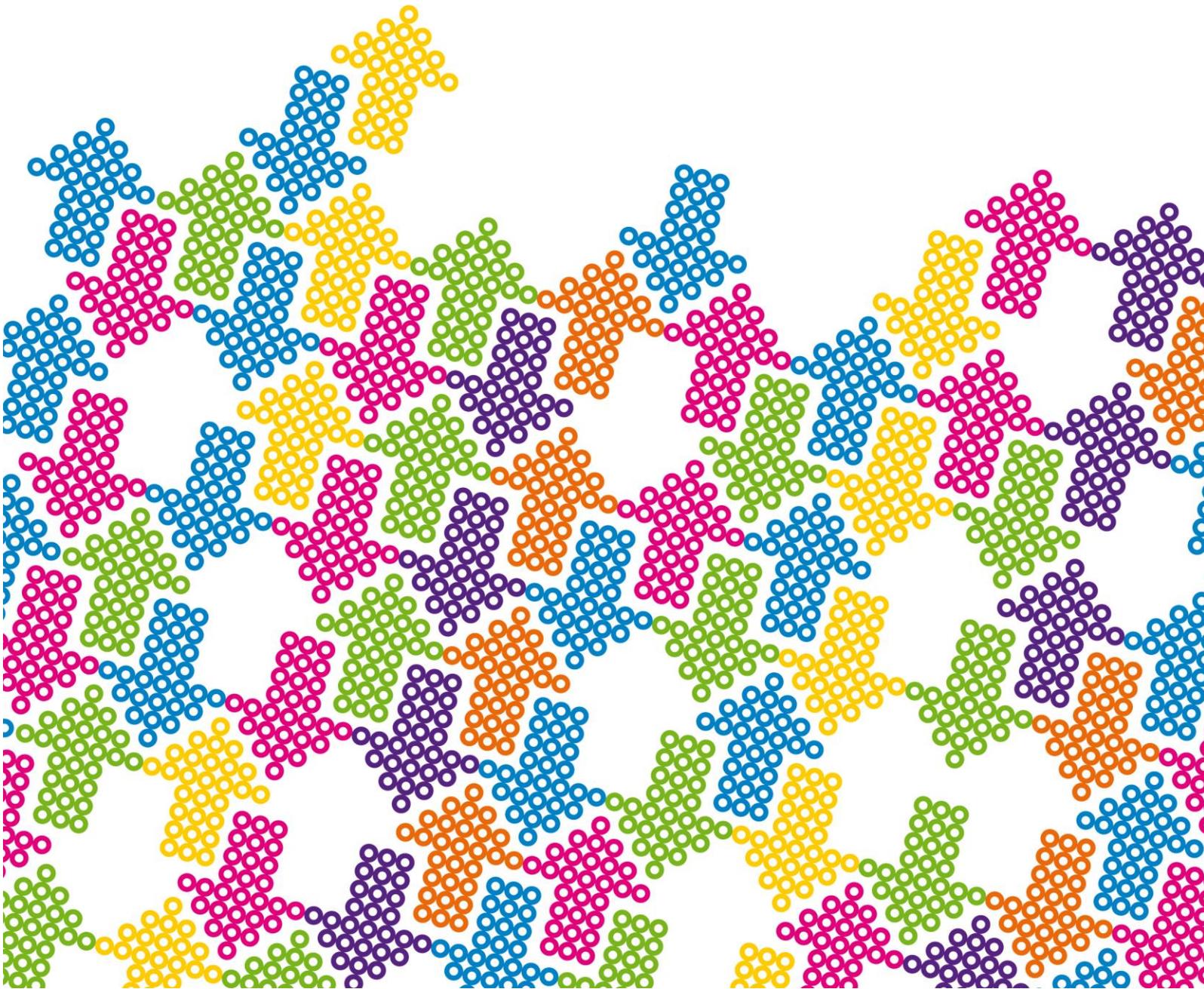




Cost of Doing Business in Ireland

April 2019



Introduction to the National Competitiveness Council

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

In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by Eurozone countries, in March 2018, the Government mandated the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland.

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.

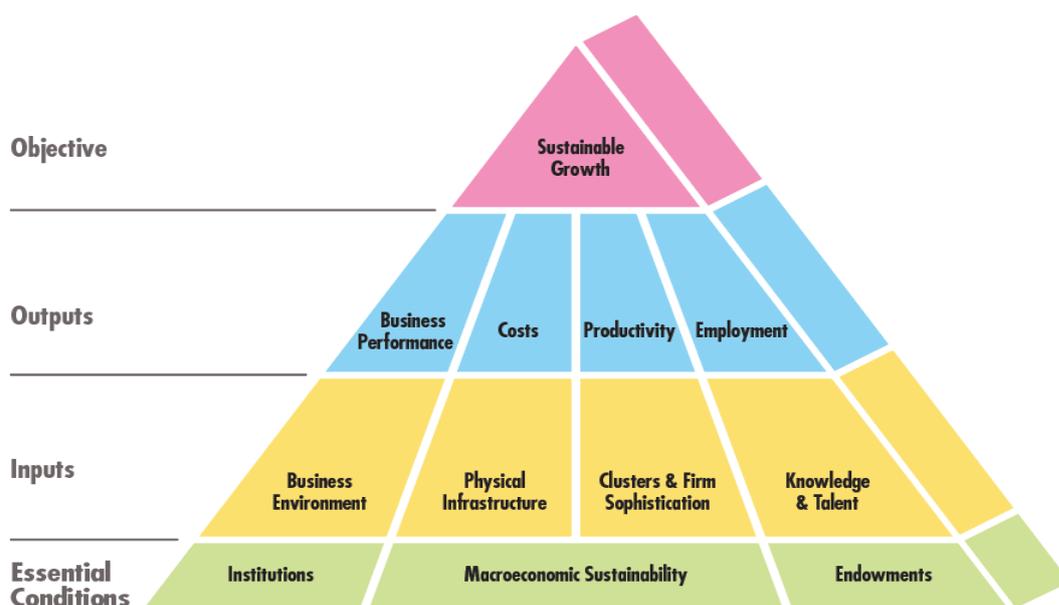
As part of its work, the NCC also publishes:

- The annual Costs of Doing Business report;
- An annual Productivity Review report; and,
- A series of competitiveness bulletins and other papers on specific competitiveness issues.

The work of the National Competitiveness Council is underpinned by research and analysis undertaken by the Enterprise Strategy, Competitiveness and Evaluation Division of the Department of Business, Enterprise and Innovation.

The NCC’s Competitiveness Framework

The Council defines national competitiveness as the ability of enterprises to compete successfully in international markets. This is a significant factor influencing economic growth, jobs, wage rates and the quality of public services. National competitiveness is determined by a diverse range of factors. The Council uses an evidence-based “competitiveness pyramid” to illustrate the various factors (essential conditions, policy inputs and outputs), which combine to determine overall competitiveness and sustainable growth. Under this framework, competitiveness is not an end in itself, but a means of achieving sustainable improvements in living standards and quality of life.



National Competitiveness Council Members

Professor Peter Clinch	Chair, National Competitiveness Council
Pat Beirne	Chief Executive Officer, Mergon Group
Kevin Callinan	Senior General Secretary designate, Fórsa
Micheál Collins	Assistant Professor of Social Policy, University College Dublin
Isolde Goggin	Chair, Competition and Consumer Protection Commission
David Hegarty	Assistant Secretary, Department of Business, Enterprise and Innovation
Fergal O'Brien	Director of Policy and Chief Economist, Ibec
Seán O'Driscoll	President, Glen Dimplex Group
Margot Slattery	Country President, Sodexo Ireland
Martin Shanahan	Chief Executive, IDA Ireland
Julie Sinnamon	Chief Executive, Enterprise Ireland
Ian Talbot	Chief Executive, Chambers Ireland
Patrick Walsh	Managing Director, Dogpatch Labs
Jim Woulfe	Chief Executive, Dairygold Co-Operative Society Limited

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John Conlon	Department of Employment and Social Affairs
Patricia Cronin	Department of Communications, Climate Action and Environment
Kathleen Gavin	Department of Education and Skills
John McCarthy	Department of Finance
Conan McKenna	Department of Justice and Equality
David Moloney	Department of Public Expenditure and Reform
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Chairman's Preface



After two years of difficult negotiations, the exact outcome and implications of the Brexit process are still unclear. However, we know that Brexit uncertainty is costly, exchange rate movements have damaged the competitiveness of Irish goods in the UK market, and all forms of Brexit are unfavourable to the Irish economy with hard Brexit scenarios particularly damaging to key sectors.

Compounding this - the latest reports from a number of key international organisations suggest that global economic growth is slowing, and will continue to slow. Storm clouds in the international economy, in addition to Brexit, include: growing tension regarding international trade; a poor outlook for growth in the euro area with further risks emerging; the danger of the persistent current account deficit in the US; and, slower growth in China. Some combination of these could have a destabilising effect on the global economy and, as interest rates are near historic lows, there is one fewer lever available to address a future economic slowdown. Meanwhile, any increase in interest rates would put downward pressure on growth.

Slow growth in the euro area is particularly concerning. Germany, the engine of the European economy, has been sluggish. In Italy, the third largest economy in the euro area, concerns about sovereign and financial risks have been weighing on domestic demand and remain a threat to the entire euro area.

Ireland's economy is performing well. This is very welcome in the face of these international threats. As a small open economy, however, Ireland is particularly vulnerable to a slowdown of the global economy, which underscores the importance of maintaining an internationally competitive cost base. This is a key lever within our control that would ameliorate the negative impacts from more turbulent economic conditions. On the whole, Irish prices are high relative to other EU countries, but are increasing at the slowest rate in the whole of the euro area. This is good news, as relatively slow price growth makes Ireland more competitive compared to the rest of the euro area.

Headline figures may be misleading, however, as they paper over large price increases in key areas. The most concerning observation is that, after years of moderate growth, labour costs have increased by 2.9%, four times faster than average prices. Without similar increases in labour productivity, this increase in costs will simply put pressure on Irish prices, particularly for essential consumer products like housing and residential rent, and childcare costs. We also need to be mindful of the tax system. While Ireland has one of the lowest tax wedges in the OECD for people at the average income, those on higher incomes face one of the highest marginal tax rates, creating a disincentive to work for highly skilled employees.

There are other pressure points. The rental price of Irish commercial property continues to increase at a steady pace, and Irish businesses face higher costs when accessing credit relative to the euro area, and for accessing electricity compared to the EU average. Interest rates (3.3%) in Ireland are considerably higher than rates in the euro area (2%) meaning that an Irish business, looking to borrow money to futureproof its operations, faces costs that are on average 65% higher than their EU counterparts. Rising costs have a disproportionate impact on Irish start-ups – creating challenges for some of our most innovative companies – as well as barriers to investment in management talent, training and innovation in employment-intensive smaller firms that are currently low productivity.

As valuable as these statistics are – they do not paint a complete picture of the Irish economy. They do not reflect the hidden costs of operating a business in Ireland, such as increasing traffic congestion in the cities, costs involved in our (often lengthy) planning permission process, or the transaction costs (e.g. international search and selection, navigating the immigration system, and finding appropriate housing) involved in filling certain roles in the context of a tightening labour market. These hidden costs place a further burden on businesses over and above what is presented in this report.

In the face of a turbulent international economic backdrop, it is essential we use those levers within our control to maintain the competitiveness of Irish firms in international trade. This will help to ameliorate the impacts of a slowing international economy and maintain jobs and living standards. To secure our prosperity, we must not price ourselves out of international markets.

Professor Peter Clinch

Chair, National Competitiveness Council

Executive Summary

Competitiveness is a complex concept, which results from many different factors. Two of the most important factors determining competitiveness performance are productivity (i.e. the efficiency with which factors of production – such as labour and capital – are used to produce output) and cost competitiveness (i.e. the relative price of employing a given factor of production).

If prices in Ireland are too high relative to productivity, it damages Ireland's competitiveness. When this scenario persists, Irish businesses would find it more difficult to export, and internationally mobile firms would be disincentivised from locating here. Ultimately, high costs would make international engagement (through trading or investment) more expensive, reducing the Irish economy's beneficial exposure to the international economy.

As a member of the euro area, maintaining cost competitiveness in Ireland has an added dimension making it even more important. Within the euro area, currency devaluations relative to the rest of the euro area are not possible. Were Ireland to become less competitive, it could result in large current account deficits (meaning that, annually, Ireland would be spending much more money abroad than it makes, e.g. importing more than we export). In the short term, a current account deficit can be funded by increased borrowing, or by selling off Irish owned assets. However, in the long run, any imbalances must be addressed, and loans must be repaid by running current account surpluses (or spending less money abroad than what we take in).

Ultimately, if competitiveness is lost now, it must be restored in the future. Without currency devaluations, this can only be achieved by productivity improvements or by painful cost reduction measures (or some combination of the two).

Bearing all this in mind, the evidence is clear that Ireland is a high cost economy. In 2017¹, Ireland was the 5th most expensive economy in the EU and prices were 13% higher than the EU average. Prices in Ireland are comparable to other jurisdictions that would traditionally be thought of as high cost, such as Japan, the UK and the Netherlands. The evidence also suggests that Dublin is one of the most expensive cities in the EU. In S1 2018, the cost of living in Dublin was 18%² more expensive than living in Brussels. This makes Dublin the 5th most expensive capital city in the EU (and on a par with Paris and Helsinki).

While the absolute price level in a jurisdiction is important, it is also crucial to observe how fast prices are increasing. In this regard, Ireland performs quite well. In 2018, prices in Ireland increased by 0.7%³. This was the slowest rate of inflation of all euro area economies, and it was the joint slowest rate of price increases in the EU (alongside Denmark). Inflation in 2018 was faster than price growth in previous years (in 2017, prices in Ireland rose by just 0.3%), but still well below the inflation rate for the euro area as a whole (1.8%) and the UK (2.5%).

On the basis of these observations, the cost profile of Ireland can be described as 'high cost, slowly increasing' and in this regard, Ireland finds itself in the company of countries like Iceland, Denmark and Sweden. The slow growth in costs – and particularly the fact that it is well below comparator countries - is welcome from a cost competitiveness perspective.

The overall figures suggest that Ireland is maintaining a cost competitive position, but headline figures tend to mask important changes in the price of certain goods and services. Indeed, over the last ten years⁴, the price of goods has decreased, while the price of services has increased by 13.6%. Drilling down into these figures at a sectoral level demonstrates further divergences. For example, in 2018⁵, the price of housing, water, electricity and gas increased by 5%, the price of alcohol and tobacco increased by 2.8%, and the price of restaurants and hotels increased by 2.1%. In the same period, the price of furniture and household equipment fell by 3.8%, the price of clothes fell by 1.5%, and the

¹ Eurostat Price Level Index, EU28=100 (2017 figure)

² Eurostat Correction coefficients (duty station) in the EU (S1 2018 figure)

³ Eurostat HICP annual change (2018 figure)

⁴ CSO CPI (December 2018 figures)

⁵ CSO CPI (2018 figure)

price of food and non-alcoholic drinks fell by 2.0%. That said, average figures can be misleading, understating price pressures in key areas.

In previous years, the Cost of Doing Business report has also looked in detail at residential property and childcare costs in Ireland and following on from the Cost of Doing Business 2018 Report, this document includes a specific chapter on these costs. The EU's House Price Index⁶ shows that Irish house prices continued to rise in 2018, with the latest figures suggesting that property prices had increased 7%⁷, comparable only to house price increases in the Netherlands, Portugal and Slovenia. Compounding this is the estimated increases in Irish residential rents. The EU estimates that Irish rents increased by 6.4%⁸ in 2018, after similar annual increases in rental prices starting in 2014. Estonia is the only EU Member State to have experienced faster rent increases. The Irish experience is even more stark when compared to the annual average increase in the EU, euro area and UK of roughly 1%.

Childcare costs are higher relative to other EU Member States. According to the OECD⁹, net childcare fees (i.e. when childcare benefits and any tax reliefs are considered) in Ireland make up 28% of the average wage of a couple. This is much higher than the EU average, where net childcare costs account for only 12% of the average wage of a couple. As housing and childcare are necessities for working people, these increases in price put pressure on wages. This is something we are starting to see in the nominal labour cost data (which have increased by 2.9% in 2018), which is higher than the inflation rate. Higher real wages are certainly a positive development, and one that the Council welcomes, but real wage increases need to be matched with increases in productivity to prevent either domestic prices from increasing faster, or an erosion of the Irish competitiveness position.

Focus on Individual Cost Categories

Labour Costs

Labour costs in Ireland are broadly in line with the euro area average. The total hourly labour cost in Ireland was €30.90¹⁰, which was lower than the corresponding figures for Denmark, Sweden, France and Germany. However, it was higher than the total hourly labour cost in the UK (€25.70). After remaining flat between 2012 and 2014, Irish labour costs have started to increase in line with the growth in labour costs in other jurisdictions. The last data shows that Irish labour costs increased by 2.9% in 2018 – which is concerning as it is four times higher than the inflation rate.

Labour costs vary considerably between sectors. In Ireland, labour costs are highest in the utilities sector (€55/hour) and are lowest in the accommodation and food sector (€16/ hour). In most sectors, labour costs were greater than, or equal to, the UK.

The tax burden, as a percentage of labour costs for a single individual earning the average wage stood at 27%¹¹, which is below the OECD average (36%) and the UK (31%). The tax burden, as a percentage of labour costs, for Irish married couples (with two children) earning the average income was 11% of labour costs, while the corresponding figure in the UK was 26%.

While the Irish average tax rate for those earning the average income is very competitive, the marginal tax rate these earners face tells a different story. In Ireland, a person earning the average wage pays the second highest marginal tax rate (49%) of the countries examined. High earners (those earning 167% of the average wage) face the same rate in Ireland as those earning the average income (49%), which means Ireland becomes more competitive relative to the Scandinavian countries where marginal rate increase dramatically for people in this bracket.

⁶ Eurostat House Price Index (2018 Q3 data)

⁷ In the year to Q3 2018.

⁸ Eurostat HICP, actual rentals for housing (2018 figure)

⁹ OECD Taxing Wages (2018)

¹⁰ Eurostat Labour Cost Levels (2017)

¹¹ OECD Taxing Wages (2018)

Property Costs

Over the last year, there has been a steady increase in commercial property prices and the cost of constructing office space. In the office rental market, in the last five years, prices are up 15.9% in Dublin (Suburbs) and up 16.5% in Galway.

The Jones Lang LaSalle Property Index suggests that prices in the Irish commercial property market continued to grow at a relatively steady pace, with capital values increasing by 3.1% in the year to Q4 2018. The capital values of office (1.5%), retail (5%), and industrial (5.3%) property all increased over the same period, and vacancy rates in Dublin stood at 7.4% in Q4 2018 (a fall of 1.7% from Q3).

The rental price of prime office space varies greatly across Europe. In Q4 2018, office rental in Dublin cost €646/m². This was lower than Paris (€810/m²) and London City (€804/m²), but considerably higher than Amsterdam (€450/m²), Berlin (€396/m²) and Brussels (€275/m²).

According to Turner and Townsend¹², Dublin is one of the most expensive cities in the world in which to construct prime office buildings. In 2018, the construction cost per square meter of a prime office building in Dublin was \$3,065/m², lower only than London (\$3,919/m²) among the major cities measured. Similarly, construction costs for a high-tech factory in Dublin (\$2,679/m²) is comparable to London (\$2,812/m²), and costs in Dublin have risen by 27% from 2013 to 2018.

Transport Costs

In recent years, aggregate transport sector prices in Ireland have increased moderately. Prices in all transport sectors (except sea and coastal transport) have steadily increased, with postal and courier services recording the highest price increase, followed by warehousing, storage and cargo services.

In 2018, the average price per litre of petrol and diesel were €1.43 and €1.34 respectively. Prices of both petrol and diesel have fallen off since their peak. Petrol prices in December 2018 (€1.43/litre) were 4.6 % lower than the peak in November 2018 (€1.50/litre). Similarly, diesel prices were down by 2.8 % December (€1.36/litre) compared to the peak in October (€1.40/litre). Over the course of 2018, petrol prices increased by 2.8% and the price of diesel increased by 4.6%. After increases at the start of the year, bus and taxi fares remained stable, but fares on other purchased transport services have increased significantly (3.9%), since the start of 2017.

It is not only transport costs that have been on the increase. Traffic has increased across the road network by 3%. In the Border and Mid-West regions, traffic increased by almost 4% in 2017. Heavy goods vehicle traffic in the South East and Dublin increased by 4.6% in the same period. The increased congestion is supported by the fact that 11% of all commuters spend an hour or more commuting to work in 2017.

Utility Costs

Certain utility costs (including electricity and gas) tend to be higher in Ireland than other jurisdictions, while Ireland is more competitive regarding other utility costs (telecoms). 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. In S1 2018, electricity in Ireland (for those in the low consumption band¹³) cost €0.14/ kilowatt-hour, which is higher than both the UK (€0.12/ kilowatt-hour) and euro area average (€0.10/ kilowatt-hour) price. In the higher consumption band¹⁴, Irish consumers are still paying more (€0.09) compared to the euro area average (€0.08) but lower than UK (€0.11). Gas prices¹⁵ in Ireland are in line with the euro area average but higher than the UK prices.

Ireland is relatively cost competitive for telecoms. In Q4 2018, the Business Fixed Broadband 60GB Basket (>25Mbps) cost in Ireland (€42.56) was lower than the UK (€44.4) and slightly above the Netherlands (€41.9)¹⁶. However, the high post-paid mobile broadband costs in Ireland (€30) compared less favourably to the UK (€13.71)¹⁷.

¹² <http://www.turnerandt Townsend.com/media/3352/international-construction-market-survey-2019.pdf>; 2018 figures

¹³ Band IV (20MWh < consumption < 500MWh) – prices in euro excluding VAT and other recoverable taxes and levies-

¹⁴ Band IE (2000MWh < consumption < 70000MWh) – prices in euro excluding VAT and other recoverable taxes and levies

¹⁵ PPS for business consumers

¹⁶ <https://www.comreg.ie/publication-download/quarterly-key-data-report-q4-2018>

¹⁷ <https://www.comreg.ie/publication-download/quarterly-key-data-report-q4-2018>

Credit and Financial Costs

Businesses in Ireland face higher interest rates than the average business in the EU, or the euro area. This is a consistent feature of the data regardless of intrinsic features of the loan, whether it is large or small, or whether it is for a short or long duration. However, this was not always the case. In 2014, Irish companies faced a similar interest rate (around 3%) to their counterparts in Germany and France, but while the average rate businesses face has dropped in these economies (to around 2%), overall Irish companies face higher rates now (3.3%) than they did in 2014 (3%)¹⁸.

For Irish SMEs, the average interest rate is 3.4%, but there is considerable sectoral variation. SMEs in the transport and storage (4.2%), construction (4%), and ICT (4.2%) sectors are all higher than average interest rates, and the rates on gross new lending for Irish transport and storage SMEs stood at 5.1%¹⁹ as of September 2018.

Business Services and Input Costs

In Ireland, the overall price of services is rising much faster than the price of goods. In total, the price of services has increased by 7%²⁰ since 2015, but this masks widely different changes in the price of certain services. For example, the price of warehouse, storage and cargo handling services increased by 6.2%, while sea and coastal transport prices declined by 0.2%.

When compared to other EU countries, services prices are rising relatively quickly in Ireland, with Luxembourg being the only economy measured where services prices increased faster than Ireland. In Denmark, services producer prices declined since 2015, and are now around 4.5% lower than they were in 2015²¹.

Insurance costs, which increased rapidly in Ireland from 2013 to 2016, have decreased since the end of 2016. The price of car (and other transport) insurance is now roughly what it was in 2015 (like the EU and euro area average)²².

Residential Property and Childcare Costs

Real wages are the key measure of how well-off a person feels – real wages account for what a person can buy with the wages they receive – and so consider price changes. If prices are increasing faster than nominal wages, then real wages are declining, and people are becoming less well off. The Competitiveness Council have decided to include a chapter that looks specifically at residential property costs and childcare costs given the importance of these items and because of their impact on wage pressures, and the competitiveness of firms and of Ireland as a place in which to do business.

Residential property prices have been growing consistently across the country since a low point in early 2013²³. Property prices are now roughly where they were at the start of 2005. Irish rents have also been growing since 2013 and have been increasing by over 5% per annum for the last four years²⁴. According to the Residential Tenancies Board²⁵, the average rent in Dublin was €1,527 in Q1 2018.

¹⁸ ECB, MIR dataset

¹⁹ CBI, Trends in SME and Large Enterprise Credit and Deposits

²⁰ CSO, Services Producer Price Index

²¹ Eurostat, Services Producer Prices, Annual Data (2017 figure)

²² Eurostat, HICP (November 2018)

²³ CSO, Residential Property Price Index (Nov 2018 figure)

²⁴ Eurostat, HICP

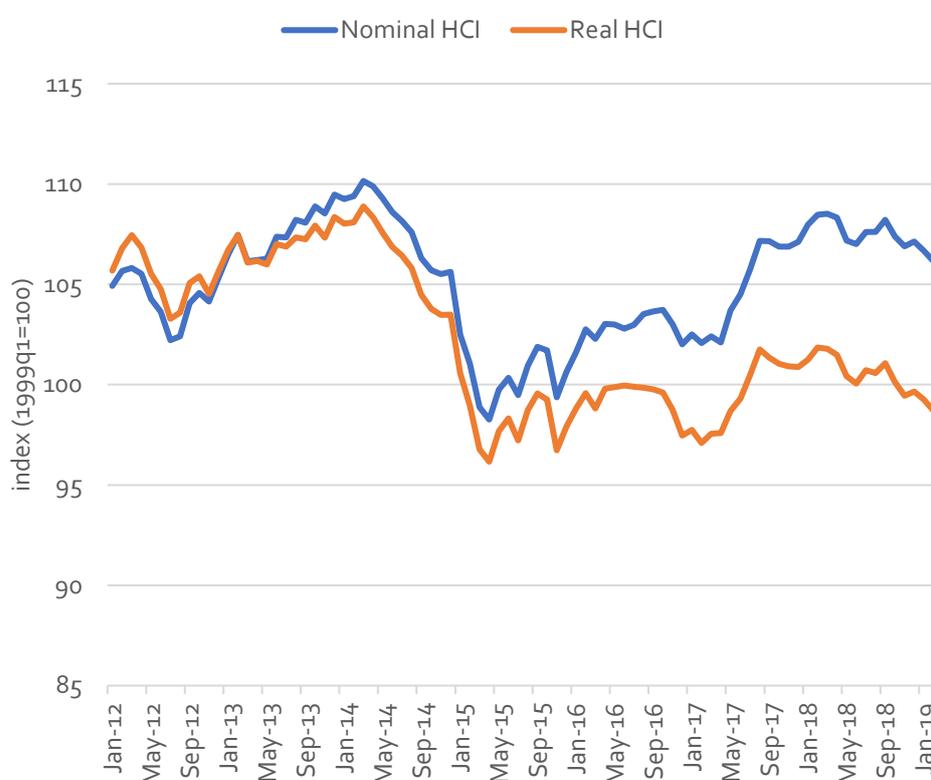
²⁵ Residential Tenancies Board, Rent Index 2018

Chapter 1 – Broader Cost Competitiveness Environment

Measures of Overall Cost Competitiveness

Cost competitiveness is determined by a combination of exchange rates and movements in relative prices between trading partners. For example, holding the exchange rate fixed, Ireland would become more cost competitive if the domestic price of goods and services increased at a slower rate than the price of those goods and services in foreign countries. Similarly, Ireland would also become more cost competitive if relative prices remained constant, but the euro depreciated against foreign currencies. Harmonised Competitiveness Indices (HCIs) effectively apply this concept to the whole economy. The real HCI figures suggest that Ireland experienced a large improvement in cost competitiveness between April 2014 and April 2015. While there was a decline in cost competitiveness in the second half of 2017, overall, Ireland is in a relatively competitive position as far as overall costs are concerned.

Figure 1.1: Harmonised Competitiveness Indicators²⁶, Ireland, Jan 2012-Jan 2019



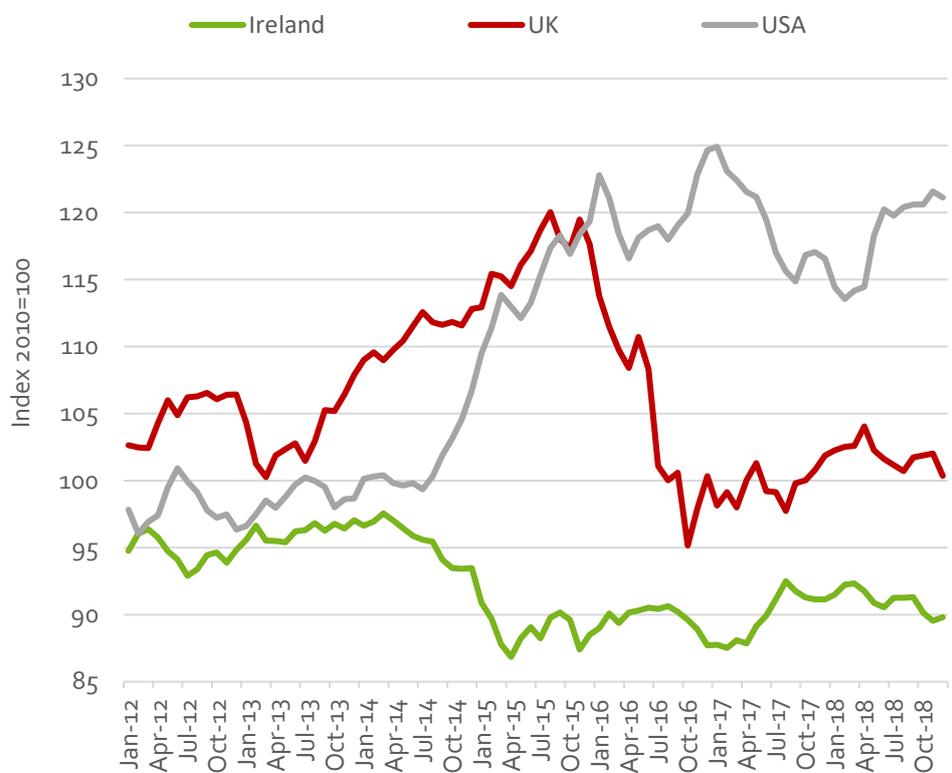
The nominal HCI is a nominal effective exchange rate for the Irish economy that reflects, on a trade-weighted basis, movements in the exchange rates vis-à-vis trading partners. The real HCI (deflated by consumer prices) takes into account relative price changes along with exchange rate movements. Real HCI fell by 1.9% in the year to Jan 2019.

Source: Central Bank of Ireland

The real effective exchange rate (REER) assesses a country's price or cost competitiveness relative to its selected trading partners in international markets. The REER is the weighted average of a country's currency in relation to a basket of trading countries' currencies' deflated by the weighted average of price changes in the various countries. The decline in the REER indicates the weakening of home currency against the currency of its trading partners. The REER takes account of relative inflation rates between a country and its trading partners.

²⁶ Features of the Irish economy can affect movements in HCIs and care should be taken in interpreting movements in the indices as a measure of competitiveness. The nominal HCI is affected by exchange rate developments and relative to other Euro area countries a high share of Ireland's exports are destined for non-Euro area countries (UK and US). Real HCIs consider, relative price movements relative to trading partners. Using consumer prices as a deflator means the impact of intermediate goods and capital goods are not directly considered and the influence of indirect taxes and non-traded goods and services on the CPI limited its usefulness as an indicator of good indication of international competitiveness. See Barry, F, (2017) The Central Bank's harmonised, competitiveness indicators, users beware, Administration, vol. 65, no. 4.

Figure 1.2: Real effective rate (REER), Ireland, deflated by Consumer Prices (42 trading partners)



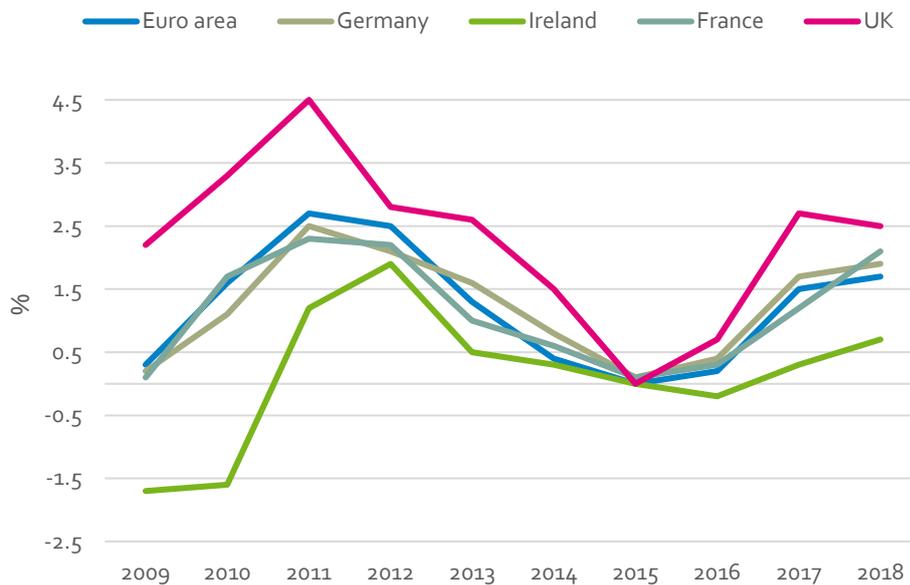
The UK’s REER has fallen significantly since the end of 2015, leading to increased cost competitiveness for UK exporters, largely due to the depreciation of sterling in the wake of the Brexit referendum. The REERs for Ireland have remained stable over the past year whereas the US REER has increased substantially since 2015.

Source: Eurostat

Broader Cost Environment

In a market economy, relative prices for goods and services are always changing. In any given year, some prices rise, and others fall. Inflation figures are designed to capture the broad increase in the prices of goods and services, not just of individual items. It is important to note that inflation measures (i.e. the Harmonised Index of Consumer Prices) are designed to capture the changes in consumer prices, rather than the prices that businesses face. This means that these figures will not give a precise estimate of the increase in business costs, but in the absence of a business price index, it is a useful proxy for the price changes for businesses.

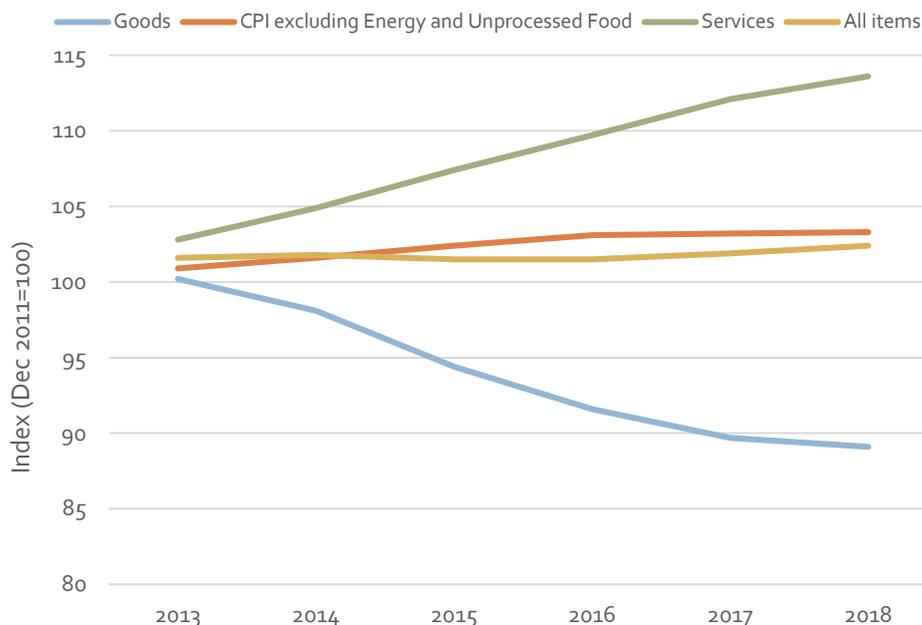
Figure 1.3: Annual Changes in Prices, selected economies



The 2018 inflation for Ireland (0.7%) figures suggest that, while prices are increasing slightly faster than a year previously (0.3% in 2017), price increases in Ireland have been relatively muted when compared to the euro area (1.7%) and the UK (2.5%).

Source: Harmonised Index of Consumer Prices, Eurostat

Figure 1.4: Consumer Price Index, selected indices (Dec 2011 = 100)



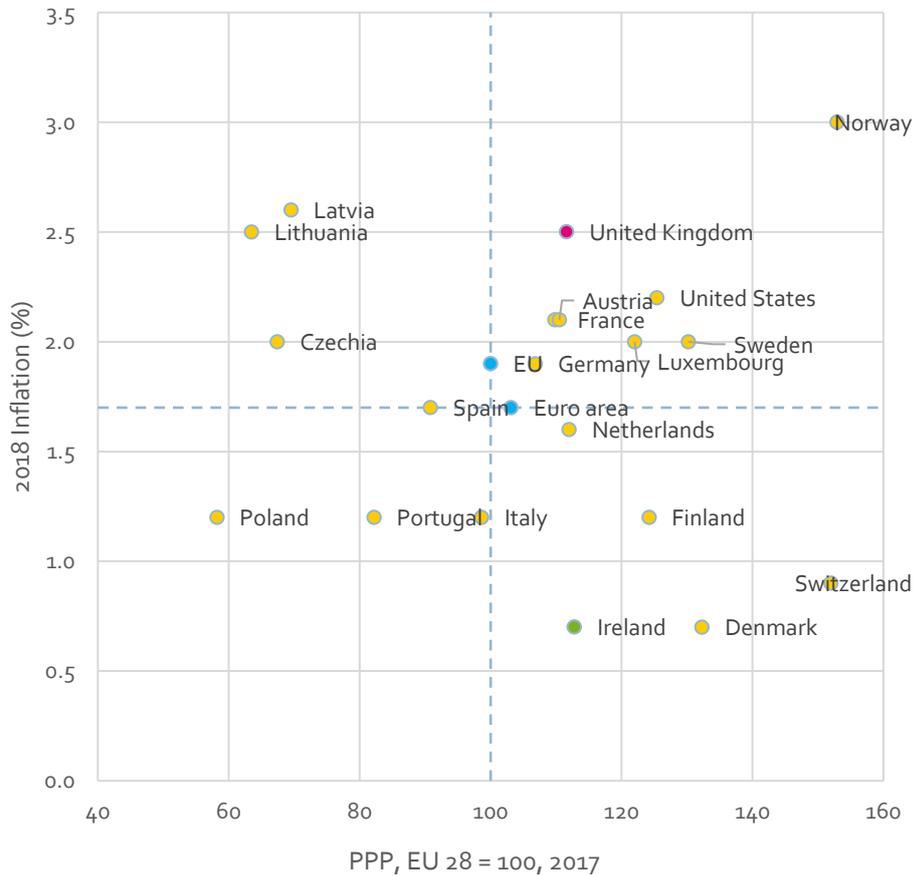
While overall prices in Ireland have been relatively stable in recent years (increasing by 2.4% since December 2011), there has been a marked divergence in the price of goods (down 11%), and the price of services (up 13.6%).

Source: Consumer Price Index, CSO

These graphs reveal that there are several important narratives that are not necessarily captured by the headline inflation figure – both within Ireland, and when comparing Ireland to other EU countries. Over the past 5 years, headline inflation has been relatively low, but when this figure is broken down, there is a marked difference between

price changes in goods and services. The same can be said about the inflation rates across the euro area, with Ireland experiencing the lowest headline inflation rate in the EU, at the same time as relatively robust price growth in Germany and France.

Figure 1.5: Consumer Price Levels and Inflation, selected countries



This chart demonstrates that Ireland is a high cost economy, with prices higher (13%) than the EU, and in line with the Netherlands, Austria and the UK. However, it suggests that, on average, prices are growing slowly in Ireland (0.7% in 2018), especially compared with the UK (2.5%). Ireland's current price profile could be described as 'high cost, slowly increasing'.

Source: PPP (2017)/ HICP (2018), Eurostat

Chapter 2 – How Do Costs Impact on Enterprise?

Why Costs Matter

Generating broad-based, sustainable economic growth is fundamental for Ireland's economic prosperity. As a small open economy, it is crucial that Ireland's international competitiveness position is maintained relative to our key competitors.

Competitiveness is a complex concept, which results from many different factors. Two of the most important factors determining competitiveness performance are **productivity** (i.e. the efficiency with which factors of production – such as labour and capital – are used to produce output) and **cost competitiveness** (i.e. the relative price of employing any given factor of production).

An improvement in either of these elements – productivity growth, or relative price improvements – allows Irish businesses to compete more effectively internationally and as a result makes Ireland a more favourable place in which to locate international businesses. This exposure to international competition, and international best practice, can result in further productivity gains.

Cost competitiveness remains a critical determinant of success. Indeed, as a member of the euro area, Ireland has a fixed exchange rate relative to other euro area members. This means that it is not possible to use currency devaluation to manage short term competitiveness pressures vis-à-vis other euro area members, and so a combination of cost competitiveness, essential elements, enhancements in productivity and strong labour force participation must provide the foundations for sustaining growth. In the longer term, productivity growth is the preferred mechanism to improve competitiveness as it can support cost competitiveness in tandem with high and increasing real income levels.

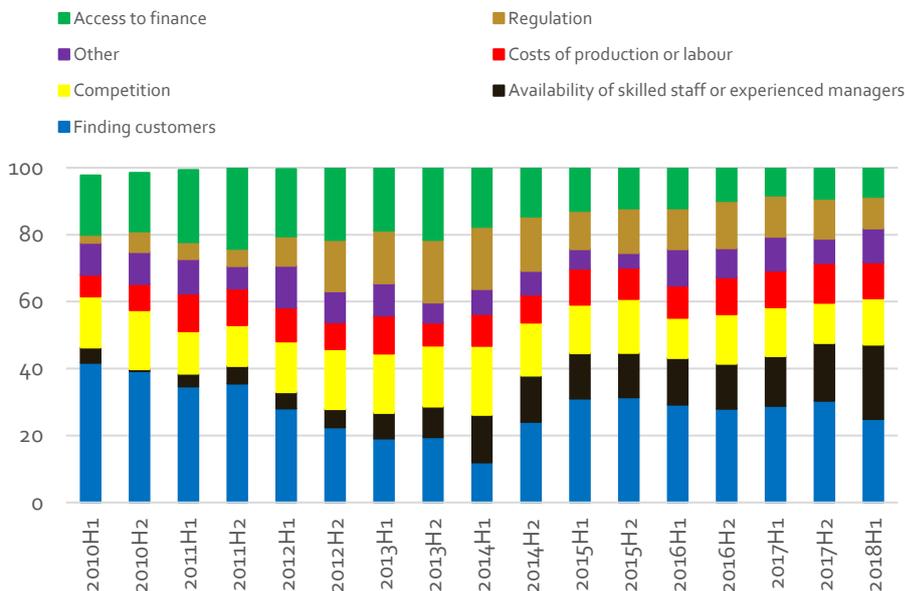
A high cost environment weakens competitiveness in several ways:

- High costs make Ireland less attractive in terms of mobile investment and business expansion, if unchecked this could see companies relocating to other jurisdictions;
- Higher costs can make firms less competitive when they are selling into foreign markets – this is a concern for indigenous goods and services exporters;
- High costs in areas such as childcare and transport, and a high marginal tax rate, can affect incentives to work and suppress labour force participation; and,
- A high cost environment can impact on firms which may not export, but which rely on the domestic market – their customers (consumers and other firms) may source cheaper inputs from abroad due to currency fluctuations, rather than from within Ireland, leading to a loss of market share for Irish-based enterprises.

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

While cost competitiveness matters to all firms, Figure 2.1 shows that, in 2018, only 11% of Irish SMEs cited costs as the most pressing issue that they were facing. In the context of a growing economy, Irish SMEs noted that finding customers (25%) and staff (22%), and pressures brought on because of competition (14%) were all more urgent issues than increasing costs.

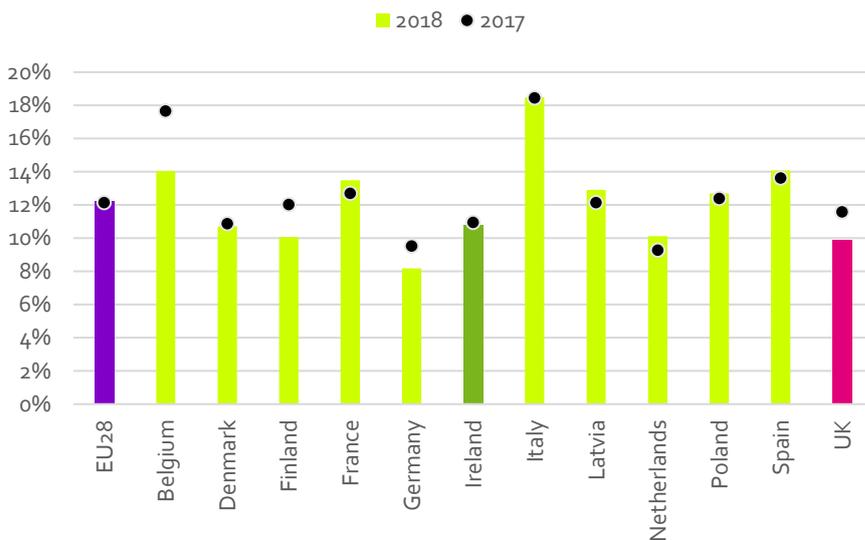
Figure 2.1: Most Pressing Problems faced by Irish SMEs



In 2018, the most pressing issue for Irish SMEs was finding customers (25%). In Ireland, 11% of SMEs identified costs as the most pressing issue they were facing. Given the structure of the survey questions, it is difficult to determine whether this is due to an absolute decline in importance of costs, or a relative increase in the importance of other factors.

Source: SAFE Survey, ECB/ European Commission

Figure 2.2: Costs as the Most Pressing Problem faced by European SMEs



Across the EU, 12% of all SMEs consider costs to be the most significant issue they are facing. In Italy, roughly one in every five SMEs consider costs to be the biggest issue. A slightly smaller proportion of Irish SMEs (11%) consider costs the most significant issue when compared to the EU average (12%), and roughly on par with the Netherlands (10%).

Source: SAFE Survey, ECB/ European Commission

Box 1. Data

In each chapter, a range of internationally comparable, enterprise-focussed cost indicators are examined for Ireland and key trading partners, particularly the UK. We have endeavoured to collect data from high-quality, internationally respected sources, and where necessary, caveats on data are set out. Nonetheless, there are limitations to comparative analysis:

- While every effort is made to ensure the timeliness of the data, there is a natural lag in collating comparable official statistics across countries. As much of this data is collected on an annual basis, there may be a time lag in capturing recent changes in cost levels;
- The Council is also constrained in terms of the availability of metrics and their impact on enterprises of different sizes and sectors, and across several important areas such as water, transport and international freight, waste, commercial insurance and Local Authority rates;
- Where possible, Irish cost levels are compared to a relevant peer group average (e.g. the OECD and euro area average). Given the importance of the UK as a trading partner and the potential implications of Brexit on the economy, the UK's performance is also benchmarked.
- It is also worth noting that individual cost metrics have strengths and weaknesses (i.e. in terms of definitions used, in how the data is collected etc.). When analysing the individual metrics, it is important to consider all the data as the analysis of the individual metrics combine to tell a coherent story about Ireland's current cost competitiveness performance.

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.

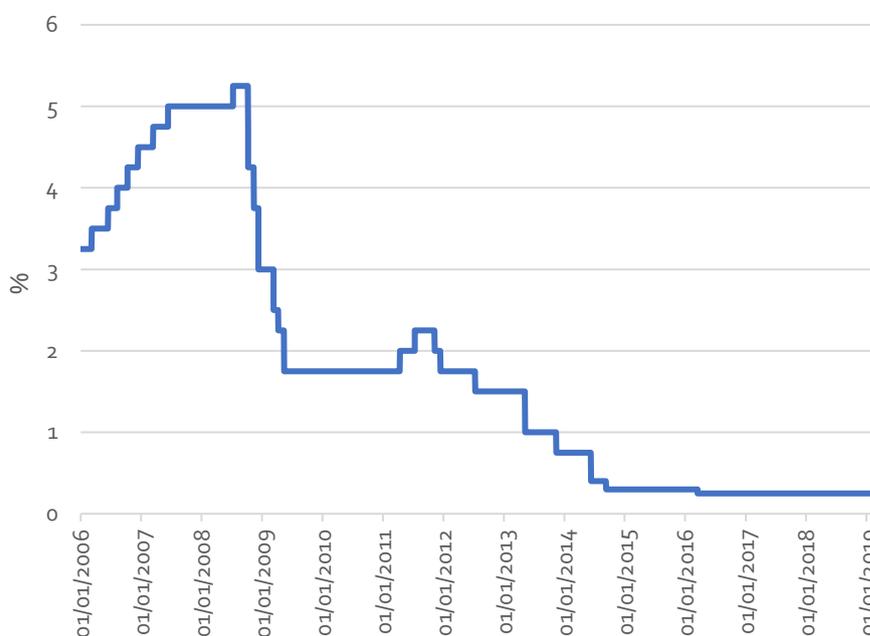
Interest Rates

Interest rates are the primary method by which policymakers react to prices, with the desired goal of maintaining price stability. In most advanced economies, the responsibility to set interest rates has been delegated to independent Central Banks. In the euro area, the European Central Bank (ECB) – which is independent from policymakers – is responsible for maintaining price stability and setting the interest rate. The ECB aims at maintaining inflation rates below, but close to, 2% over the medium term.

Higher interest rates increase the relative cost of holding cash, and so encourage saving and discourage borrowing, thereby taking money out of the real economy, which reduces prices. Lower interest rates have the opposite effect.

In the wake of the Global Financial Crisis, the ECB – like other major Central Banks – reduced interest rates to mitigate against deflationary pressures (where prices decrease year-on-year).

Figure 2.3: ECB Marginal Lending Facility (1999 – 2019)



This figure charts the ECB's rate on the marginal lending facility, which offers overnight credit to banks from the euro area. The large decline in the interest rate that took place in the wake of the Global Financial Crisis was mirrored in other jurisdictions.

Source: Financial Market Data, ECB

Administered prices

In the EU, Governments have tended to avoid setting prices directly, choosing instead to allow market forces determine the appropriate price level for most goods and services. However, there are several areas where product prices are either directly set or influenced to a significant extent by the Government.

Where prices are completely set by the Government, the EU classifies them as directly administered. Where prices are influenced to a significant extent by the Government, the EU classifies them as mainly administered.

As this classification will depend on the role the Government of each Member State chooses to play in a given market, the markets where prices are directly or mainly administered by the Government vary in each Member State.

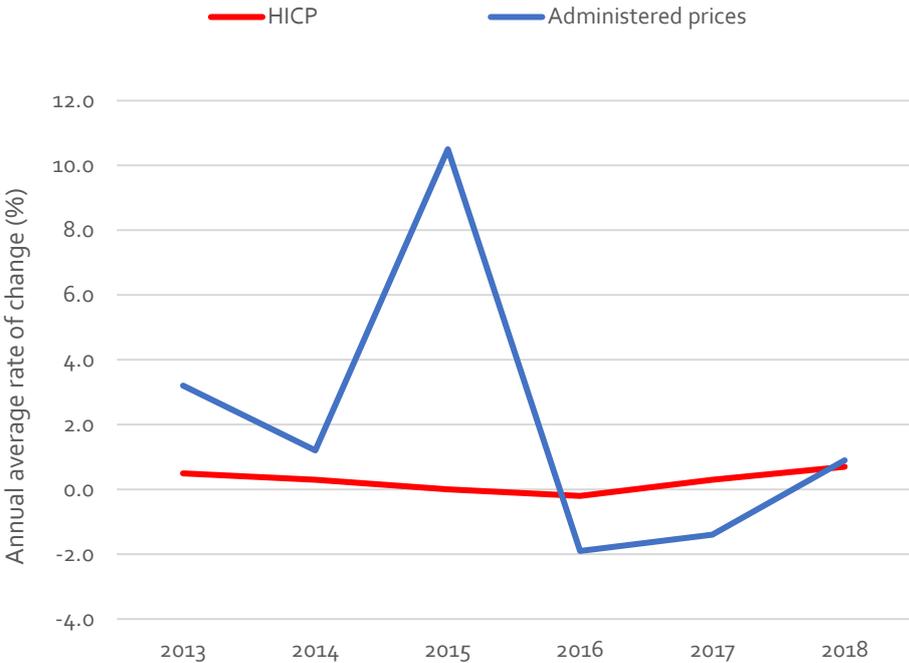
In Ireland, there are no prices that are directly set by the Government. However, some prices are influenced by Government (generally through the regulator for that market). The goods and services classified as 'administered' (i.e. the products that are either fully or mainly administered, in Ireland's case this only includes goods that are mainly administered) represent a small subset of the overall Irish CPI basket. Table 1 outlines the services categories defined as mainly administered prices in Ireland.

Table 1: Mainly-administered prices in Ireland

COICOP Sub indices	Mainly administered prices	Date of inclusion
04.41	Water Supply	From 2015
04.43	Sewage	From 2015
06.3	Hospital services	
07.31	Passenger transport by railway	From 2011
07.32	Passenger transport by road	
07.35	Combined passenger transport	From 2011
08.1	Postal services	

Source: Harmonised Index of Consumer Prices, Eurostat

Figure 2.4: HICP and mainly-administered prices in Ireland, 2012- 2017



Price changes have been much more volatile for administered prices than they have been for prices in general. In 2015, there was a massive jump in the price of water supply and sewerage collection followed by a subsequent decrease in 2016²⁷. These movements in water prices drove the overall result for mainly administered prices.

Source: Harmonised Index of Consumer Prices, Eurostat

²⁷ Domestic water charges were introduced in 2015 for homes that were connected to a public water supply or to public wastewater services. This system of domestic water charging has now been repealed and a new system of charging is being introduced.

Chapter 3 – Labour Costs, Earnings and Tax

Fig 3.1: Total economy hourly labour costs, 2017

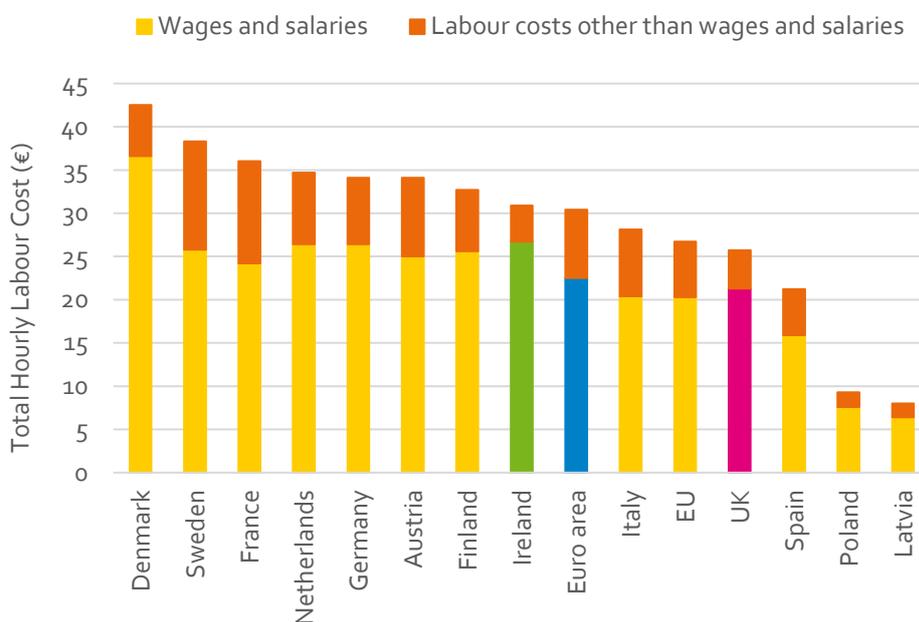
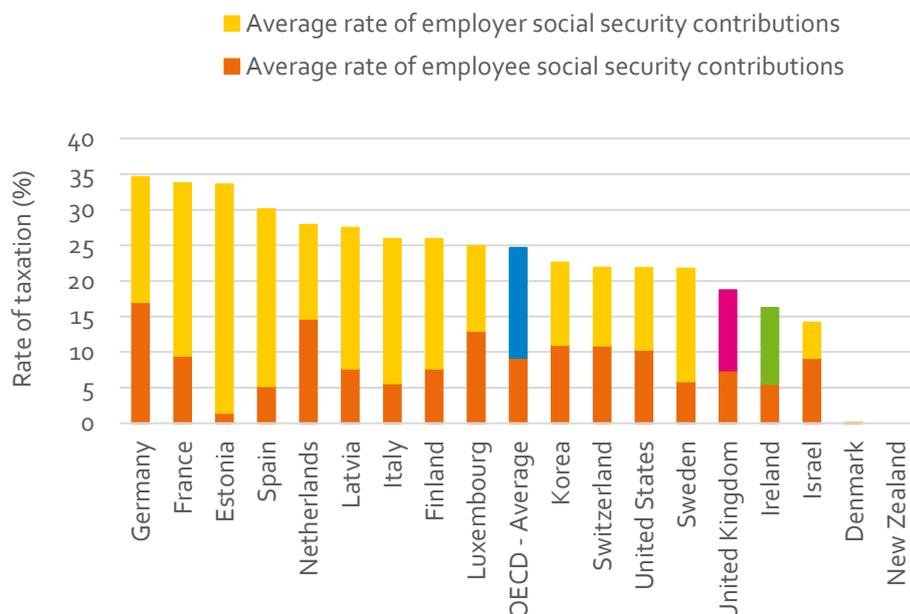


Figure 3.1 shows total hourly labour cost across selected countries. In 2017, hourly labour costs in Ireland (€31) were higher than the euro area (€30.30) and the UK (€25.70). Wages and salaries accounted for 86% of total labour cost in Ireland compared to 74% in the euro area and 82% in the UK.

Source: Eurostat, Labour Cost Database²⁸

Figure 3.2: Employer and employee social security contributions, 2017



Ireland has one of the lowest rate of social security contributions among OECD countries (14.75%). In Ireland, total revenues from employee and employer SSC²⁹ equals to 16.2% of total tax revenue³⁰ which is lower than OECD average (24.6%) and UK (18.69%).

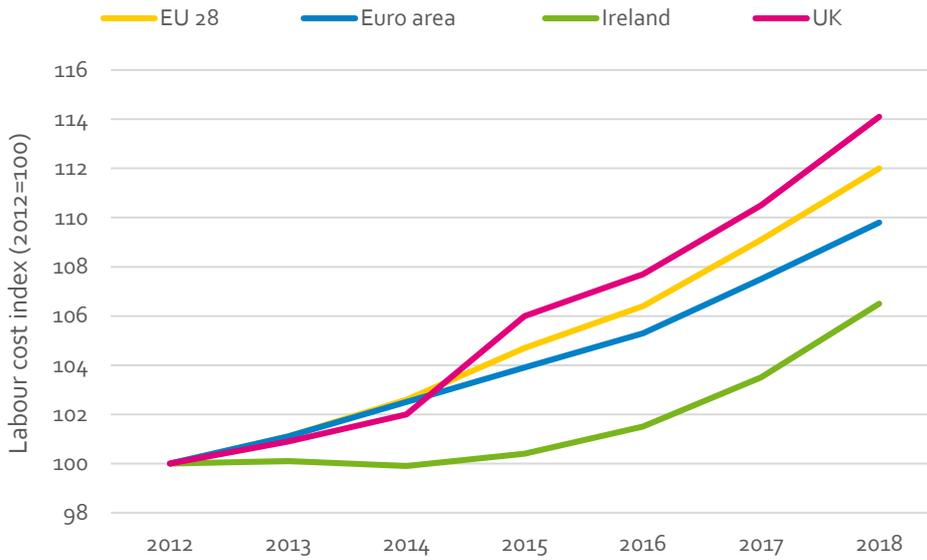
Source: OECD, Taxing Wages 2018

²⁸ Labour cost levels by NACE Rev. 2 activity [lc_lci_lev]

²⁹ Employer & employee social security contribution

³⁰ (SSC revenue/total tax revenue *100)

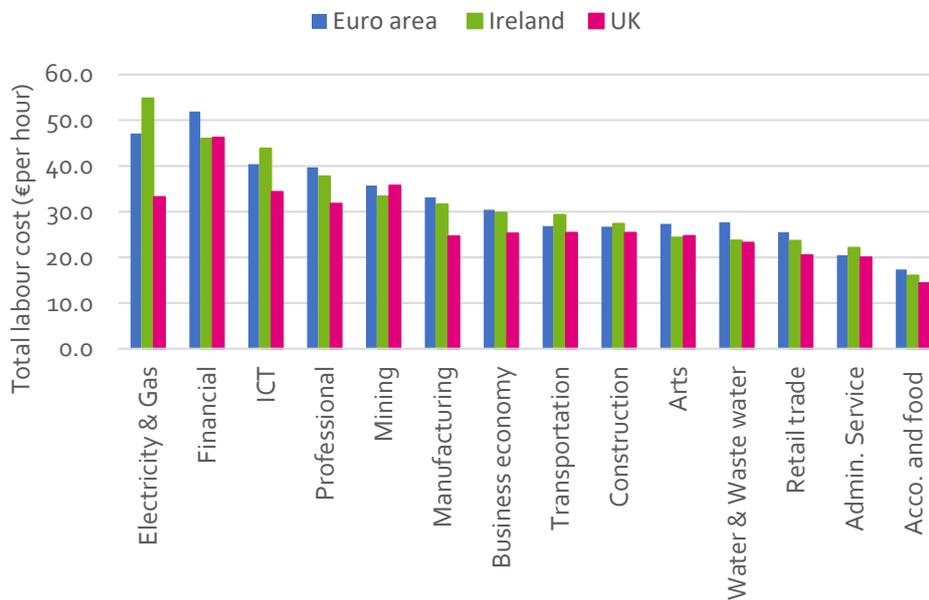
Figure 3.3: Growth in nominal labour costs, Labour Cost Index, 2018



This chart shows the growth in nominal labour costs. In Ireland, nominal labour costs have been increasing since 2015. Cumulatively, labour costs have increased by less than the EU, euro area and the UK. In 2018, growth in nominal labour cost in Ireland (2.9%) was far above the rate of inflation (0.7%).

Source: Eurostat, Labour Cost Database

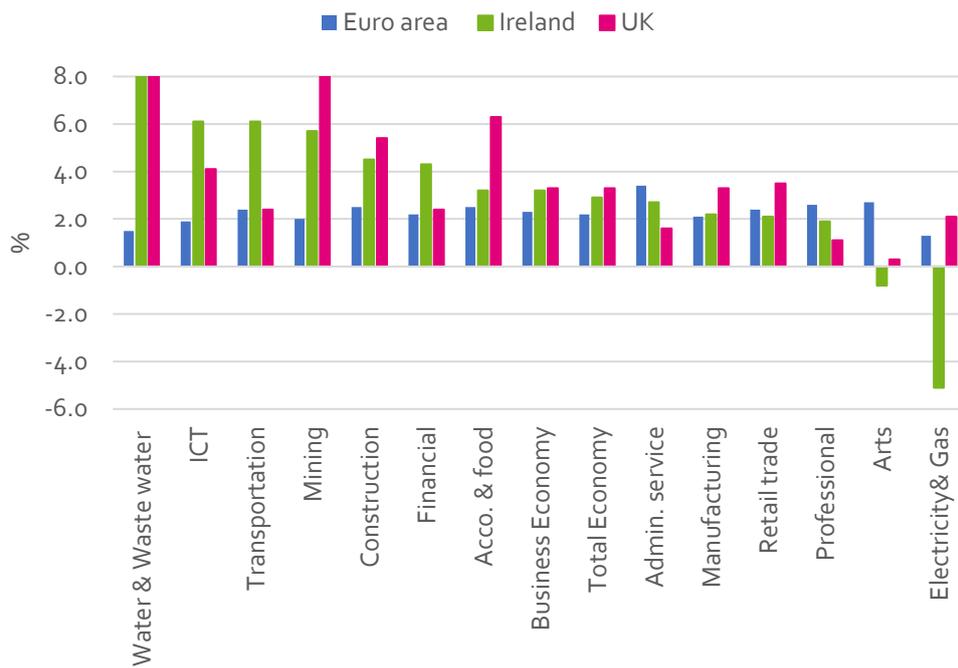
Figure 3.4: Hourly Labour Costs, Business Economy, Detailed NACE sectors, 2017



This chart shows hourly labour cost in the euro area, Ireland and the UK (by sector). In Ireland, hourly labour cost are highest in the utilities sector (€55) and lowest in the accommodation and food sector (€16). Compared to the UK, hourly labour costs are higher in Ireland in all sector except the mining, and financial services, sectors.

Source: Eurostat

Figure 3.5: Annual change in nominal hourly labour cost (by sector), 2018



In 2018, year-on-year hourly labour costs recorded growth in all sectors of economy in the euro area. Sectorally, hourly labour costs grew by 6.1%, 4.5% and 4.3% in ICT, Construction and Financial sector respectively in Ireland compared to 4.1%, 5.4% and 2.4% in the UK.

Source: Eurostat

Figure 3.6: Average hourly earnings in Ireland, 2013 Q4-2018 Q4

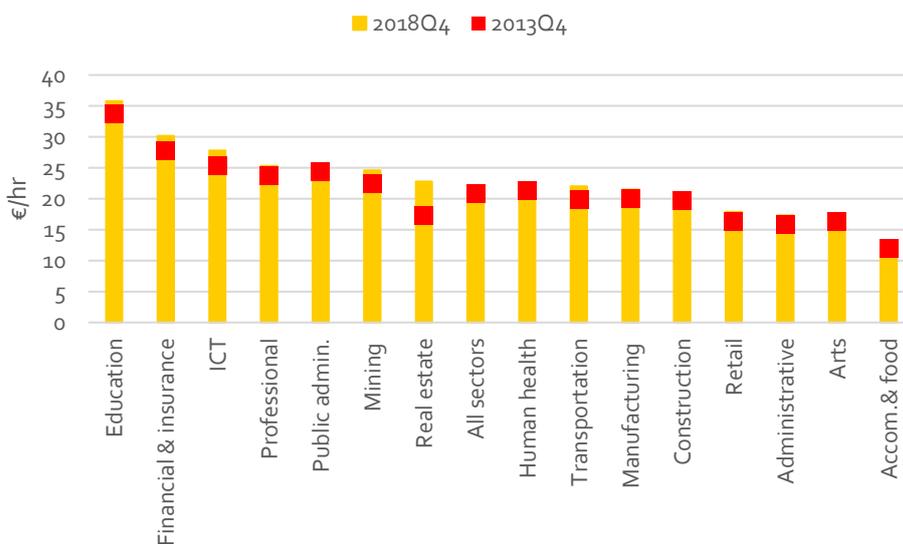
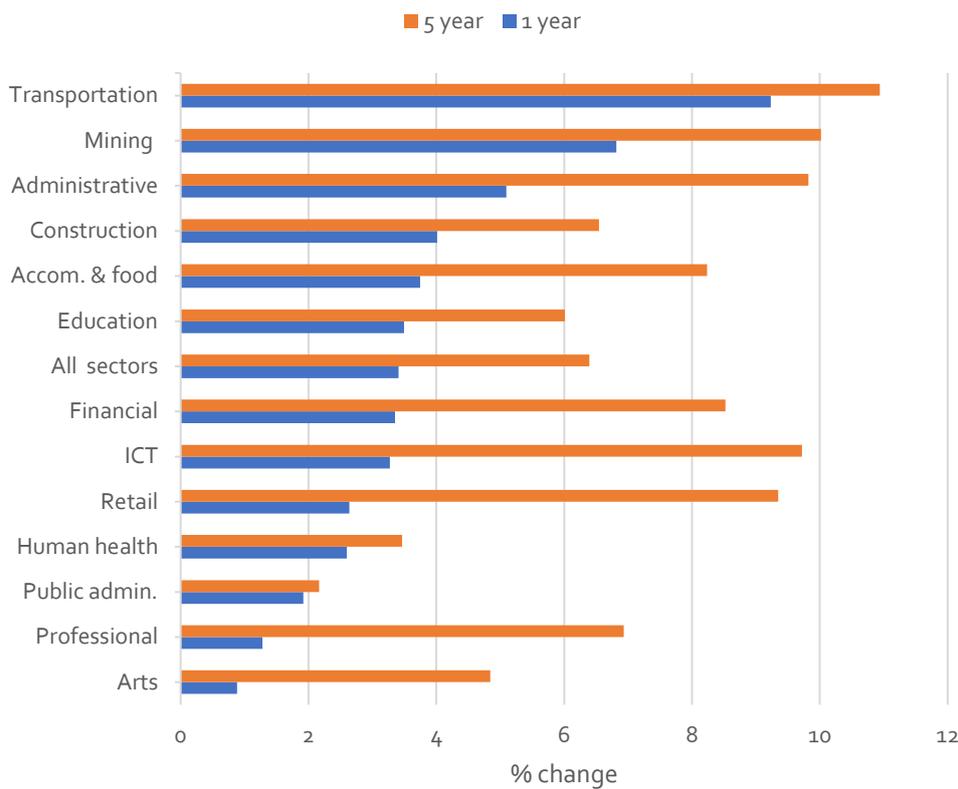


Figure 3.7 compares Irish average hourly earning across sectors between Q4 2013 and Q4 2018. Since Q4 2013, hourly earnings in Ireland have increased in all economic sectors. In Q4 2018, average hourly earnings were highest in the education sector (€35.81).

Source: CSO, Earnings & Labour Costs Statistics

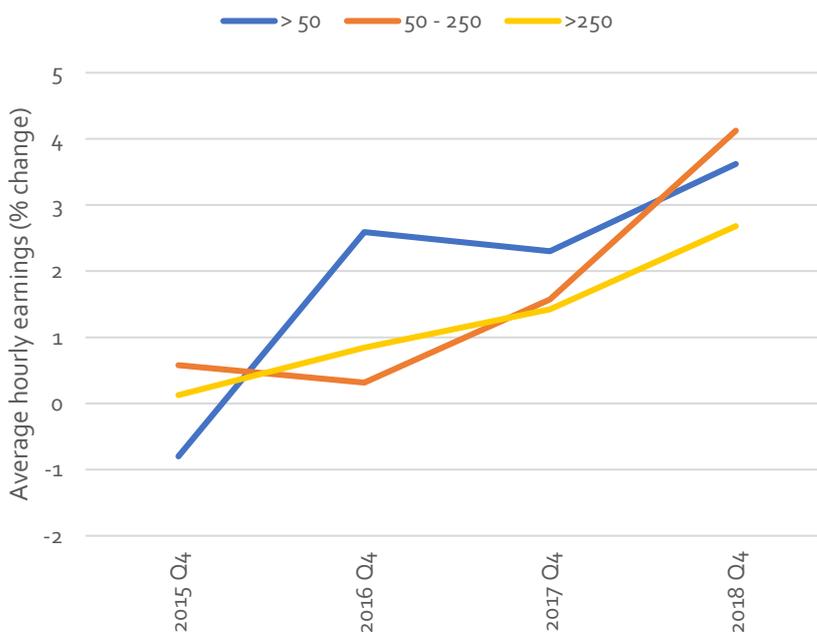
Figure 3.7: Percentage change in average hourly earnings (by sector), Q4 2018



Annual earnings across all sectors have increased in the last five years to Q4 2018. Year-on-year, all sectors of the economy recorded growth to Q4 2018 with the transportation & storage sector recording the highest growth (9.2%) and arts & entertainment sector recording the lowest (0.88%).

Source: CSO, Earnings & Labour Costs Statistics

Figure 3.8: Growth in average hourly earnings (excluding irregular earnings) by size of enterprise, Ireland Q4 2015-Q4 2018



This graph shows average hourly earnings by size of the enterprise between Q4 2015 and Q4 2018. The average earnings in enterprises with ≤ 50 people have been more volatile during the period compared with earnings in large enterprises. Earnings in enterprises employing 50 - 250 people recorded the highest year-on-year growth in the year to Q4 2018 (4.12%).

Source: CSO, Earnings & Labour Costs Statistics

Figure 3.9: Monthly minimum wage PPS (biannual) 2014 - 2018

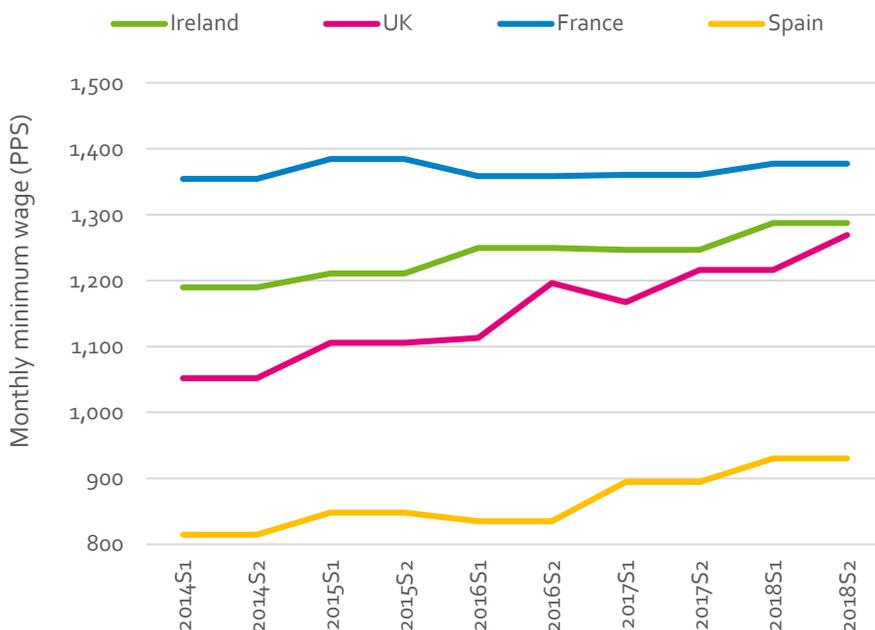
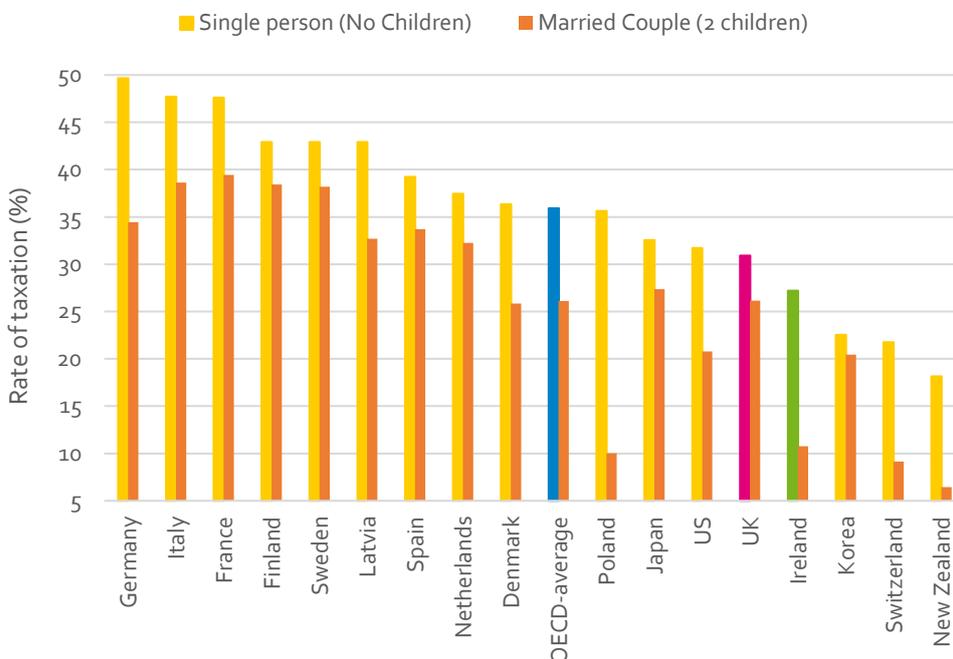


Figure 3.10 shows the trend in monthly minimum wages in selected EU countries for the period 2014-2018. The minimum wage in Ireland is greater than the UK and Spain, but the UK's minimum wage (€1,269) has caught up with Ireland's minimum wage (€1,287) recently.

Source: Eurostat, Labour Market Earnings Database

Figure 3.10: Average Income tax plus employee and employer contributions less cash benefits - Single (no children) & married couple with two children, earning 100% of average income³¹, 2017

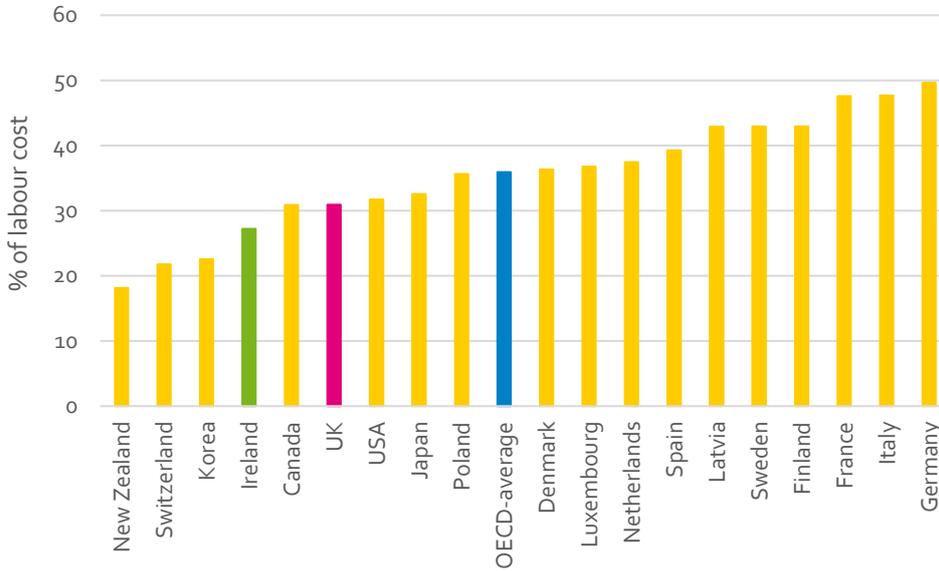


In 2017, average income tax in Ireland for a single person (and married couples with two children) earning 100% of the average wage was one of the lowest in the OECD. The tax burden as a percentage of labour cost for a single individual (27%) was slightly below the UK (30%) and substantially below the OECD (36%), and significantly lower for married couples with Irish couples paying 11% compared to 26% in the UK.

Source: OECD Taxing Wages 2018

³¹ Universal Social Charge is included in the Irish data, where applicable

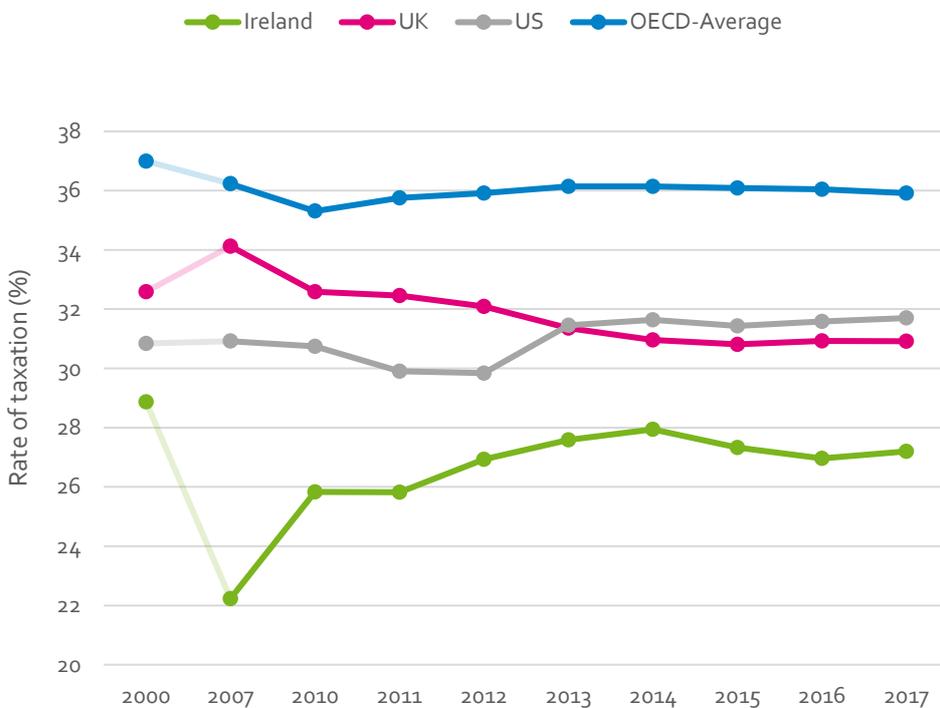
Figure 3.11: Average tax wedge, single individual earning average wage, no children³², 2017



For the average earner, the tax wedge in Ireland has been low compared to other OECD countries. In 2017, at 27%, it was below the UK figure (31%) and the OECD average (36%). New Zealand is the country with the lowest tax wedge (18%) for average earners.

Source: OECD Taxing Wages 2018

Figure 3.12: Average income tax rate, single individual earning 100 % of average earnings, 2017

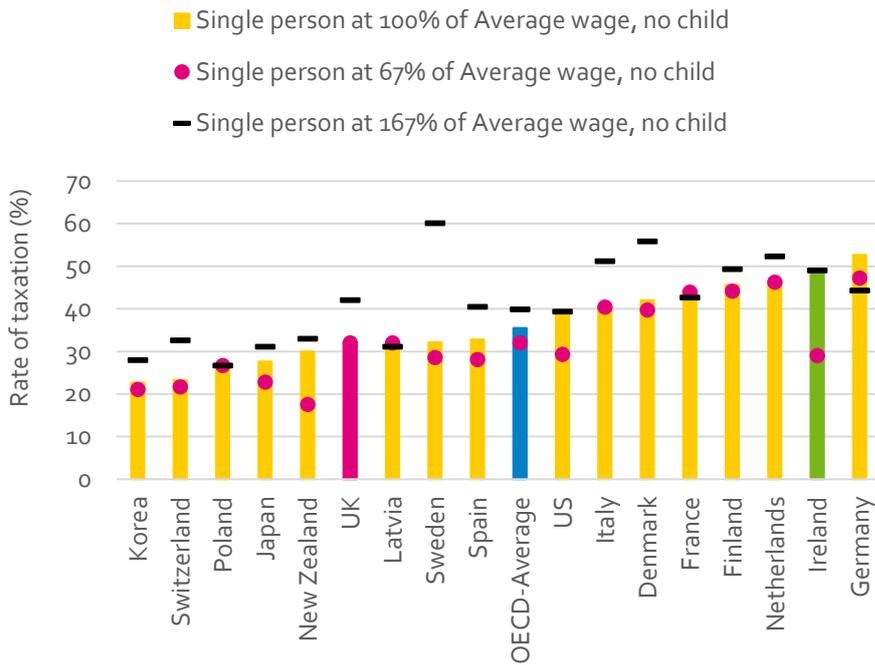


The average income tax rate in Ireland for a single person earning 100% of the average wage has been consistently lower than the OECD average, and the US UK rates since 2007. After the significant jump in 2010, the Irish rate steadily rose and peak in 2014 (27.9%) before starting to fall. In 2017, Irish rates (27.2%) were lower than the UK (30.9%), the US (31.7%) and the OECD average (35.9%).

Source: OECD Taxing Wages 2018

³² The tax wedge is defined as the ratio between the amount of taxes paid by an average single worker (no children – 100% of average earning) and the corresponding total labour cost for the employer (including employer social insurance cost)

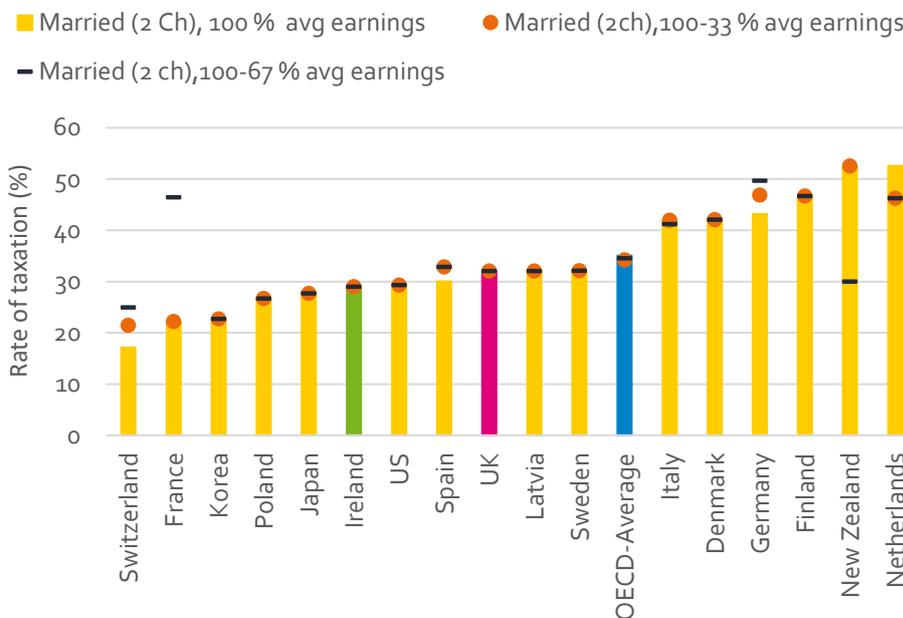
Figure 3.13: Marginal rate of income tax plus employee and employer contribution less cash benefits, Single individual, no children, 2017



Ireland has a progressive tax system³³. A person earning 67% of average earnings pays a marginal rate of 29%, below the UK (32%) and OECD average (31%). However, at the average wage, the marginal rate of taxation is quite high (49%), which remains the same when earning 167% of the average wage, unlike Denmark or Sweden where rates increased.

Source: OECD Taxing Wages 2018

Figure 3.14: Marginal income tax, married couples with 2 children, earning 100%, 133%, or 167% of average earnings

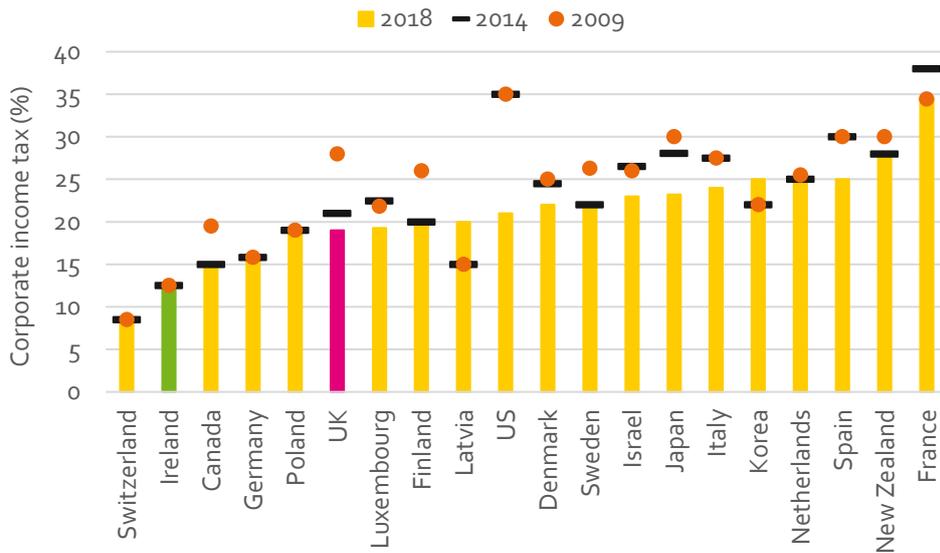


In Ireland, the marginal tax rate for married couples with children is 29%, and remains at that rate in all incomes examined, in contrast to the rate for single individuals. However, this rate is lower than the OECD average (35%) & the UK (32%).

Source: OECD Taxing Wages, 2018

³³ The average tax rate increases as the taxable amount increases. It means that lower incomes are taxed at a lower marginal rate than higher incomes.

Figure 3.15: Corporation Tax Rates, 2009-2018



Ireland has one of the lowest corporation tax rates among the OECD countries (12.5%) and has remained unchanged since it was introduced. Most of the countries examined continue to lower their corporation tax rates in the last decade with the UK rate down from 28% in 2009 to 19% in 2018 and the US rate down from 35% to 21% in the same period.

Source: OECD Tax Database

Labour costs in Ireland are broadly in line with the euro area average. The total hourly labour cost in Ireland was €30.90³⁴, which was lower than the corresponding figures for Denmark, Sweden, France and Germany. However, it was higher than the total hourly labour cost in the UK (€25.70). After remaining flat between 2012 and 2014, Irish labour costs have started to increase in line with the growth in labour costs in other jurisdictions. The last data shows that Irish labour costs increased by 2.9% in 2018 – which is concerning as it is four times higher than the inflation rate.

Labour costs vary considerably between sectors. In Ireland, labour costs are highest in the utilities sector (€55/hour) and are lowest in the accommodation and food sector (€16/ hour). In most sectors, labour costs were greater than, or equal to, the UK.

The tax burden, as a percentage of labour costs for a single individual earning the average wage stood at 27%³⁵, which is below the OECD average (36%) and the UK (31%). The tax burden, as a percentage of labour costs, for Irish married couples (with two children) earning the average income was 11% of labour costs, while the corresponding figure in the UK was 26%.

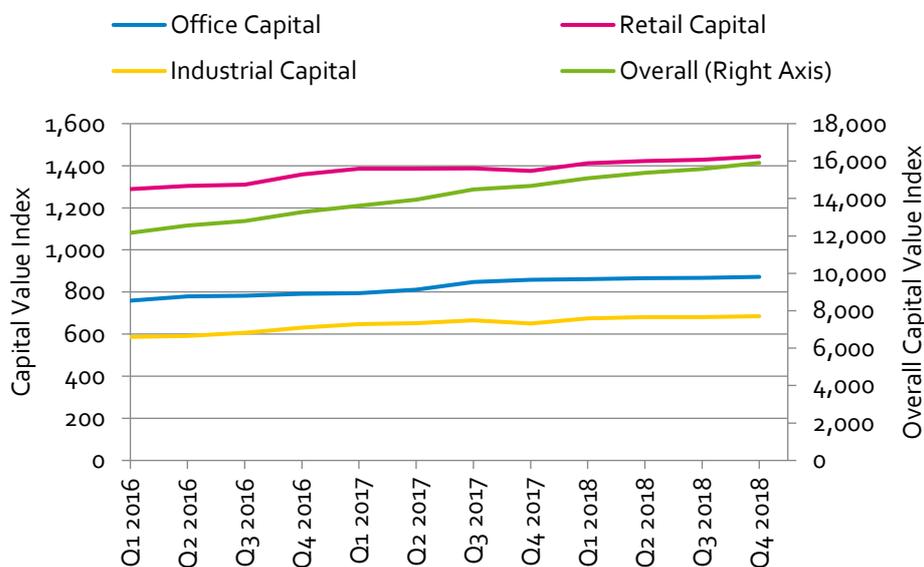
While the Irish average tax rate for those earning the average income is very competitive, the marginal tax rate these earners face tells a different story. In Ireland, a person earning 100% of the average wage pays the second highest marginal tax rate (49%) of the countries examined. High earners (those earning 167% of the average wage) face the same rate in Ireland as those earning the average income (49%), which means Ireland becomes more competitive relative to the Scandinavian countries where marginal rate increase dramatically for people in this bracket.

³⁴ Eurostat Labour Cost Levels (2017)

³⁵ OECD Taxing Wages (2018)

Chapter 4 – Property Costs

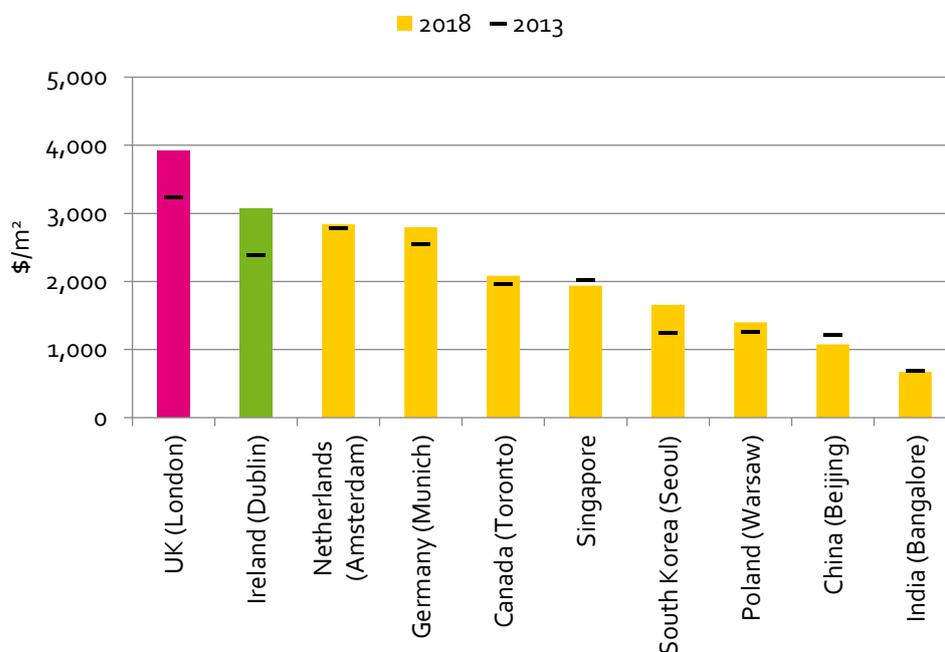
Figure 4.1: Quarterly change in capital values in Ireland, Q1 2016-Q4 2018



This graph shows the Irish capital value index in the left axis and overall Irish property index (capital + rental value) in the right axis. The overall property index recorded a return of 8.4% for the year to December 2018. Sectorally, capital value grew by 5%, 1.5% and 5.3% in Retail, Office and Industrial capital respectively during the period.

Source: Jones Lang LaSalle, Irish Property Index

Figure 4.2: Cost of constructing a prime office unit³⁶, \$/m², 2018

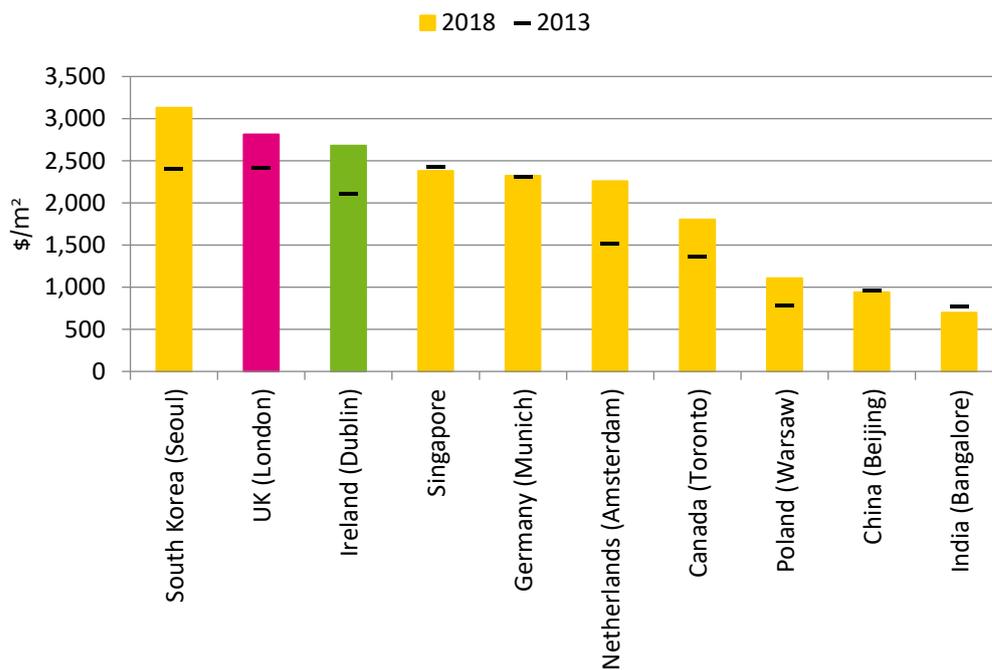


In 2018, the cost of constructing a prime office unit in Dublin was \$3,065/m², almost a 29% increase from 2013 (\$2,382/m²). Among the selected cities, the cost of construction of prime offices was highest in London (\$3,919/m²). Singapore and Beijing recorded a fall in construction costs of prime offices during the period.

Source: Turner and Townsend Construction Cost Survey

³⁶ A prime office unit refers to a city centre, self-contained building of a size and height typical of major cities in a country; prices quoted are upper boundary of the cost of construction.

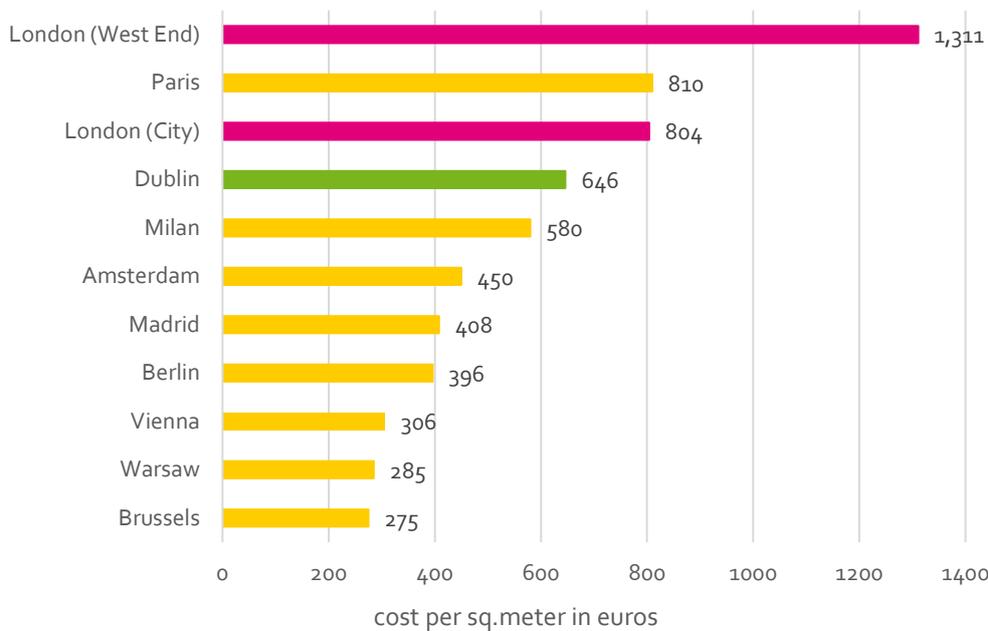
Figure 4.3: Cost of constructing a High-Tech Factory, €/m², 2018



This figure shows the considerable variation across cities in the cost of building a high-tech factory/ or laboratory. In Dublin in 2017, the cost was estimated at \$2,679/m², a 27% increase since 2013. The comparable figure for London was \$2,812/m². The highest cost was recorded in Seoul (\$3,130/m²).

Source: Turner and Townsend Construction Cost Survey

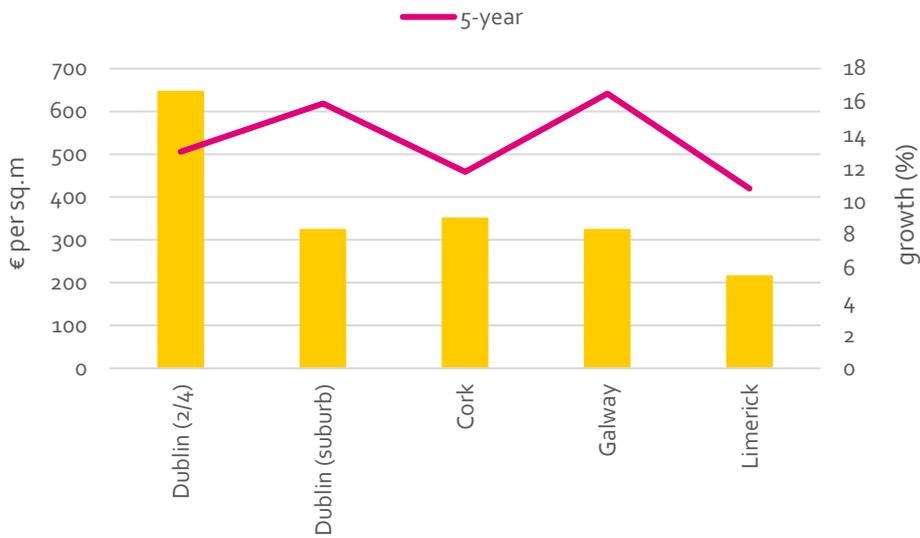
Figure 4.4: Rental Price of Prime Office Properties (in €/m²) 2018 Q4



As of Q4 2018, London was the most expensive city in which to rent a prime office property (West End- €1,311). Dublin (2/4), at €646/m² was the third most expensive city in terms of rental price of prime office properties among the benchmarked countries. Brussels was one of the cheapest at €275/m².

Source: Cushman and Wakefield, Office Snapshot Reports

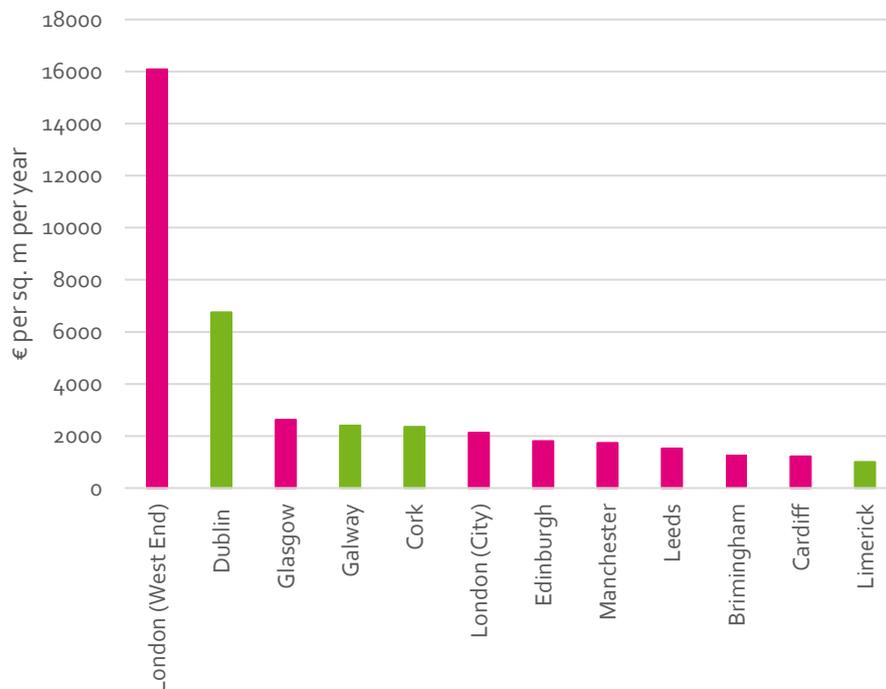
Figure 4.5: Level & Five -year growth in rental price of a prime office unit in Irish cities, December 2018



In Dec 2018, demand for prime offices was high in Dublin. In the capital, the rental price of a prime office unit was €646/m². In the five years to Dec 2018, rental prices increased across Irish cities – Dublin Suburbs (15.9%), Cork (11.8%), Limerick (10.8%) with Galway (16.5%) recording the highest rental price.

Source: Cushman and Wakefield, Office Snapshot Reports

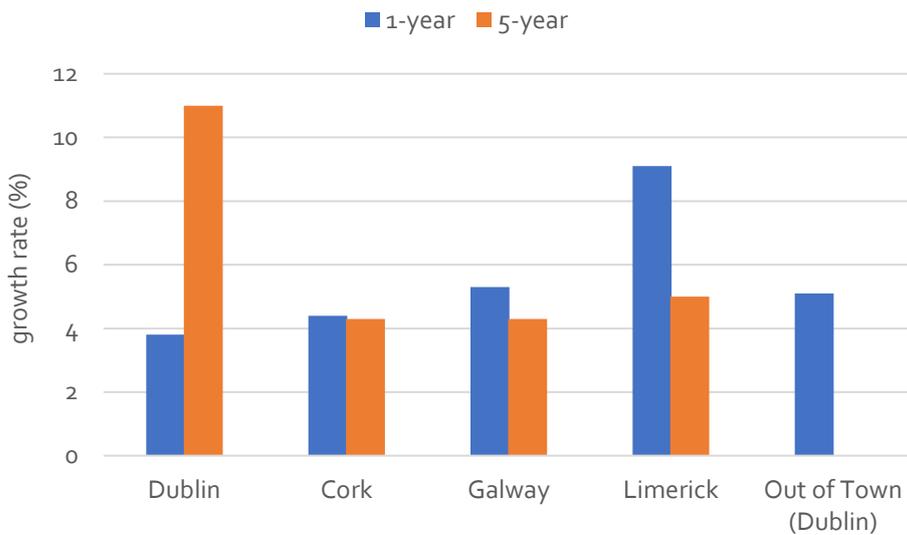
Figure 4.6: Prime Retail (Zone A) Rent levels in selected Irish & UK cities, December 2018



In Ireland, Dublin was the most expensive location to rent a prime high street retail unit (€6,750/m²). In the sample, London’s West End was the most expensive location (€16,084/m²) and Limerick was the least expensive location (€1,000/m²).

Source: Cushman and Wakefield, Retail Market Snapshots

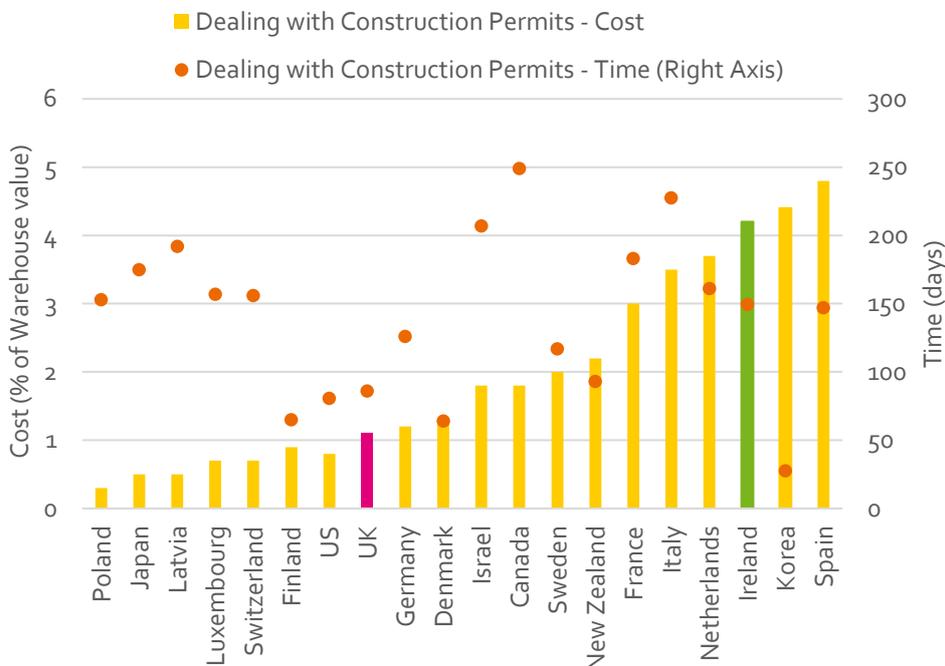
Figure 4.7: Prime Retail Rental growth, Ireland, December 2018³⁷



Source: Cushman and Wakefield, Retail Market Snapshots

Demand for prime city centre retail units and shopping centres across Ireland continued for the fourth quarter of 2018. Retail rent prices remains highest in Dublin city centre with rental prices up by 11% in the last five years. Limerick recorded the highest retail rent growth with 9.1% in the year to December 2018.

Figure 4.8: Time and Cost of Dealing with Construction Permits in building a warehouse, 2017

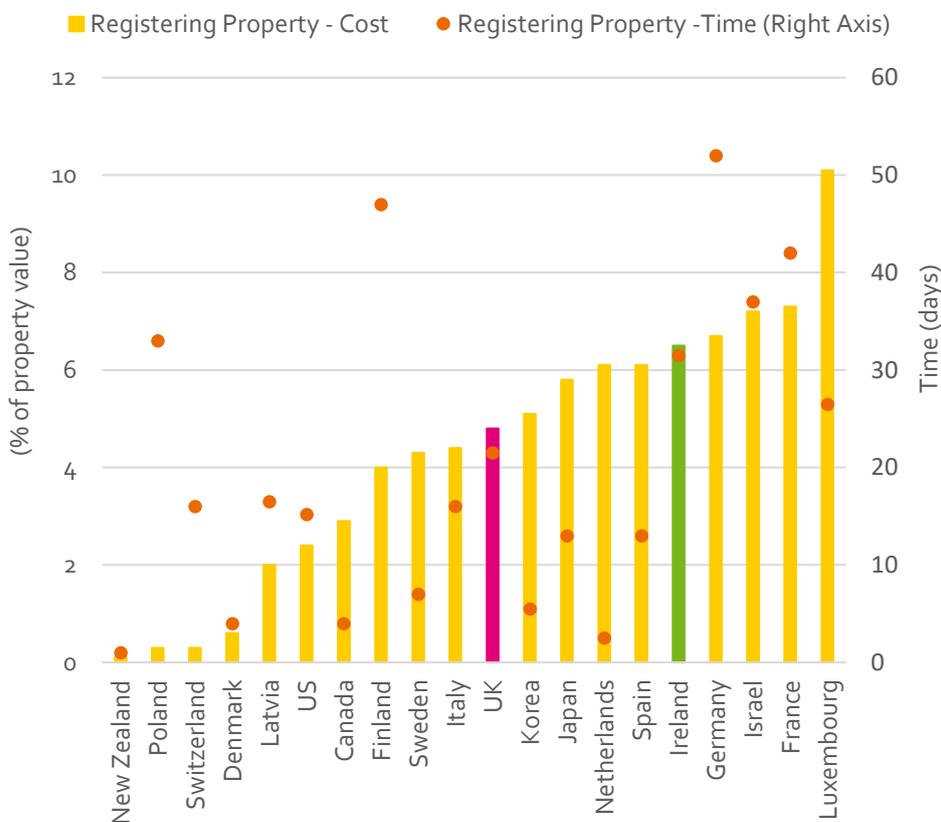


Source: World Bank, Doing Business 2019

Ireland scores well on building control and regulatory quality, but poorly on time and cost to build. It takes 149.5 days to build a warehouse in Dublin compared to 86 days in London, and 65 days in Finland. This means that building a warehouse in Ireland takes the 3rd longest amount of time of all countries selected.

³⁷ 5-year growth data for Dublin (out of Town) is unavailable

Figure 4.9: Time and Cost of Registering a Property, 2017



This graph shows the time and cost involved in registering a property using a standardised case of an entrepreneur purchasing land and a building already registered and free of dispute. In terms of cost as a percentage of value, Ireland (6.5%) is costlier than UK (4.8%) to register a property, and the 5th most expensive of selected countries. The process takes 31.5 days in Ireland compared to 21.5 days in the UK and 2.5 days in the Netherlands.

Source: World Bank, Doing Business 2019

Over the last year, there has been a steady increase in commercial property prices and the cost of constructing office space. In the office rental market, in the last five years, prices are up 15.9% in Dublin (Suburbs) and up 16.5% in Galway.

The Jones Lang LaSalle Property Index suggests that prices in the Irish commercial property market continued to grow at a relatively steady pace, with capital values increasing by 3.1% in the year to Q4 2018. The capital values of office (1.5%), retail (5%), and industrial (5.3%) property all increased over the same period, and vacancy rates in Dublin stood at 7.4% in Q4 2018 (a fall of 1.7% from Q3).

The rental price of prime office space varies greatly across Europe. In Q4 2018, office rental in Dublin cost €646/m². This was lower than Paris (€810/m²) and London City (€804/m²), but considerably higher than Amsterdam (€450/m²), Berlin (€396/m²) and Brussels(€275/m²).

According to Turner and Townsend³⁸, Dublin is one of the most expensive cities in the world in which to construct prime office buildings. In 2018, the construction cost per square meter of a prime office building in Dublin was \$3,065/m², lower only than London (\$3,919/m²) among the major cities measured. Similarly, construction costs for a high-tech factory in Dublin (\$2,679/m²) is comparable to London (\$2,812/m²), and costs in Dublin have risen by 27% from 2013 to 2018.

³⁸ <http://www.turnerandtowsend.com/media/3352/international-construction-market-survey-2019.pdf>; 2018 figures

Chapter 5 – Transport Costs

Figure 5.1: Europe Brent Spot Oil Price, USD per Barrel



As a primary benchmark for global oil prices, the movement in the price of Brent crude has a significant impact on Irish businesses. Since 2016, the monthly oil price continued on stable upward trend, with price peaking in Oct-2018, (\$81.03) before falling to \$57.36 per barrel in Dec-2018. The oil price has since started to recover with prices 11% higher in Feb-2019 (\$63.96) compare to Dec-2018 (\$57.36).

Source: US Energy Information Association

Figure 5.2: Average petrol and diesel cost costs per litre in Ireland, January 2016-December 2018

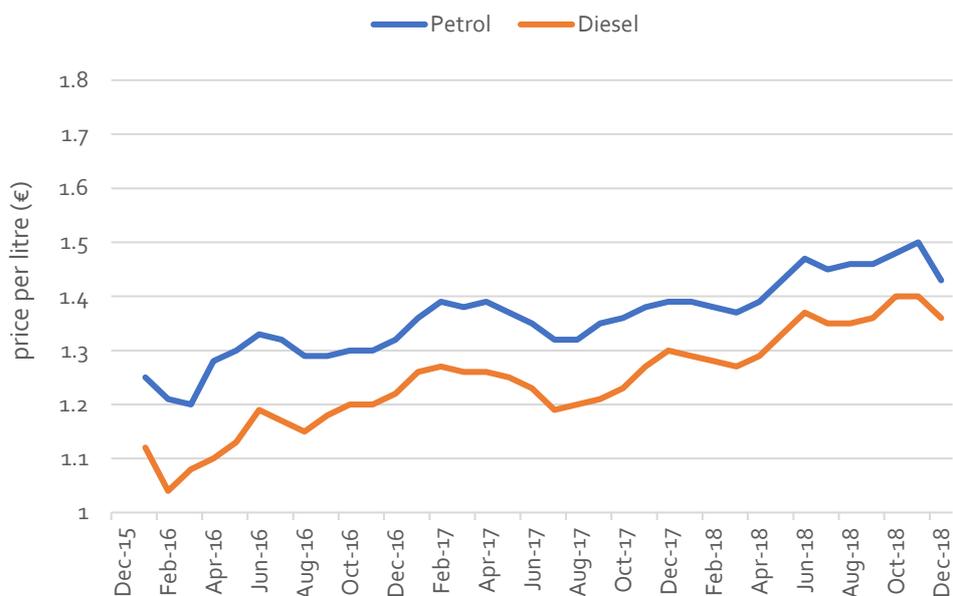
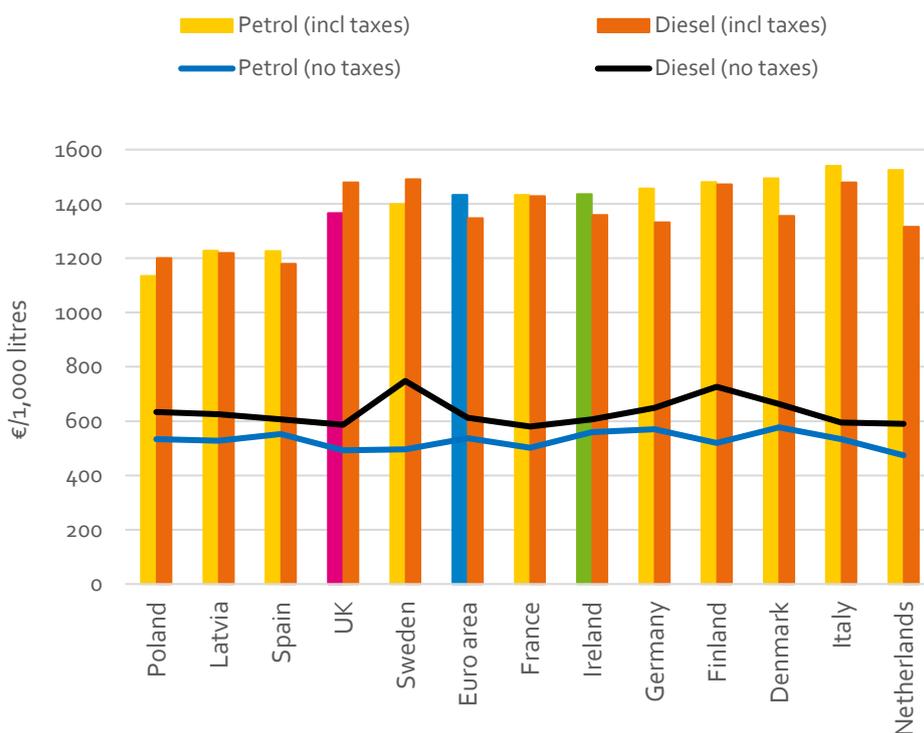


Figure 5.2 shows the trends in consumer prices for petroleum products in Ireland over the period Dec 2015 - Dec 2018. Both petrol (November 2018) and diesel prices (October 2018) have fallen from their peak. In December 2018, petrol prices were €1.43/litre and diesel prices were €1.36/litre.

Source: European Commission, Energy Statistics

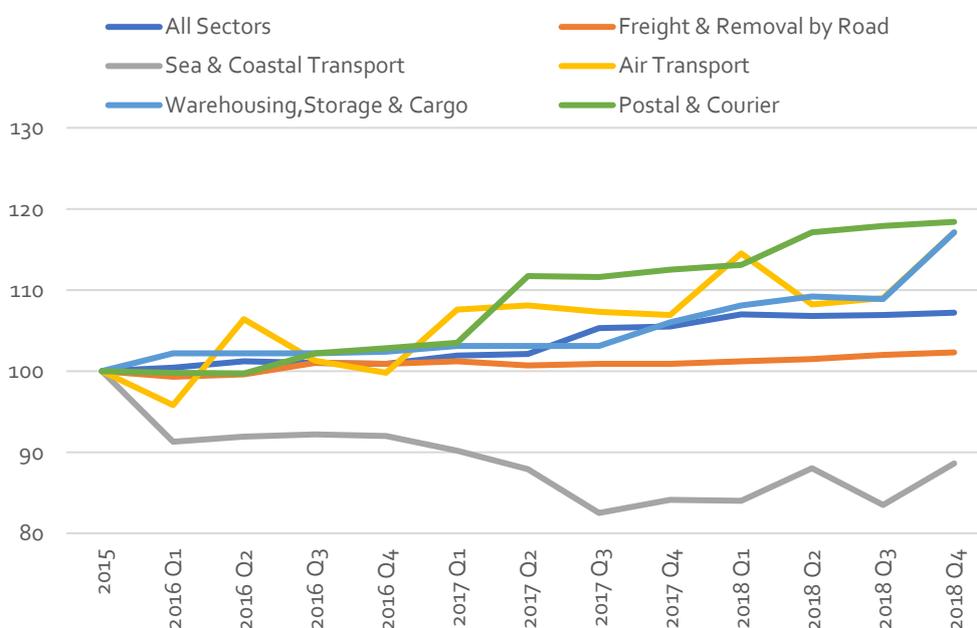
Figure 5.3: Petrol and Diesel costs per 1,000 litres, December 2018, selected countries



In December 2018, Italy (€1,540) recorded the highest petrol price, Poland had the lowest (€1,135). Sweden (€1,491) had the highest diesel price, while Spain (€1,179) recorded the lowest. Compared to the UK, the final price of petrol was higher in Ireland (€1,436), but the price of diesel (€1,359) was lower. Overall taxes³⁹ on fuel prices were similar in Ireland (62%) and the euro area (also 62%).

Source: European Commission, Energy Statistics

Figure 5.4: Trends in Transport Related Prices in Ireland, 2015-2018 (2015 = 100)

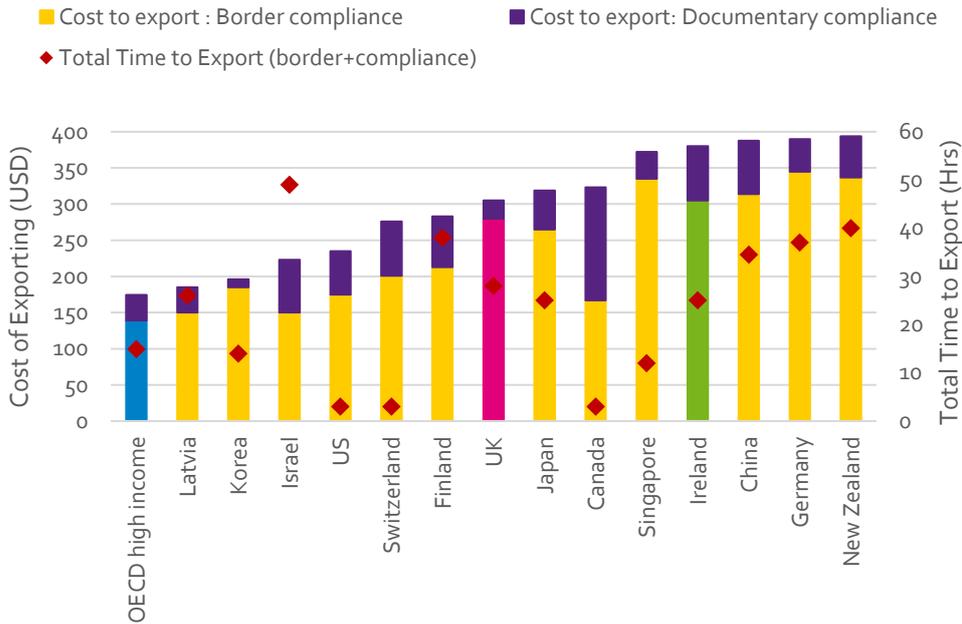


Between 2015 and 2018, Irish transport sector prices have increased moderately. Though Sea & Coastal transport prices have fallen sharply (11.4%), prices in all other sectors of transport have steadily increased. Postal & Courier services recorded the highest price increase (18.4%), followed by Air transport (17.1%) & Warehousing, storage & cargo (17.1%).

Source: CSO, Services Producer Price Index

³⁹ Includes VAT and all indirect taxes

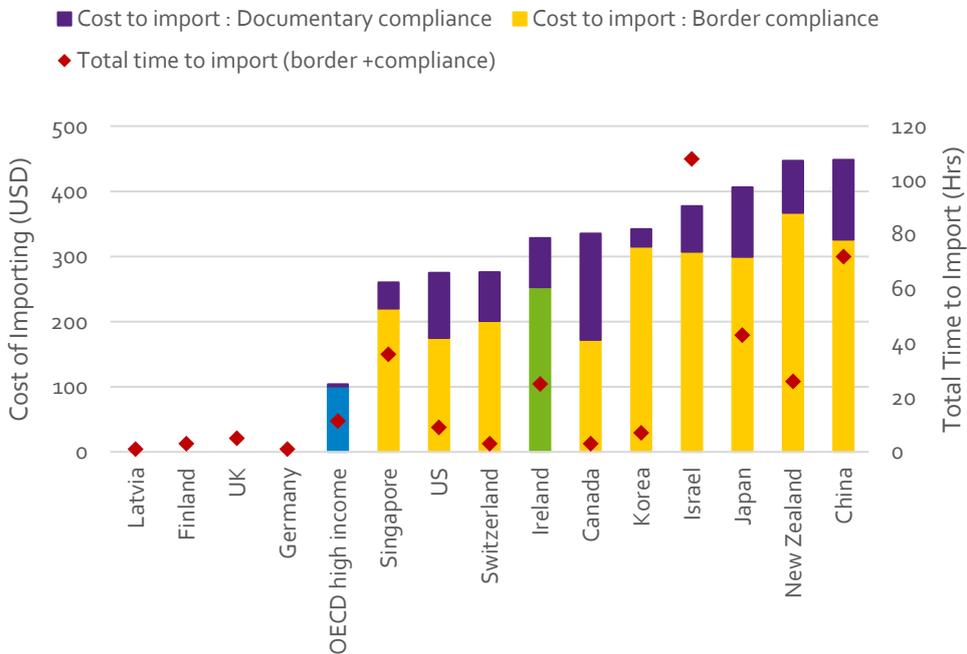
Figure 5.5: Administrative Costs and Time to Export, 2018



In Ireland, the total cost to export a standardised cargo is \$380, higher than the UK (\$305) and the OECD high income average (\$174). It takes 25 hours to complete the compliance processes in Ireland - slower than the OECD average (15 hrs) but quicker than the UK (28 hrs).

Source: World Bank, Doing Business 2019

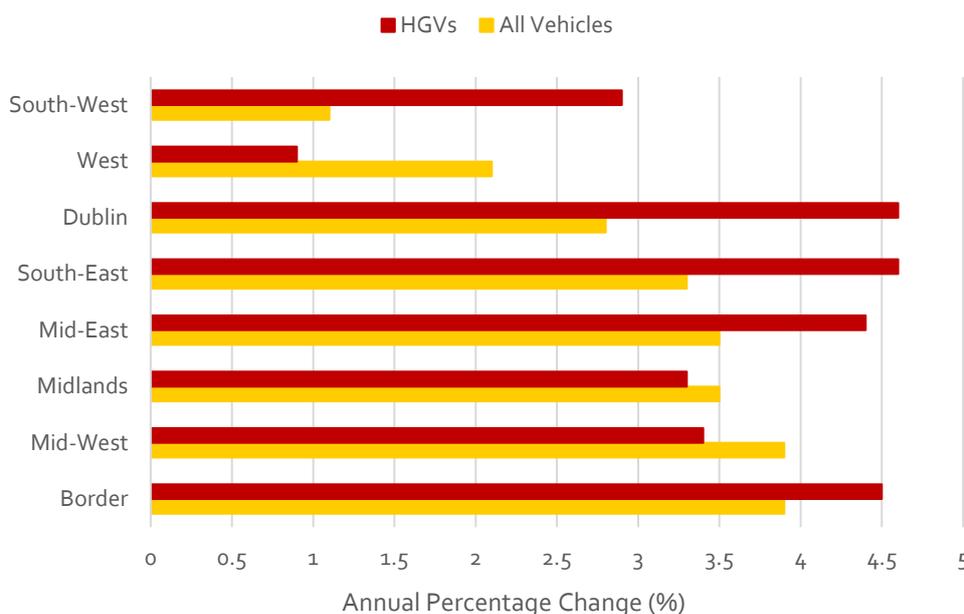
Figure 5.6: Administrative Costs and Time to Import, 2018



At \$328, the cost of importing a container to Ireland was significantly higher when compared to the OECD high income average (\$104). The total hours required to complete the various compliance forms was 25 hours in Ireland, compared to 11.4 hours for the OECD high income average.

Source: World Bank, Doing Business 2019

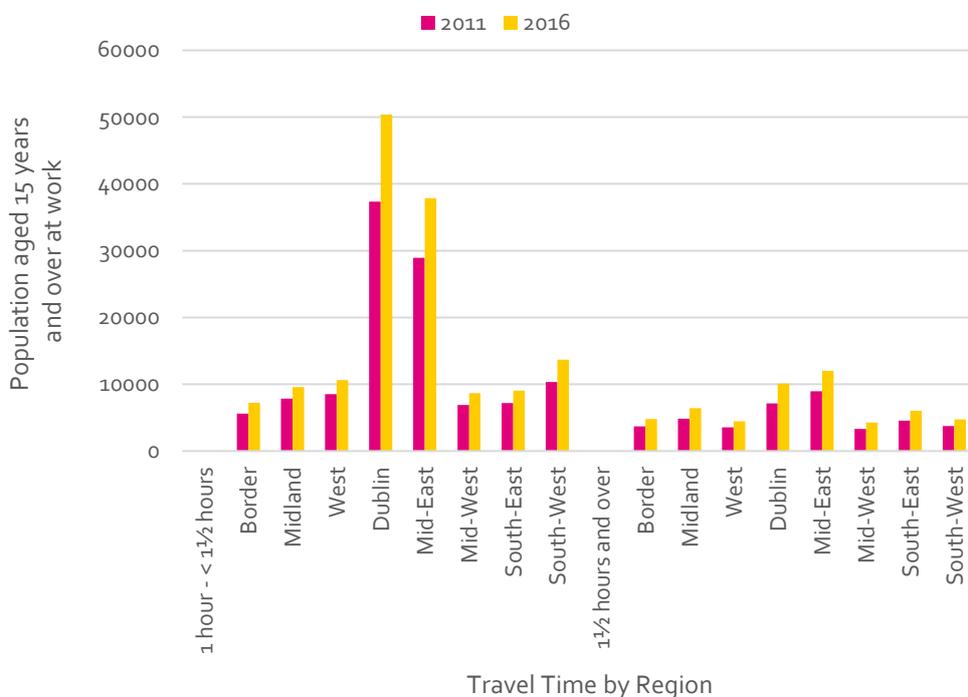
Figure 5.7: Growth in traffic by region, Ireland 2017



In 2017, there was a 3% increase in traffic across the road network⁴⁰. Growth was highest in the Border and Mid-west regions (3.9%). All-vehicle traffic grew by 2.8% in Dublin whereas the Midlands and the Mid-east recorded 3.5% growth. For HGVs, both the South-East and Dublin recorded the highest regional growth with 4.6% and the West recorded the lowest (0.9%).

Source: Transport Infrastructure Ireland

Figure 5.8: Travelling time for persons at Work, School or College, by region, 2016

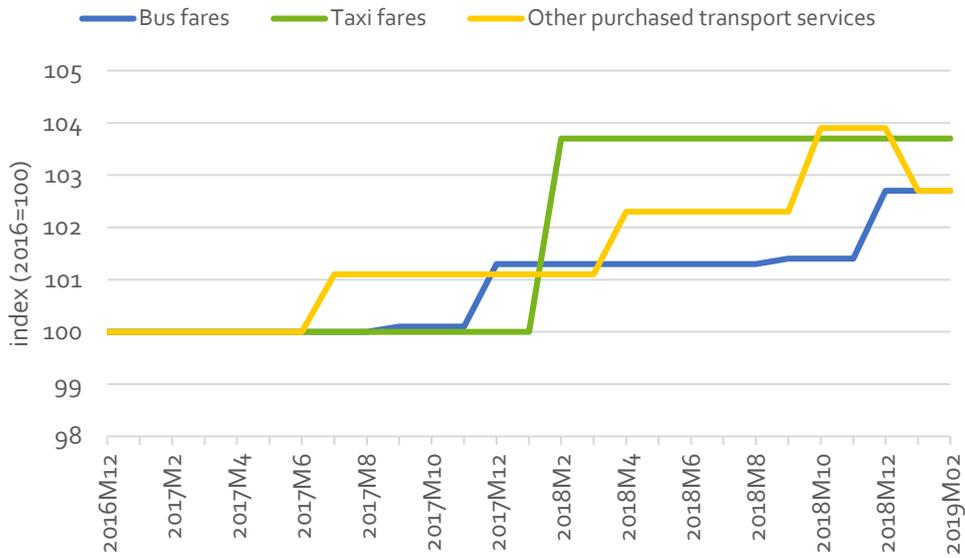


In 2016, nearly 200,000 commuters (almost 11% of all commuters) spent an hour or more commuting to work. This was an increase of 50,000 persons (or 31%) over the five-year period. The average time for travel for work in 2016 was 74 minutes. Commuting times rose in every county, but with significant variation in times travelled depending on where people lived.

Source: CSO, Census 2016

⁴⁰ <http://www.tii.ie/tii-library/strategic-planning/nra-road-network-indicators/TII-National-Roads-Network-Indicators-2017.pdf>

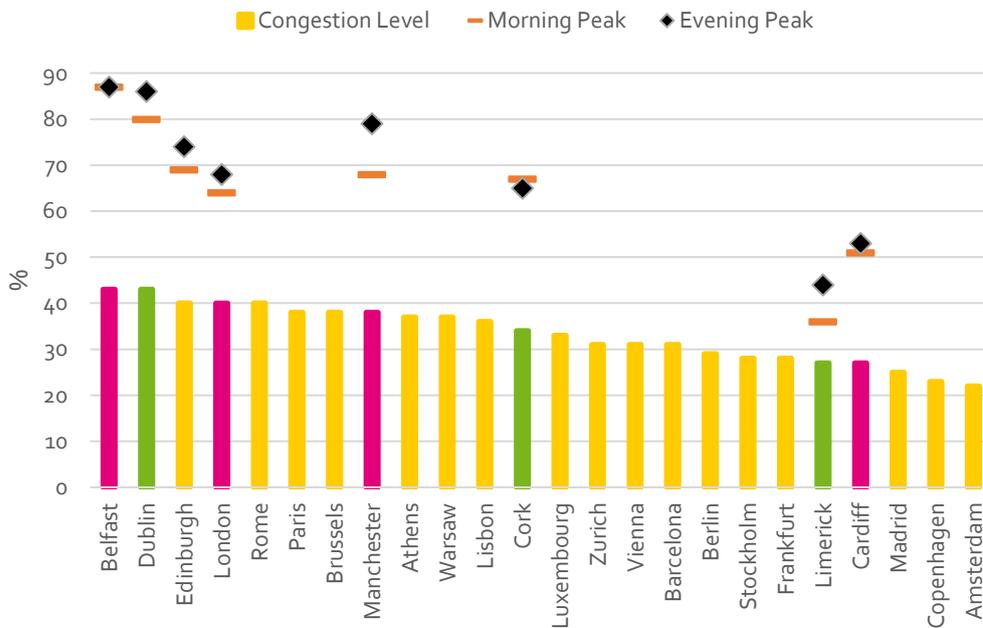
Figure 5.9: Trends in Transport fares, Ireland (2016 = 100)



After increases in late 2017/ early 2018, taxi fares have remained relatively stable up to early 2019. The bus fares recorded 1.28% increase in the last three month to Feb 2019. The fares on other transport services have fallen by 1.15% in the same period reversing the significant increase recorded from June 2017 to Dec 2018 (3.9%).

Source: CSO, CPI Transport Cost

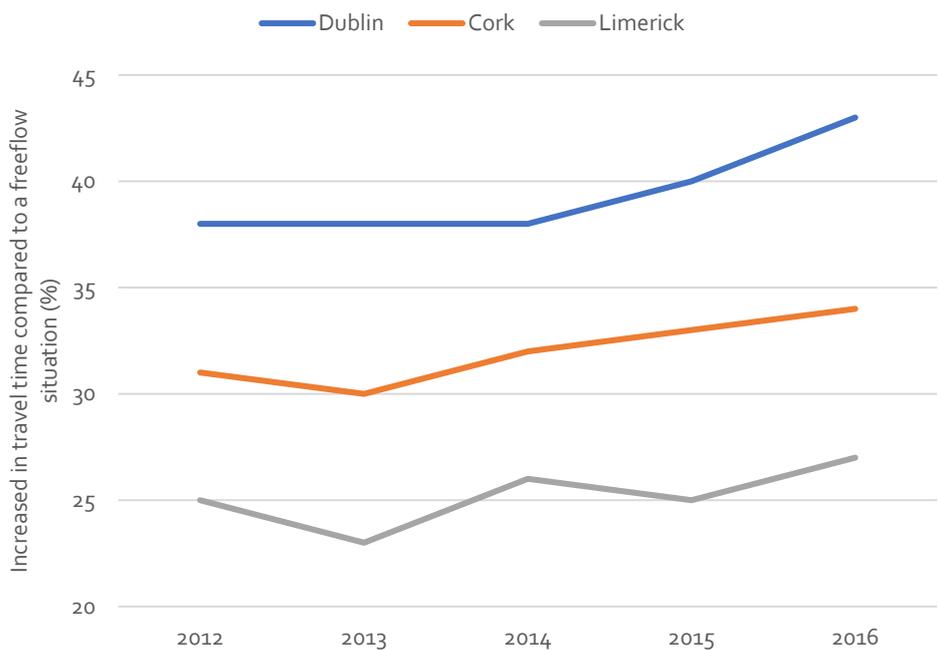
Figure 5.10: Traffic congestion levels, Europe 2016



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

Source: Tom Tom International, Congestion Index 2017

Figure 5.11: Traffic Congestion levels, Ireland, 2012-2016



This figure shows the trend in traffic congestion level during the period 2008-2016 in the three major Irish cities. Increasing numbers of people at work, and a higher number of people using private cars relative to public transport, have resulted in increased traffic congestion levels in all cities since 2013.

Source: Tom Tom International, Congestion Index 2017

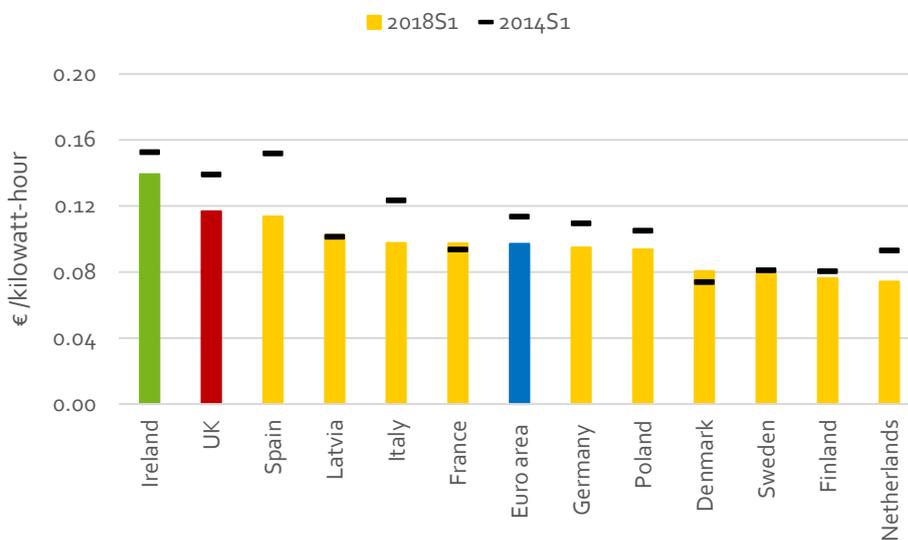
In recent years, aggregate transport sector prices in Ireland have increased moderately. Prices in all transport sectors (except sea and coastal transport) have steadily increased, with postal and courier services recording the highest price increase, followed by warehousing, storage and cargo services.

In 2018, the average price per litre of petrol and diesel were €1.43 and €1.34 respectively. Prices of both petrol and diesel have fallen off since their peak. Petrol prices in December 2018 (€1.43/litre) were 4.6 % lower than the peak in November 2018 (€1.50/litre). Similarly, diesel prices were down by 2.8 % December (€1.36/litre) compared to the peak in October (€1.40/litre). Over the course of 2018, petrol prices increased by 2.8% and the price of diesel increased by 4.6%. After increases at the start of the year, bus and taxi fares remained stable, but fares on other purchased transport services have increased significantly (3.9%), since the start of 2017.

It is not only transport costs that have been on the increase. Traffic has increased across the road network by 3%. In the Border and Mid-West regions, traffic increased by almost 4% in 2017. Heavy goods vehicle traffic in the South East and Dublin increased by 4.6% in the same period. The increased congestion is supported by the fact that 11% of all commuters spend an hour or more commuting to work in 2017.

Chapter 6 – Utility Costs

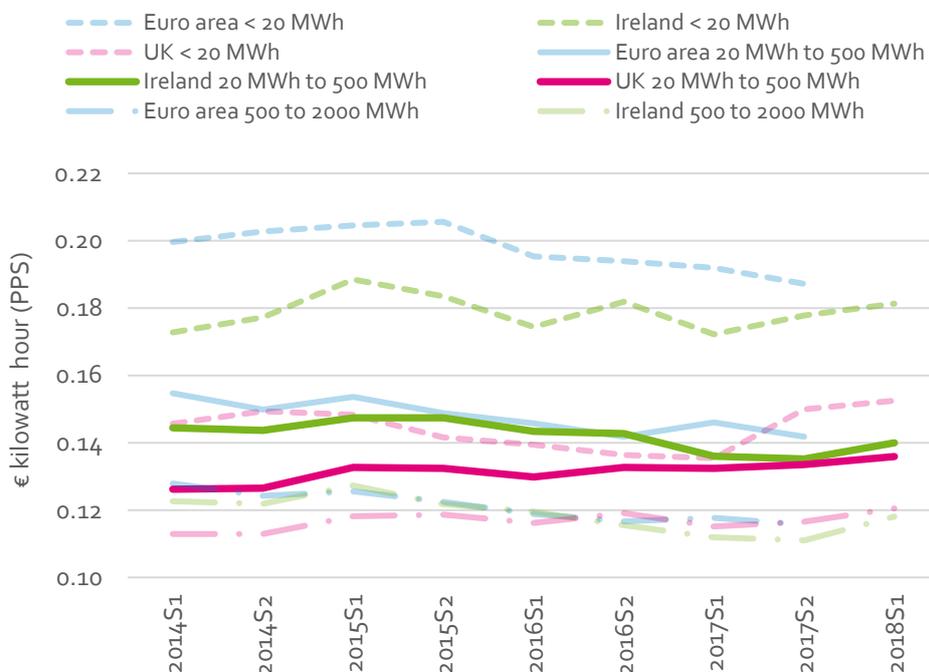
Figure 6.1: Non-household electricity prices (excluding VAT and other recoverable taxes and levies), Band IB⁴¹, S1 2018



Source: Eurostat Electricity Prices Data

Figure 6.1 compares electricity prices in selected EU countries in S1 2014 and S1 2018. Prices in Ireland have fallen almost (9%) since S1 2014, but still remain highest among the benchmark countries. In 2018 S1, the electricity price for non-household customers in Ireland (€0.14/kilowatt-hour) was higher compared to the euro area (€0.10/kilowatt-hour) and the UK (€0.12/kilowatt-hour).

Figure 6.2: Non-household electricity prices (excluding VAT and other recoverable taxes and levies), low consumption bands, 2014 S1-2018 S1⁴²



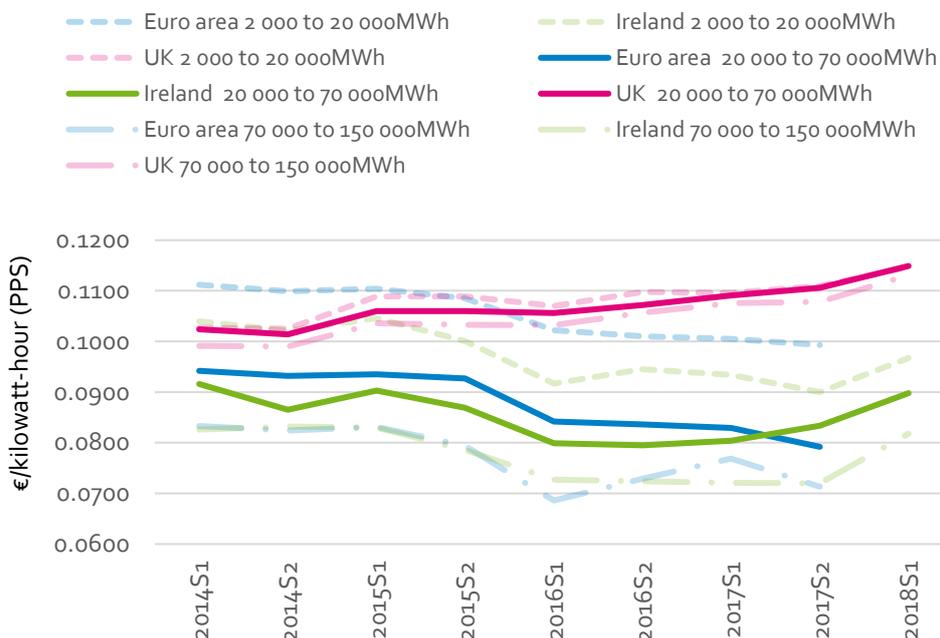
Source: Eurostat Electricity Prices Data

In Ireland, the price of electricity for non-household consumers in the most populated band (IB, 20-500MWh) fell from €0.14 (PPS) in S2 2013 to €0.13 in S2 2017 before increasing to €0.14 in S1 2018. Prices in the UK have risen steadily during the period (S1 2018, €0.13), and have now caught up with Irish prices.

⁴¹ Band IB (20 MWh < consumption < 500 mWh)

⁴² Euro area data is only up to 2017 S2

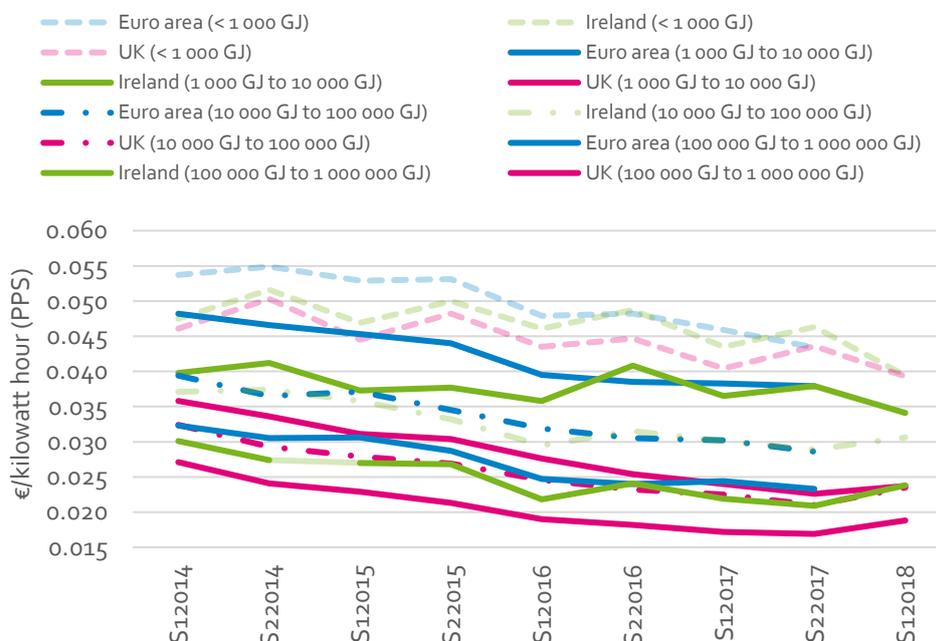
Figure 6.3: Non-household electricity prices (excluding VAT and other recoverable taxes and levies), high consumption bands, 2014 S1-2018 S1



This graph shows the trends in the price of electricity in three bands of non-household customers over time. The price of electricity in Ireland in two of the three bands has been consistently below the euro area average until S1 2017 when the prices for customers in band (20 000 to 70 000MWh) deviate significantly upward from the euro area average. UK prices in all three bands have increased during the period and were above the euro area average and Ireland in S1 2018.

Source: Eurostat

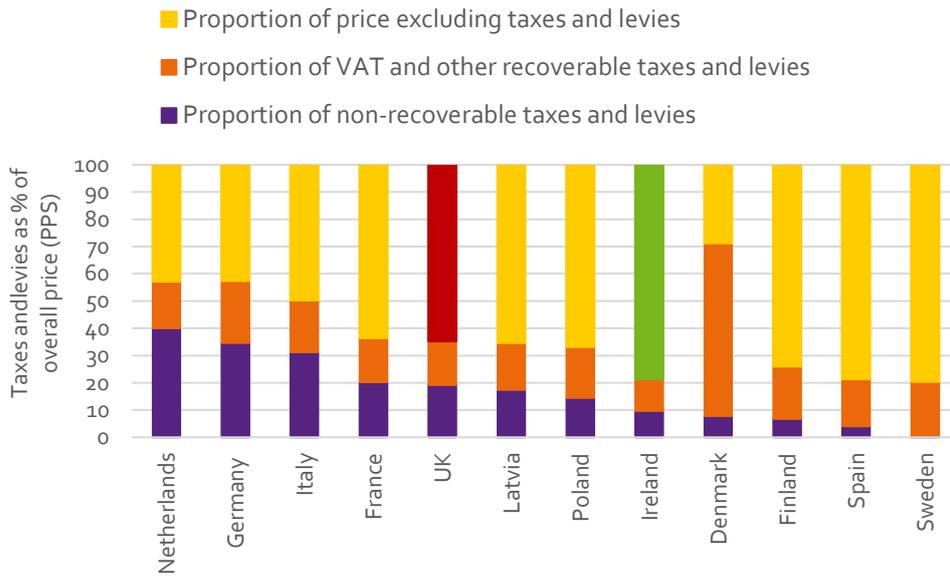
Figure 6.4: Gas prices for non-household consumers, excluding taxes and levies, 2014 S1-2018 S1



Until S2 2016, Irish gas prices were lower than the euro area average. However, since then price levels have converged. The cost of gas for all categories of non-household consumers in Ireland have fluctuated and are trending downward over time. UK prices categories have been below the euro area and Ireland since 2013.

Source: Eurostat

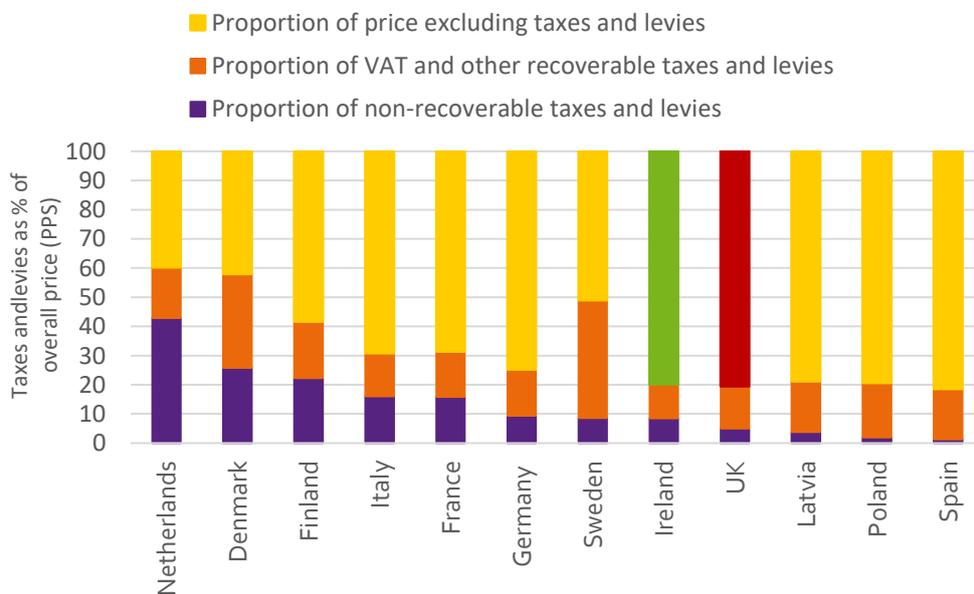
Figure 6.5: Share of non-recoverable taxes and levies in the overall electricity price for non-household consumers, 2018 S1



The proportion of recoverable & non-recoverable taxes and levies in Ireland was relatively low compared to other EU countries in S1 2018. The overall price of electricity in Ireland consisted of 21 % of recoverable and non-recoverable taxes, levies and VAT whereas it was 36 % in UK.

Source: Eurostat

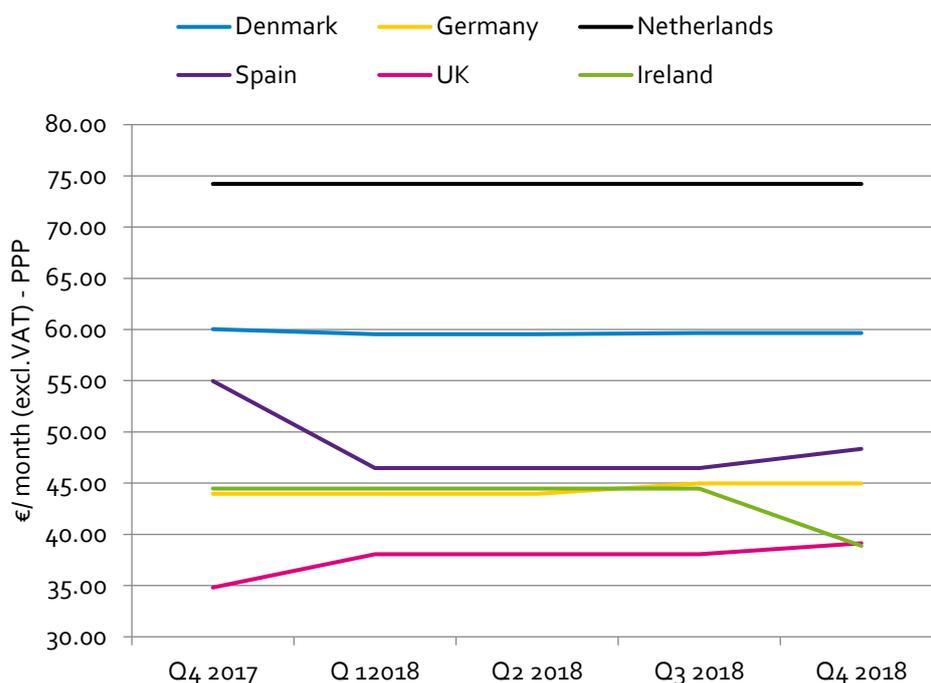
Figure 6.6: Share of non-recoverable taxes and levies in the overall gas price for non-household consumers, 2018 S1 9



The proportion of non-recoverable taxes and levies in the overall natural gas price was relatively low in Ireland (8.5%) compared to UK (5%) in the first six months of 2018. In terms of the proportion of VAT and other recoverable taxes and levies, at 11.66%, it is also lower than the UK (14.44%).

Source: Eurostat

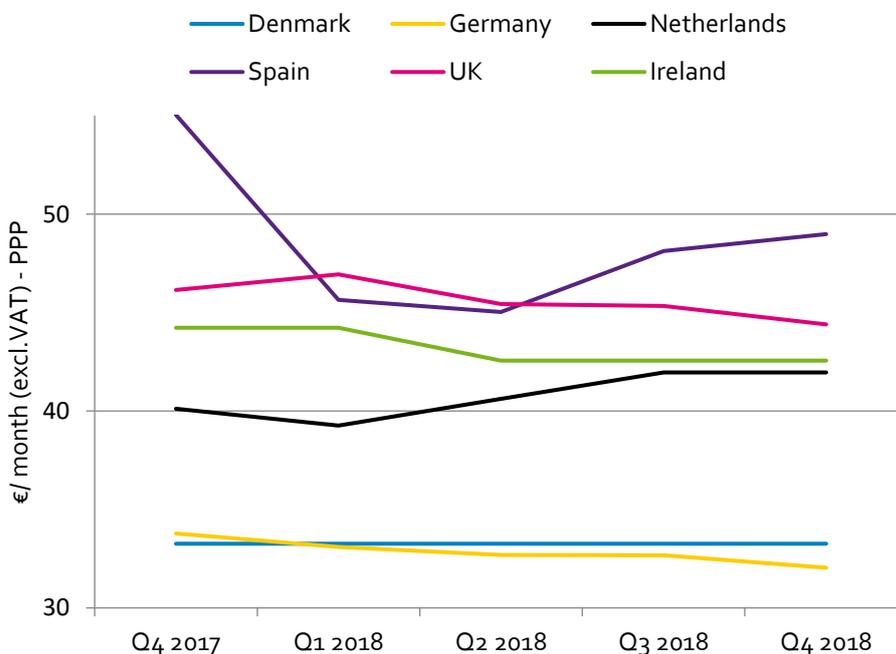
Figure 6.7: Business Standalone Fixed Voice Basket⁴³ € per month excluding VAT⁴⁴



The trend in the Standalone Fixed Voice charges for business in selected countries in the last quarter is depicted here. The charges for a basket of Standalone Fixed Voice in Ireland remained flat last year before falling sharply in the Q4 2018. Ireland was the least expensive (€38.88) and the Netherlands (€74.21) was the most expensive country in Q4 2018.

Source: Comreg

Figure 6.8: Business Fixed Broadband⁴⁵, € per month excluding VAT



The price of Fixed Broadband Services for business in Ireland is trending slightly downwards in the last four quarters and was €42.56 in Q3-Q4 2018. Although the fixed broadband charge in the UK fluctuated during the period, it remained higher than the corresponding charges in Ireland for all quarters and was €44.4 in Q4 2018.

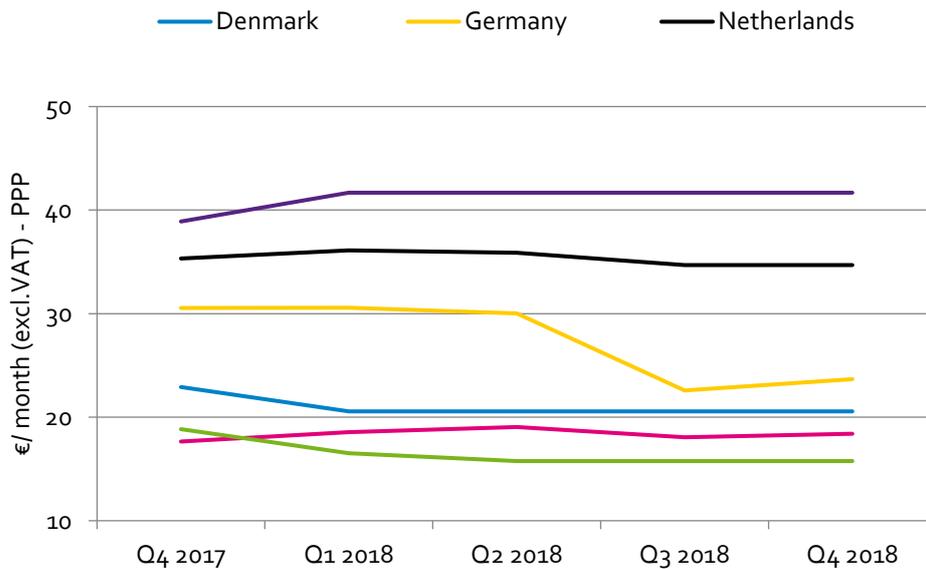
Source: Comreg

⁴³ OECD Business Standalone Fixed Voice 260 calls (606 minutes)

⁴⁴ ComReg uses independently collated Strategy Analytics (Teligen) pricing data using OECD-approved methodologies to examine the relative prices of several specific fixed voice usage baskets of national and international telecoms services for both residential and business users. The pricing data used for international comparisons currently includes pricing information for selected countries, namely Germany, Denmark, Spain, Netherlands and the UK.

⁴⁵ OECD Business Fixed Broadband 60GB Basket (>25Mbps)

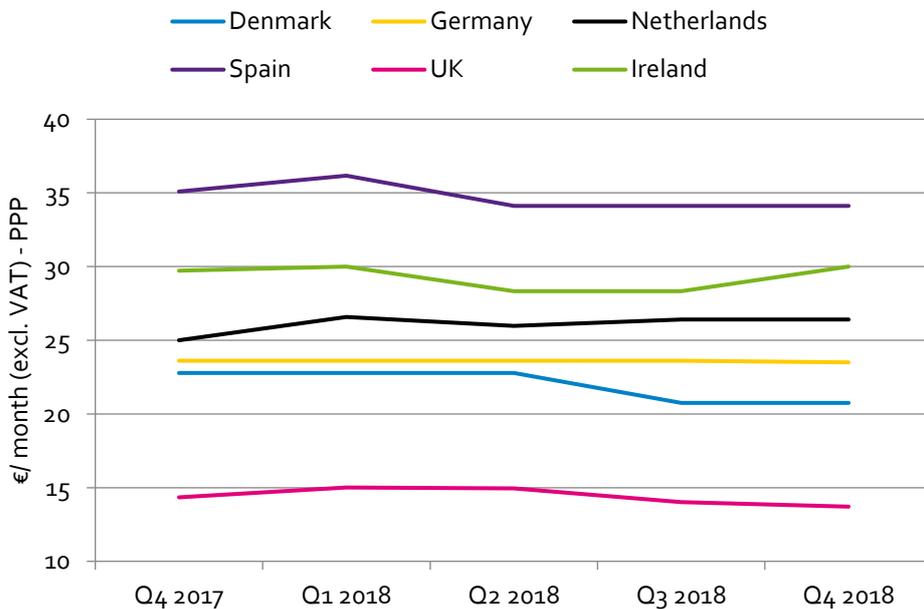
Figure 6.9: Business Mobile Broadband, € per month excluding VAT



Mobile Broadband prices have fallen slightly in Ireland in the last four quarters. Prices in most of the countries presented remained relatively stable. Though there was a significant fall in prices in Germany between Q2 and Q3 2018. At €15.76 in Q3-Q4 2018, Ireland had the lowest cost among the benchmarked countries since the first quarter of 2018 overtaking the UK.

Source: Comreg

Figure 6.10: Business post-paid mobile phone services, € per month excluding VAT



After the early decline, Business bill pay mobile services in Ireland remained stable in the first three quarters of 2018 before going up in the last quarter. At €30/month in Q4 2018, Ireland had the 2nd highest price among the benchmarked countries. The UK continued to be the least expensive country during the period with the price falling since Q2 2018 (€13.71).

Source: Comreg

Certain utility costs (including electricity and gas) tend to be higher in Ireland than other jurisdictions, while Ireland is more competitive regarding other utility costs (telecoms). 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. In S1 2018, electricity in Ireland (for those in the low consumption band⁴⁶) cost €0.14/ kilowatt-hour, which

⁴⁶ Band IV (20MWh < consumption < 500MWh) – prices in euro excluding VAT and other recoverable taxes and levies-

is higher than both the UK (€0.12/ kilowatt-hour) and euro area average (€0.10/ kilowatt-hour) price. In the higher consumption band⁴⁷, Irish consumers are still paying more (€0.09) compared to the euro area average (€0.08) but lower than UK (€0.11). Gas prices⁴⁸ in Ireland are in line with the euro area average but higher than the UK prices.

Ireland is relatively cost competitive for telecoms. In Q4 2018, the Business Fixed Broadband 60GB Basket (>25Mbps) cost in Ireland (€42.56) was lower than the UK (€44.4) and slightly above the Netherlands (€41.9)⁴⁹. However, the high post-paid mobile broadband costs in Ireland (€30) compared less favourably to the UK (€13.71)⁵⁰.

⁴⁷ Band IE (2000MWh < consumption < 7000MWh) – prices in euro excluding VAT and other recoverable taxes and levies

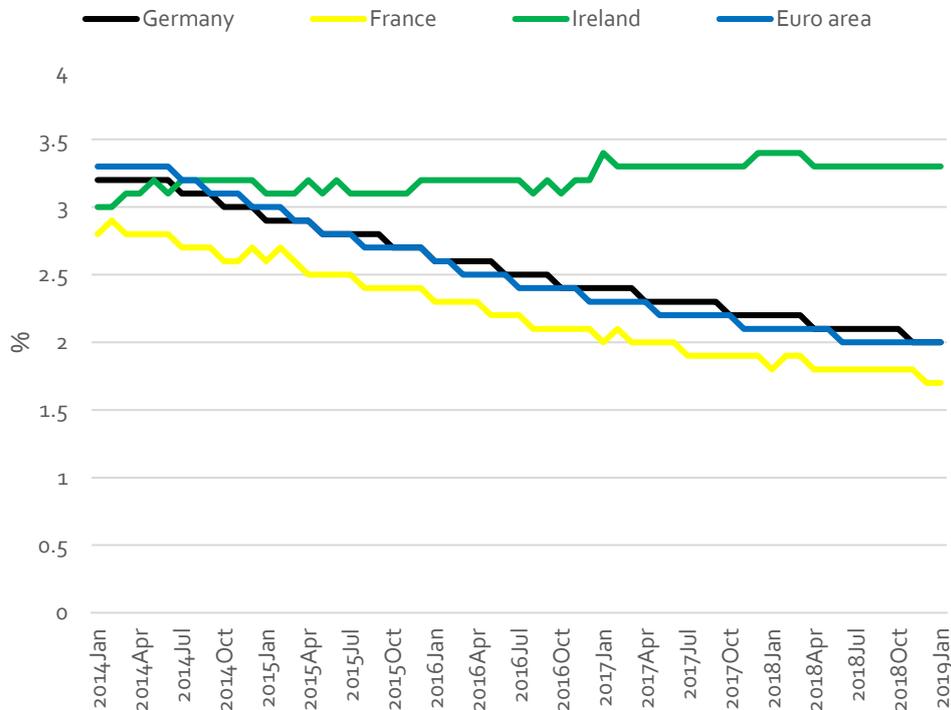
⁴⁸ PPS for business consumers

⁴⁹ <https://www.comreg.ie/publication-download/quarterly-key-data-report-q4-2018>

⁵⁰ <https://www.comreg.ie/publication-download/quarterly-key-data-report-q4-2018>

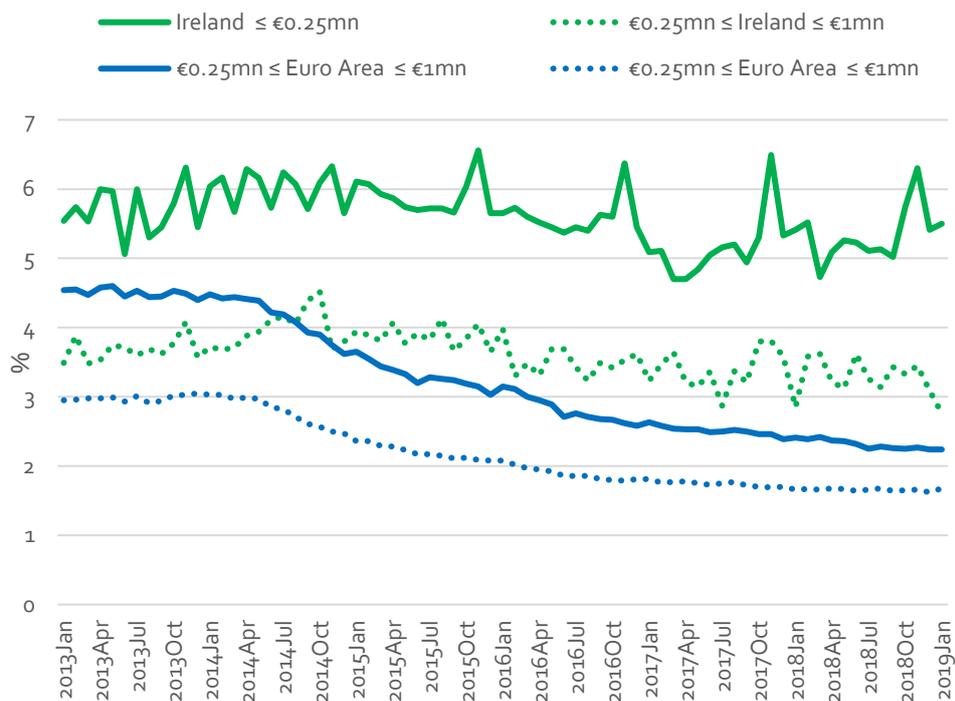
Chapter 7 – Credit and Financial Costs

Figure 7.1: Interest Rates for Non-Financial Corporations, selected countries



Source: MIR dataset, ECB

Figure 7.2: Interest Rates for Non-Financial Corporations (new business) by loan size, selected economies



Source: MIR data, ECB

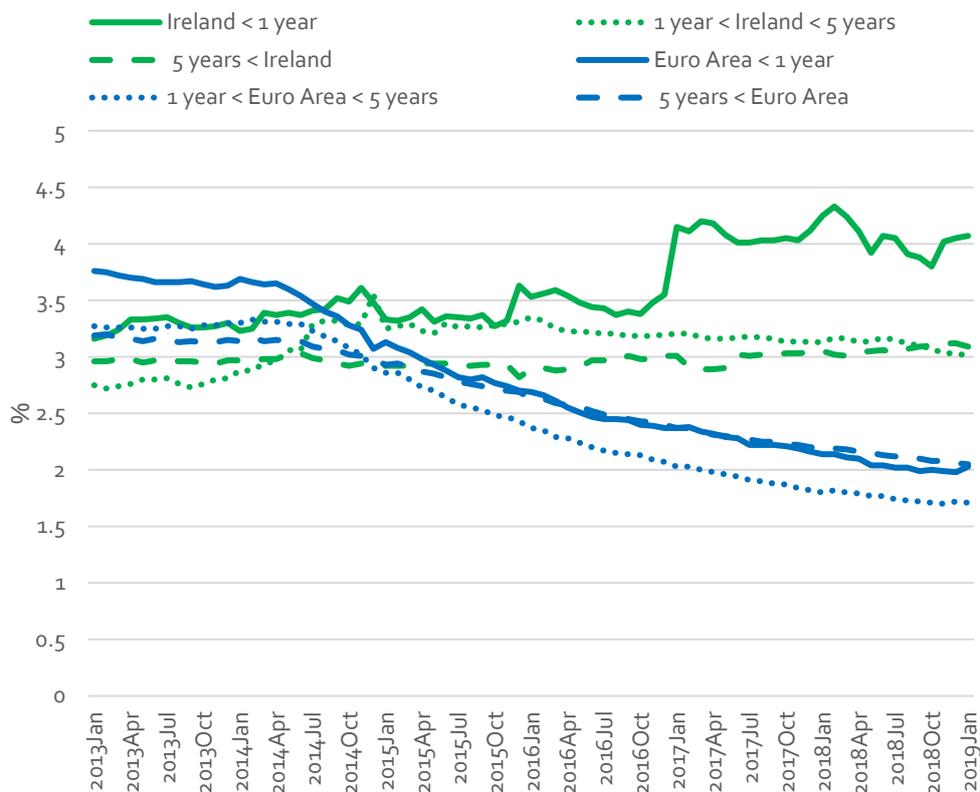
In 2014, Irish companies faced lower interest rates (3%) when compared to euro area companies (3.3%).

However, there has been a marked divergence since then. Irish interest rates have increased (3.3% in January 2019) while interest rates in the euro area have fallen to just under 2%. In France, the interest rate is even lower at 1.74%

On this evidence, Irish companies now face higher rates than they did in 2014.

This figure underlines the interest rate divergence set out in the chart above. In Ireland and the euro area, interest rates are substantially lower on loans that are larger than €250,000 (but smaller than €1 million). But regardless of the loan size, interest rates are higher overall for Irish companies. In Jan 2019, Irish loans under €250,000 had an average interest rate of 5.5% while euro area loans for the same amount had an interest rate of 2.2%.

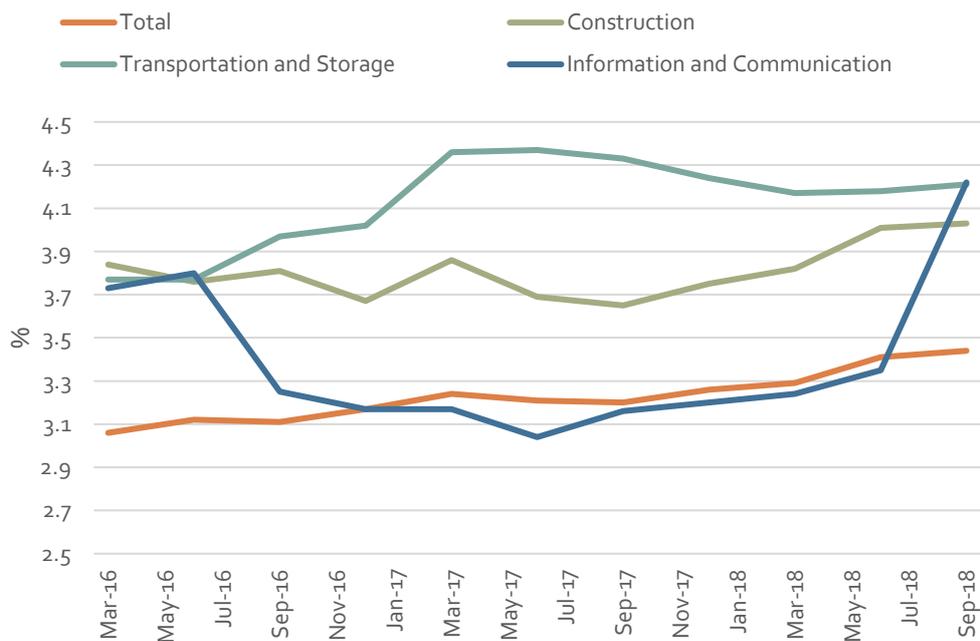
Figure 7.3: Interest rates on outstanding amount for Non-Financial Corporations, by duration



In the years leading up to 2014, interest rates on outstanding amounts were universally lower in Ireland than the euro area. However, since 2016, rates for all durations have been significantly higher in Ireland. In Jan 2019, for short loans (lasting less than a year), Irish firms faced interest rates of 4.1% while the euro area average was 2.1%.

Source: MIR data, ECB

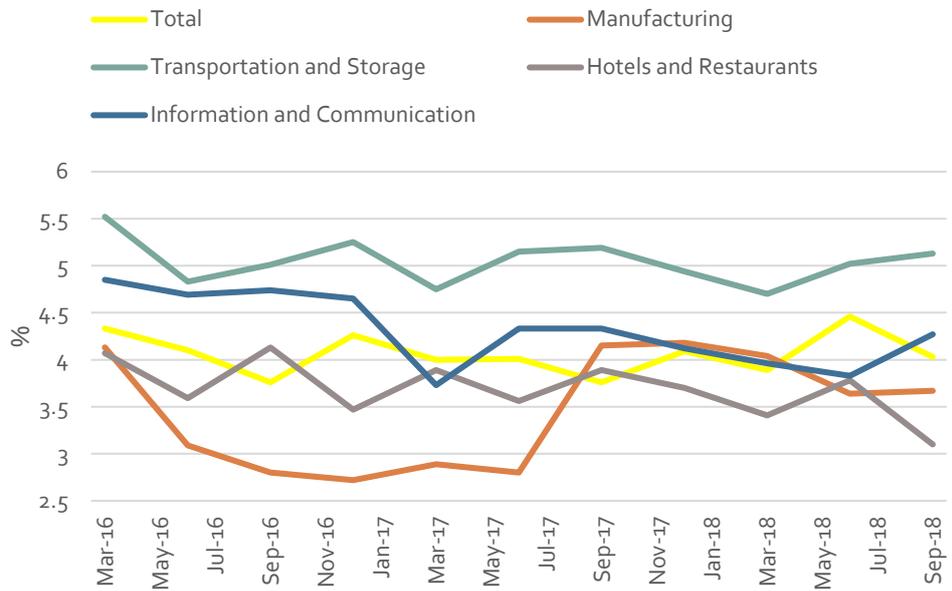
Figure 7.4: Interest Rates for Irish SMEs, selected sectors



The overall average interest rate that Irish SMEs face is 3.4%. However, this masks differences at the sectoral level. This figure shows that interest rates for the transport and storage (4.2%), construction (4.0%), and ICT (4.2%) sectors are much higher than the overall rate. This was not always the case for ICT, which experienced a large jump in late 2018.

Source: Trends in SME and Large Enterprise Credit and Deposits, CBI

Figure 7.5: Interest Rates on Gross New Lending for Irish SMEs, selected sectors



The interest rate on gross new lending for SMEs has remained close to 4%. However, similar to the previous chart, there is an amount of sectoral variation. The interest rate that transport and storage SMEs face (5%) is much higher than the rate on new lending that SMEs in the hotel and restaurant sector face (3.1%).

Source: Trends in SME and Large Enterprise Credit and Deposits, CBI

Businesses in Ireland face higher interest rates than the average business in the EU, or the euro area. This is a consistent feature of the data regardless of intrinsic features of the loan, whether it is large or small, or whether it is for a short or long duration. However, this was not always the case. In 2014, Irish companies faced a similar interest rate (around 3%) to their counterparts in Germany and France, but while the average rate businesses face has dropped in these economies (to around 2%), overall Irish companies face higher rates now (3.3%) than they did in 2014 (3%)⁵¹.

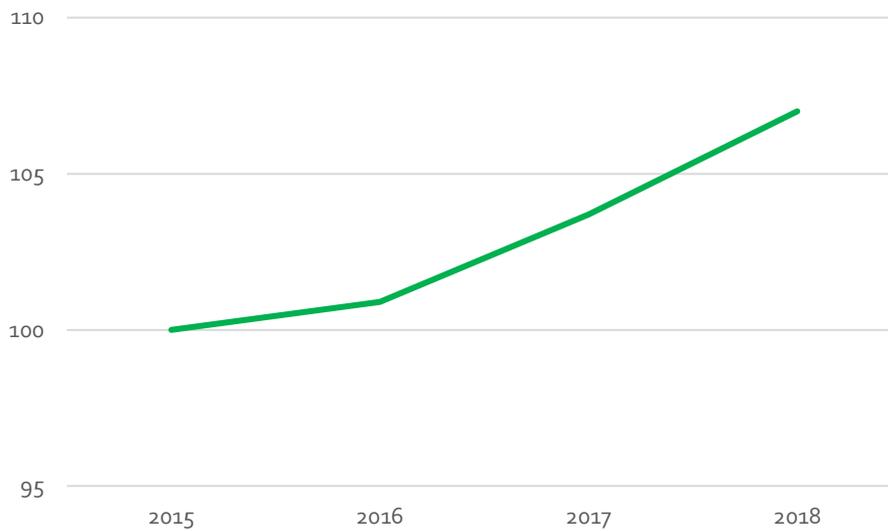
For Irish SMEs, the average interest rate is 3.4%, but there is considerable sectoral variation. SMEs in the transport and storage (4.2%), construction (4%), and ICT (4.2%) sectors are all higher than average interest rates, and the rates on gross new lending for Irish transport and storage SMEs stood at 5.1%⁵² as of September 2018.

⁵¹ ECB, MIR dataset

⁵² CBI, Trends in SME and Large Enterprise Credit and Deposits

Chapter 8 – Business Services and Other Input Costs

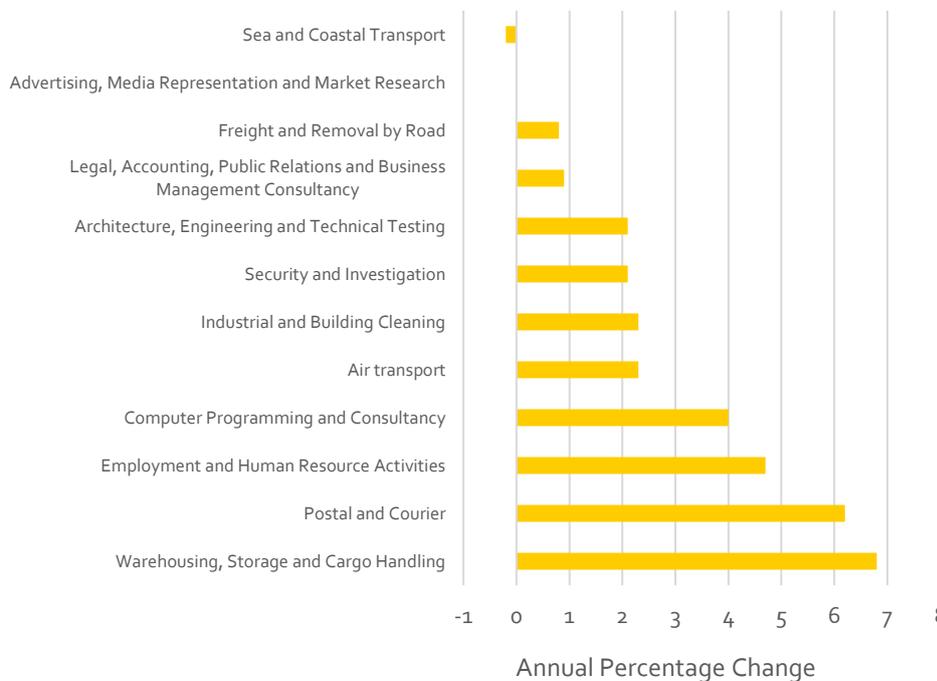
Figure 8.1: Services Producer Price Index, (2015=100)



The Services Producer Price Index shows the changes in the price that services producers receive for their products. In 2018, services producers have been charging the highest prices in the last 3 years. In 2018, services prices were approximately 7% higher than they were in 2015.

Source: CSO (Services Producer Price Index)

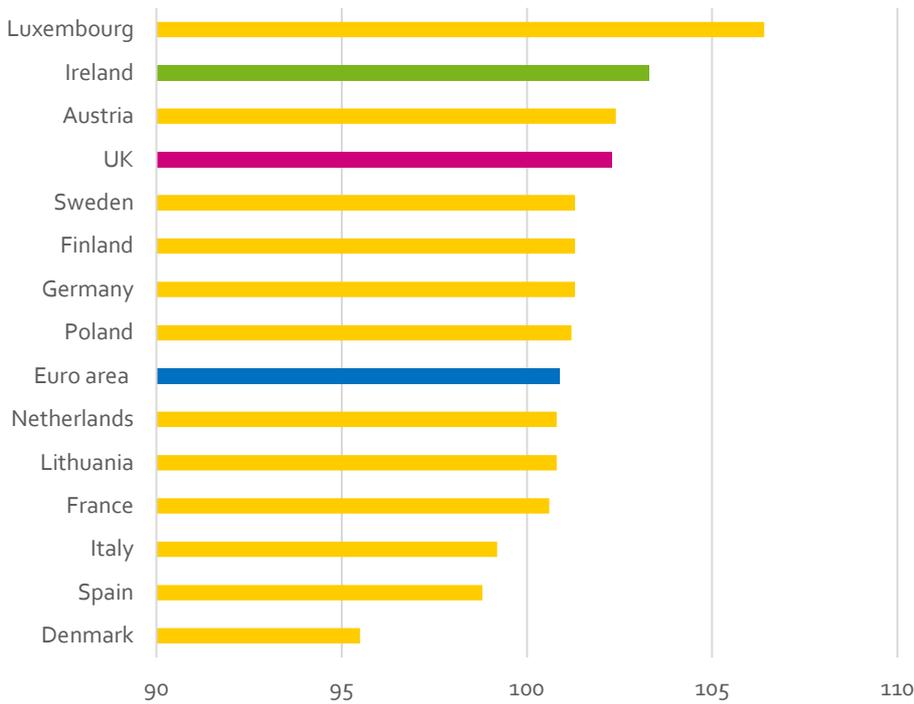
Figure 8.2: Services Producer Price Index, Annual Percentage Change (2018)



While services prices are overall trending upwards, there is considerable variation at a sectoral level on the size of price changes. The price that producers are receiving in sectors like sea and coastal transport and advertising, media and market research have remained stagnant, while warehousing, storage and cargo handling (6.8%) and postal and courier (6.2%) services increased substantially.

Source: CSO Services Producer Price Index

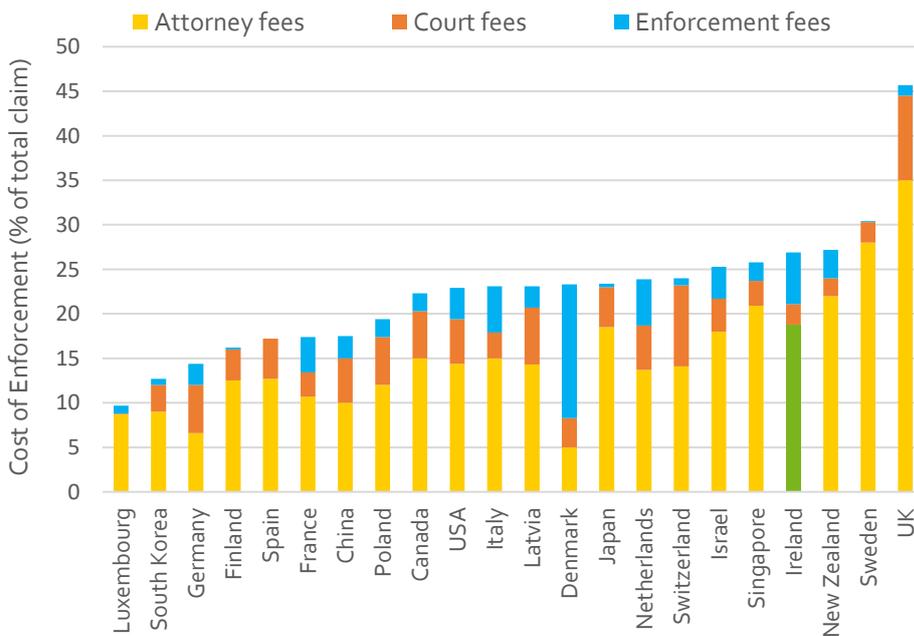
Figure 8.3: Comparison of Services producer prices, 2017 (Index, 2015 = 100)



This figure compares Ireland’s Services Producer Price Index with the corresponding index in other EU Member States. Of the selected countries, only Luxembourg has experienced a faster increase in the prices that services producers receive than that observed in Ireland. In 2017, the prices services producers received were 3% higher in Ireland relative to 2015, while they were 6% higher in Luxembourg. In Denmark, prices were 4.5% lower than the figures for 2015. The corresponding figure for the euro area was 0.9%.

Source: Eurostat Services producer prices - annual data

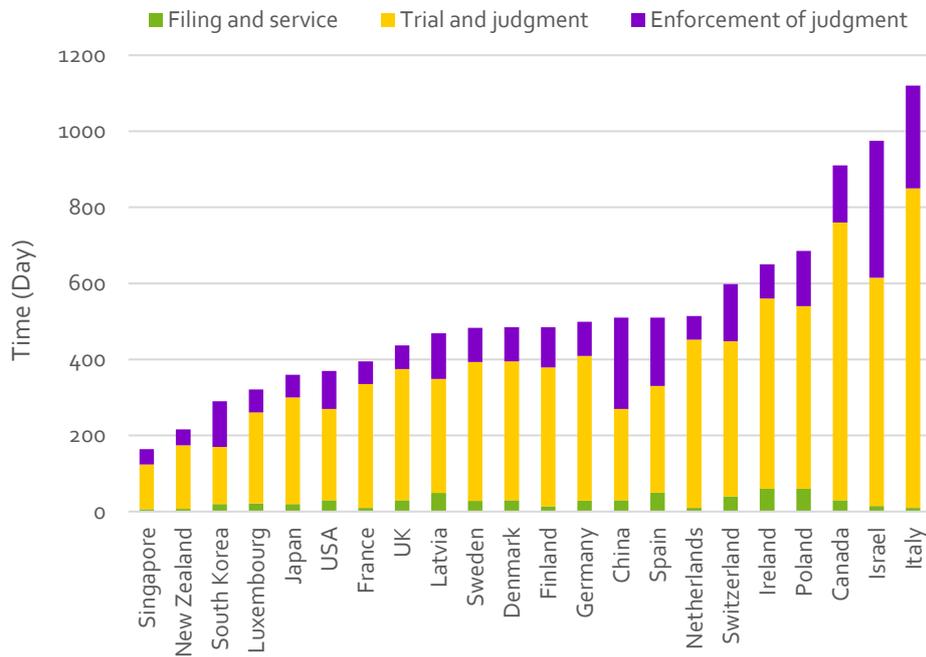
Figure 8.4: The cost of enforcing a commercial contract



Ireland is a relatively expensive location in which to resolve a commercial dispute through a first-instance court. The total cost of enforcing a contract was 27% of the total award, with lawyer’s fees accounting for the bulk (70%) of the cost. Enforcing contracts in the UK was the most expensive relative to the award (46%), compared to 27% in Ireland.

Source: World Bank Doing Business 2019

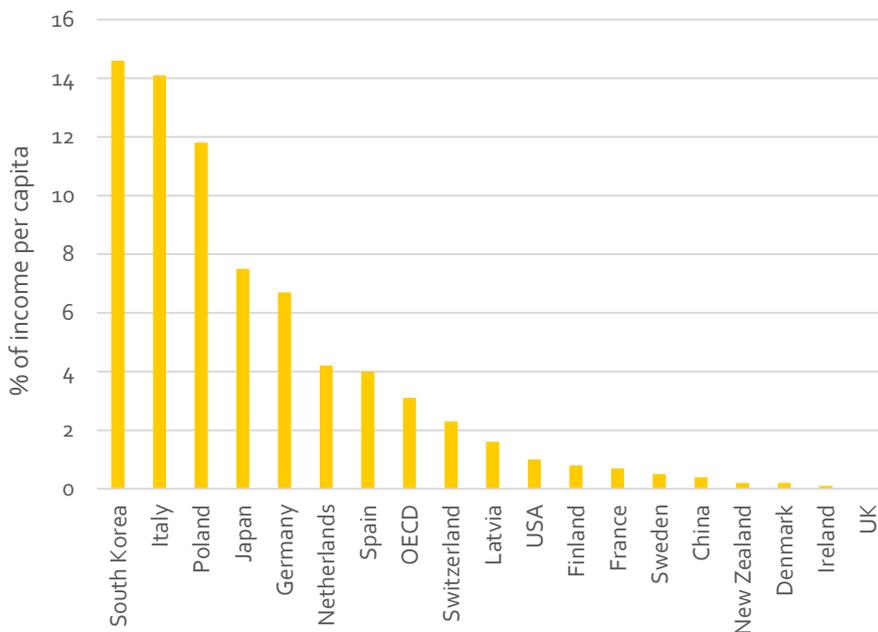
Figure 8.5: Time to enforce a commercial contract, 2018



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

Source: World Bank Doing Business 2019

Figure 8.6: Cost of starting a new business (% of income per capita)

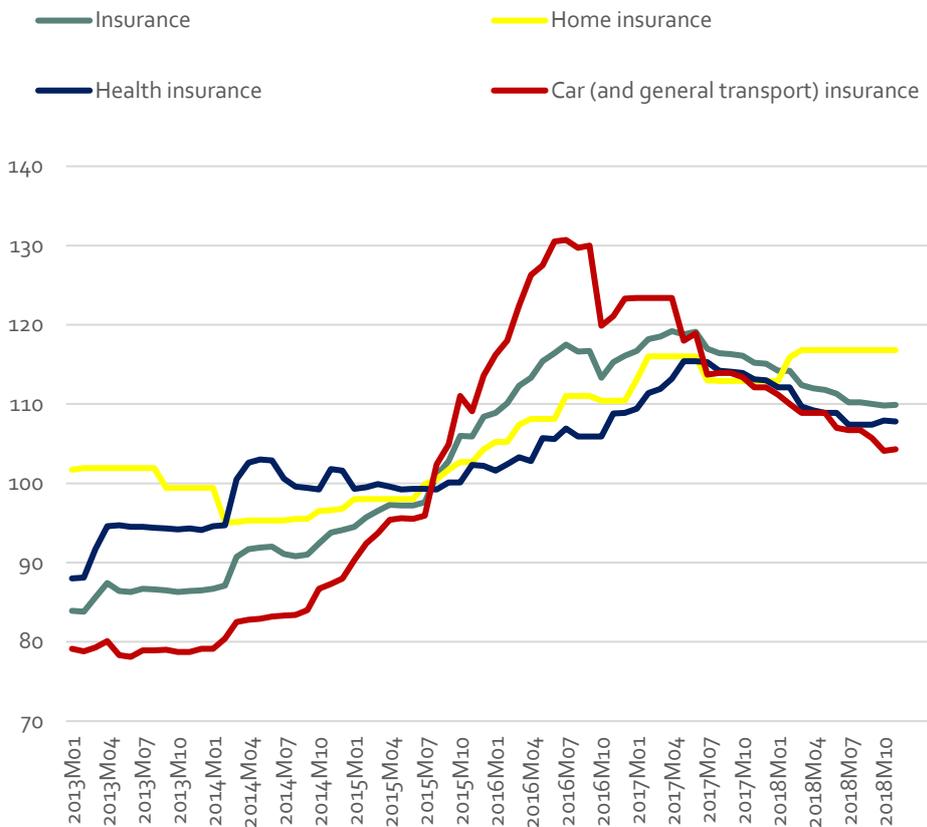


In the last five years, Ireland has maintained its competitive position in terms of the cost to register a business as a percentage of gross national income.

In 2018, registering a business in Ireland cost an amount equal to approximately 0.1% of GDP/ capita. This compares favourably with the OECD average (3.1%) and South Korea (14.6%).

Source: World Bank Doing Business 2019

Figure 8.7: Consumer Insurance Costs (2015=100)

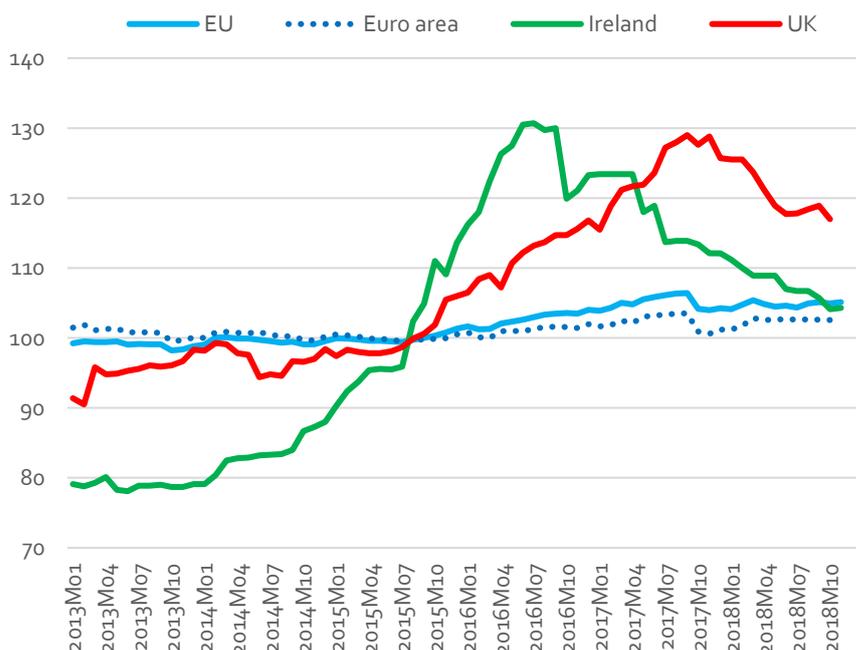


Headline inflation has been relatively stable in recent years, but there have been big changes in the price of car and general transport insurance.

In Q3 2016, car insurance was 30% higher than it was in 2015. Since then prices have normalised, and now prices are 4% higher than the 2015 figure, but still 32% higher than they were in 2013.

Source: CSO Harmonised Consumer Price Index

Figure 8.8: Price of car (and other transport) insurance (2015=100)



The price of car, and general transport, insurance in Ireland increased rapidly up to the end of 2016, but has since experienced deflation. This means that insurance inflation in Ireland from 2015 to now is like the EU and euro area average. In the UK prices are substantially higher now than they were in 2015.

Source: Eurostat Harmonised Index of Consumer Prices

In Ireland, the overall price of services is rising much faster than the price of goods. In total, the price of services has increased by 7%⁵³ since 2015, but this masks widely different changes in the price of certain services. For example, the price of warehouse, storage and cargo handling services increased by 6.2%, while sea and coastal transport prices declined by 0.2%.

When compared to other EU countries, services prices are rising relatively quickly in Ireland, with Luxembourg being the only economy measured where services prices increased faster than Ireland. In Denmark, services producer prices declined since 2015, and are now around 4.5% lower than they were in 2015⁵⁴.

Insurance costs, which increased rapidly in Ireland from 2013 to 2016, have decreased since the end of 2016. The price of car (and other transport) insurance is now roughly what it was in 2015 (like the EU and euro area average)⁵⁵.

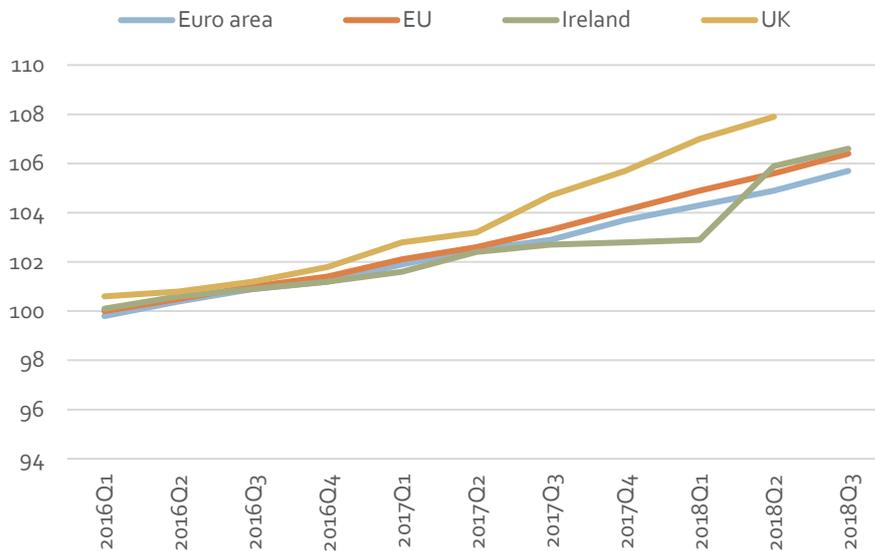
⁵³ CSO, Services Producer Price Index

⁵⁴ Eurostat, Services Producer Prices, Annual Data (2017 figure)

⁵⁵ Eurostat, HICP (November 2018)

Chapter 9 – Focus on Residential Property and Childcare Costs

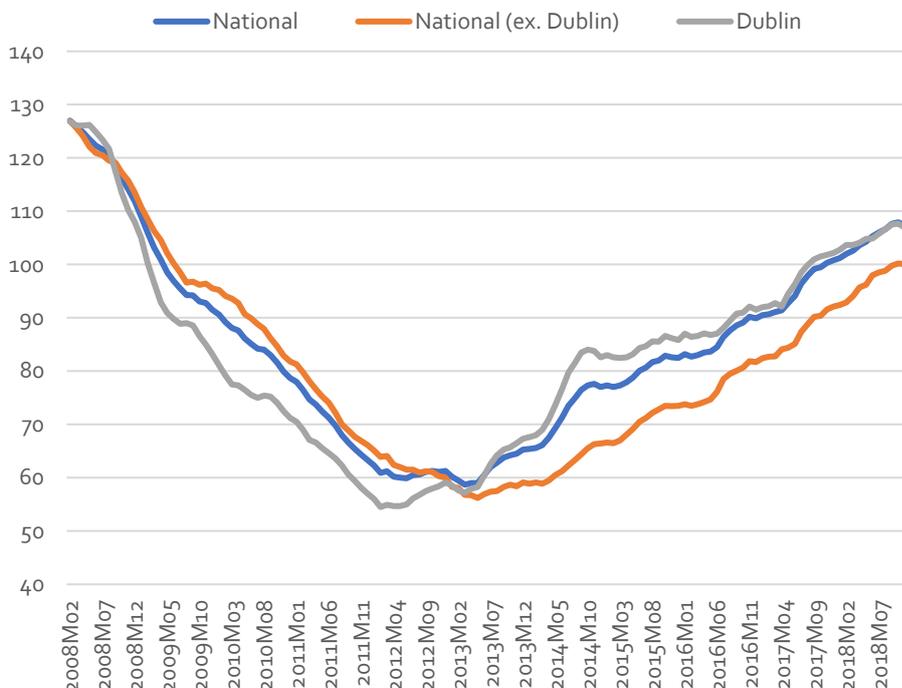
Figure 9.1: Residential Construction Cost Index, 2015 = 100



The Q3 2018 figure demonstrate that the costs incurred by contractors when building residential property have been on the increase in all the selected economies since 2016. Costs have exhibited the fastest increase in the UK (7.9% in Q2 2018). Cost increases in Ireland (6.6%) are broadly in line with those in the rest of the EU and euro area (5.7%).

Source: Residential Construction Cost Index, Eurostat

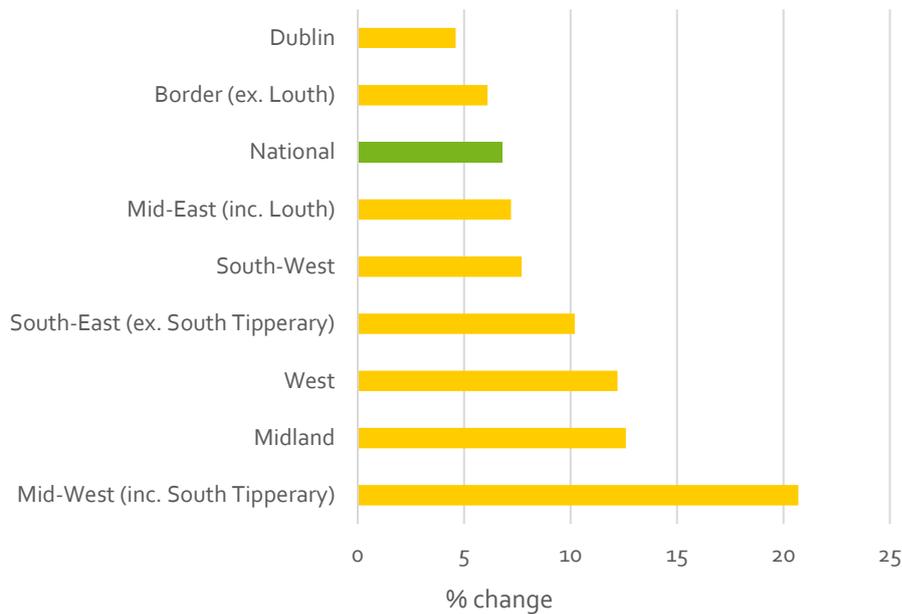
Figure 9.2: Residential Property Price Index, Ireland (Jan 2005 = 100)



This figure shows the large decline in the price of residential property over the 2008- 2013 period – a trend that was observed in Dublin and throughout the country. Since 2013, property prices nationwide have been increasing, and are now roughly at the level they were in January 2005, though well below their peak levels in April 2007.

Source: Residential Property Price Index, CSO

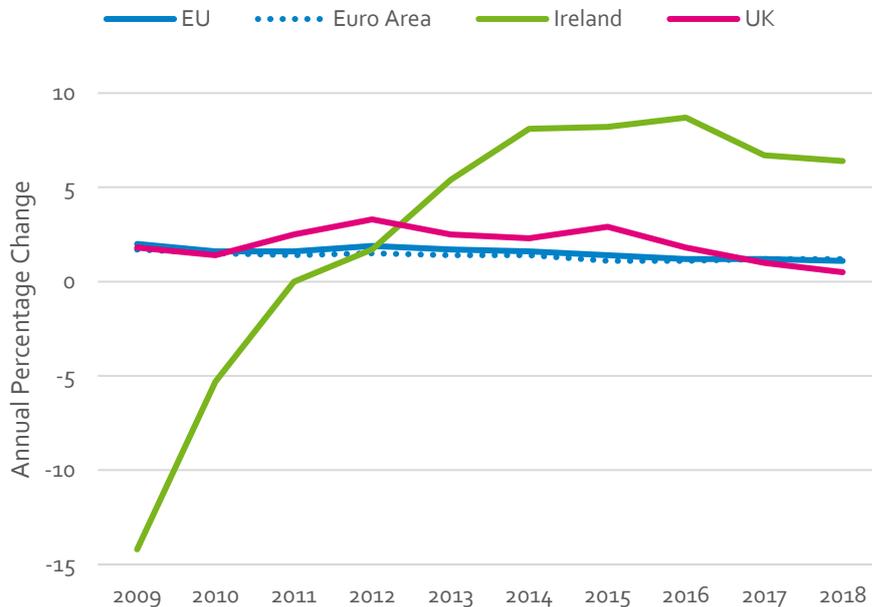
Figure 9.3: Residential Price Index (Houses), Average Percentage Change (in the year to November 2018)



While national property prices increased by 7% in the year to November 2018, there was more muted price increases in Dublin (4.6%), and double digit increases in the South-East (10.2%), West (12.2%), Midlands (12.6%), and Mid-West (20.7%).

Residential Property Price Index, CSO

Figure 9.4: Annual Average Change in Rents, 2009 - 2018

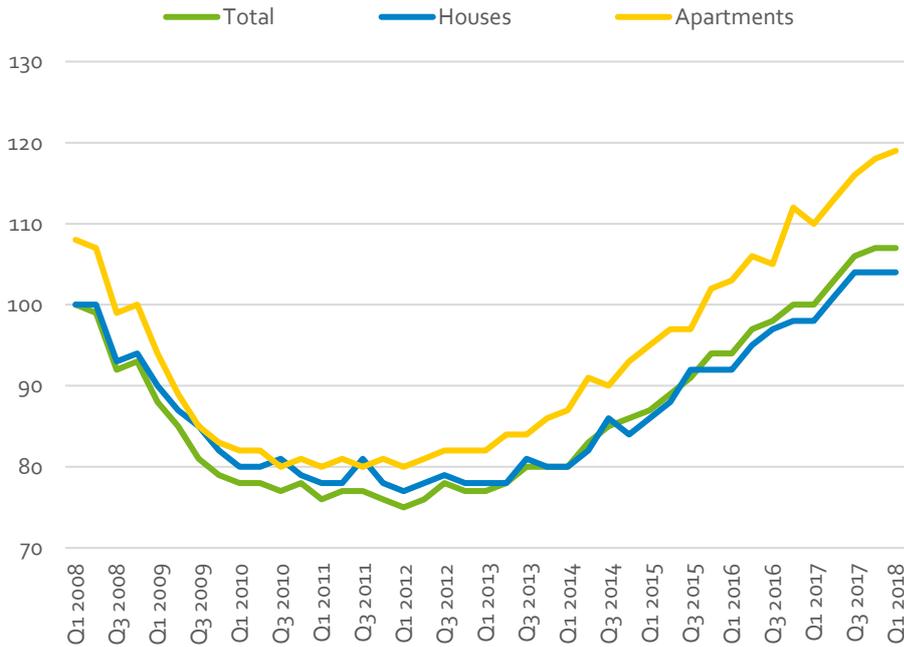


In tandem with the increase in the price of residential property, there have been large increases in rents in Ireland since 2012.

In 2018, Irish rents increased by 6%, far more than the EU (1%), euro area (1%), or the UK (1%).

Source: HICP, Eurostat

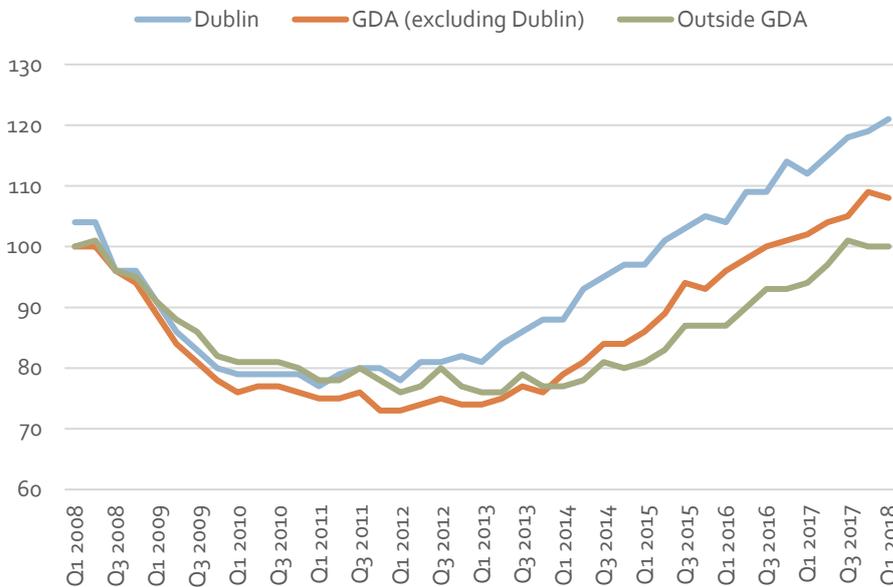
Figure 9.5: Residential Tenancies Board, National Rent Index (2007 = 100)



This broad increase in rents in Ireland since 2012 has been across both houses and apartments. The rental price of both houses and apartments in Ireland has now surpassed the 2008 figures. In Q1 2018, the rental price of an apartment in Ireland was 19% higher than it was in 2007. The corresponding figure for renting a house was 4% higher.

Source: Residential Tenancies Board

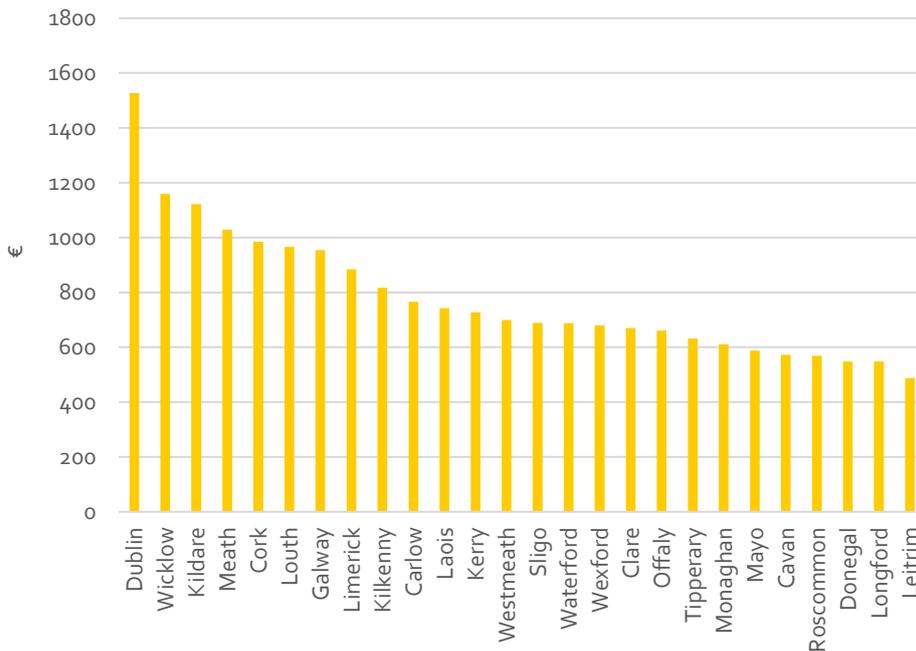
Figure 9.6: Rent Index, regional variation (2007=100)



The regional breakdown of the rental price index shows that rents nationwide have broadly followed the same trend. At the start of 2012, rents were roughly 20% lower than they were in 2007. In Q1 2018, rents were equal to or above rents in 2012. Rents in Dublin, and the Greater Dublin Area have increased faster than the rest of the country.

Source: Residential Tenancies Board

Figure 9.7: Average Rents, broken down by county (Q1 2018)

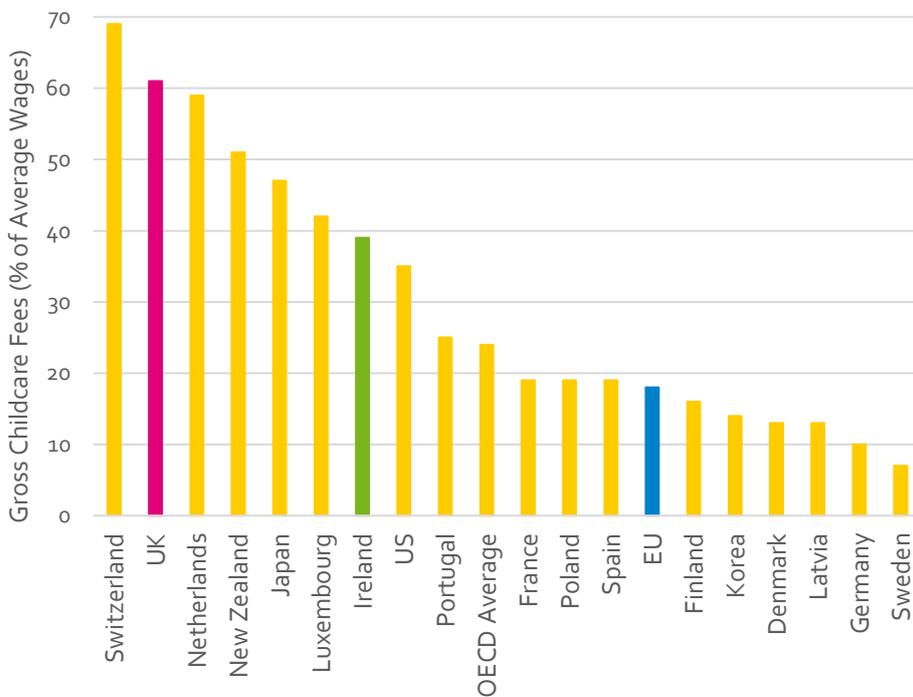


The average rents that are paid in each county reveal large differences throughout the country.

In Q1 2018, the highest average rent was in Dublin (€1,527), while the lowest average rent was in Leitrim (€487).

Source: Residential Tenancies Board

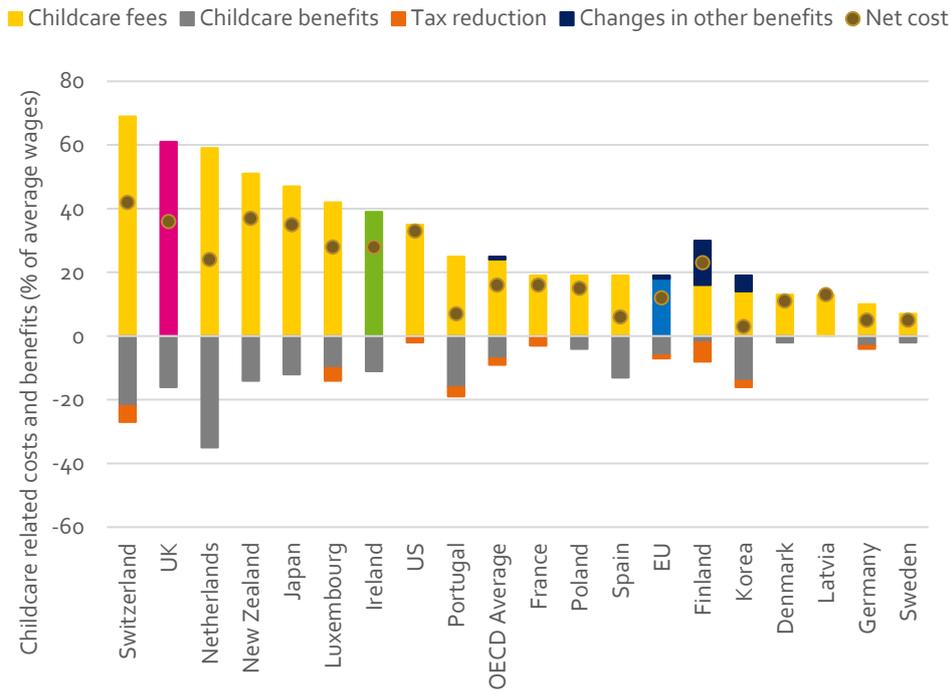
Figure 9.8: Gross full-time childcare fees (2 children), as percentage of average wage (2018)



Gross childcare fees in Ireland are relatively high compared to the OECD, and EU averages. For two children in full-time care, the gross fees are 39% of the average wage, compared to an OECD average (24%) and the EU average (18%). However, Ireland does compare well to the UK (61%) and Switzerland (69%).

Source: Childcare Costs Statistics, OECD

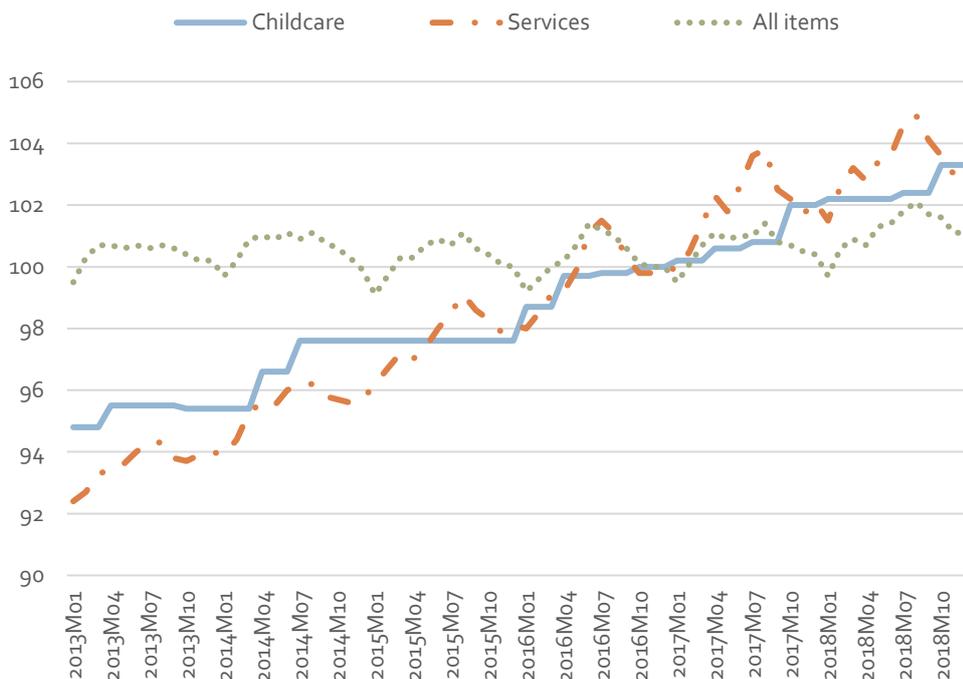
Figure 9.9: Out-of-pocket childcare costs for a two-earner couple family, 2018



When looking at the net childcare cost, there are the different models that OECD countries use to ease the cost of childcare. In Ireland, the net cost of childcare is 28% of the average wage, with the reduction due to childcare benefits. In the UK, the corresponding figure was 36%, while the EU average was 12%.

Source: Childcare Costs Statistics, OECD

Figure 9.10: Childcare inflation compared to overall and services inflation, Dec 2016 = 100



This figure shows the trend in the price of childcare services and compares it to overall inflation and inflation in services. It shows that while childcare costs have been rising in recent years, this increase is in line with the observed increases in services prices.

Source: CPI, CSO

Real wages are the key measure of how well-off a person feels – real wages account for what a person can buy with the wages they receive – and so consider price changes. If prices are increasing faster than nominal wages, then real wages are declining, and people are becoming less well off. The Competitiveness Council have decided to include a chapter that looks specifically at residential property costs and childcare costs given the importance of these items and because of their impact on wage pressures, and the competitiveness of firms and of Ireland as a place in which to do business.

Residential property prices have been growing consistently across the country since a low point in early 2013⁵⁶. Property prices are now roughly where they were at the start of 2005. Irish rents have also been growing since 2013 and have been increasing by over 5% per annum for the last four years⁵⁷. According to the Residential Tenancies Board⁵⁸, the average rent in Dublin was €1,527 in Q1 2018.

⁵⁶ CSO, Residential Property Price Index (Nov 2018 figure)

⁵⁷ Eurostat, HICP

⁵⁸ Residential Tenancies Board, Rent Index 2018

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