Benchmarking Ireland's Competitiveness 2010

Forfás

National Competitiveness Council

Annual competitiveness reports

Volume 1: *Benchmarking Ireland's Performance*

Volume 2: *Ireland's Competitiveness Challenge*

What is competitiveness?

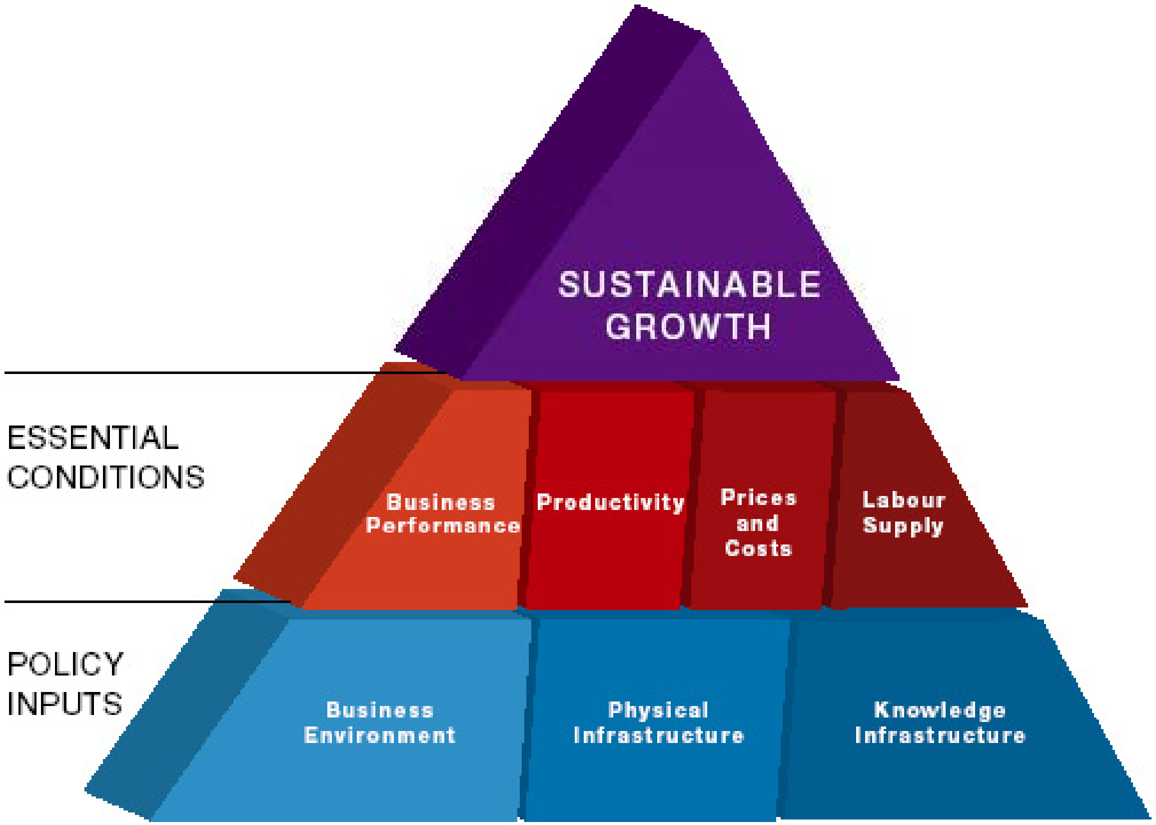
Competitiveness encompasses all those factors which impact on the ability of firms in Ireland to compete on international markets in a way which provides our people with the opportunity to improve their quality of life.

Key findings

- Competitiveness is improving:
  - costs are falling;
  - skills availability has improved;
  - pressures on infrastructure have weakened as demand has fallen and as major projects are completed; and
  - some exporting sectors are performing relatively well.

- However significant challenges remain:
  - high levels of unemployment;
  - high private and public debt levels;
  - a high cost base;
  - weak productivity performance; and
  - limited access to new credit.

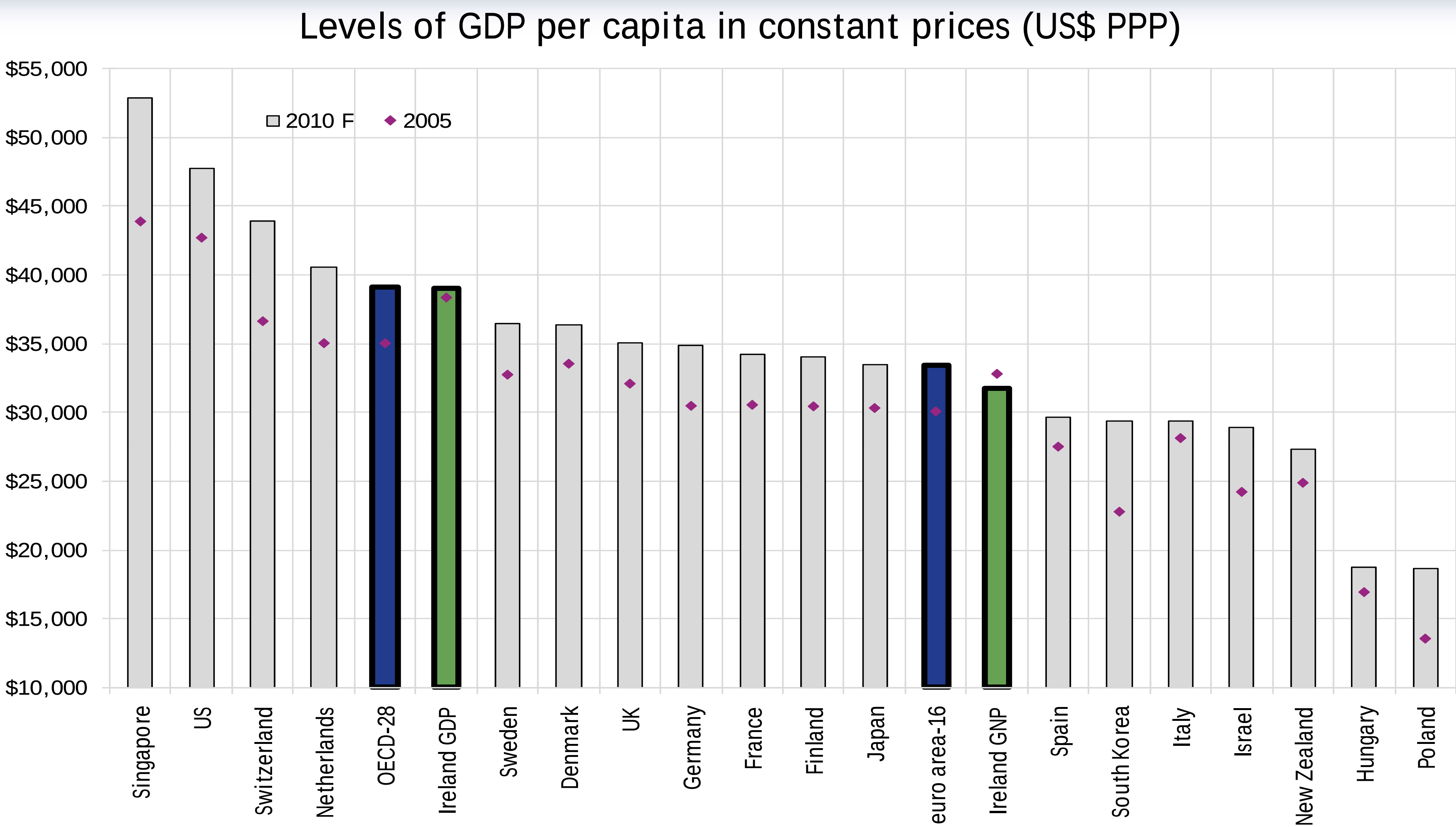
1. Ireland's Competitiveness – where we stand



Sustainable Growth:

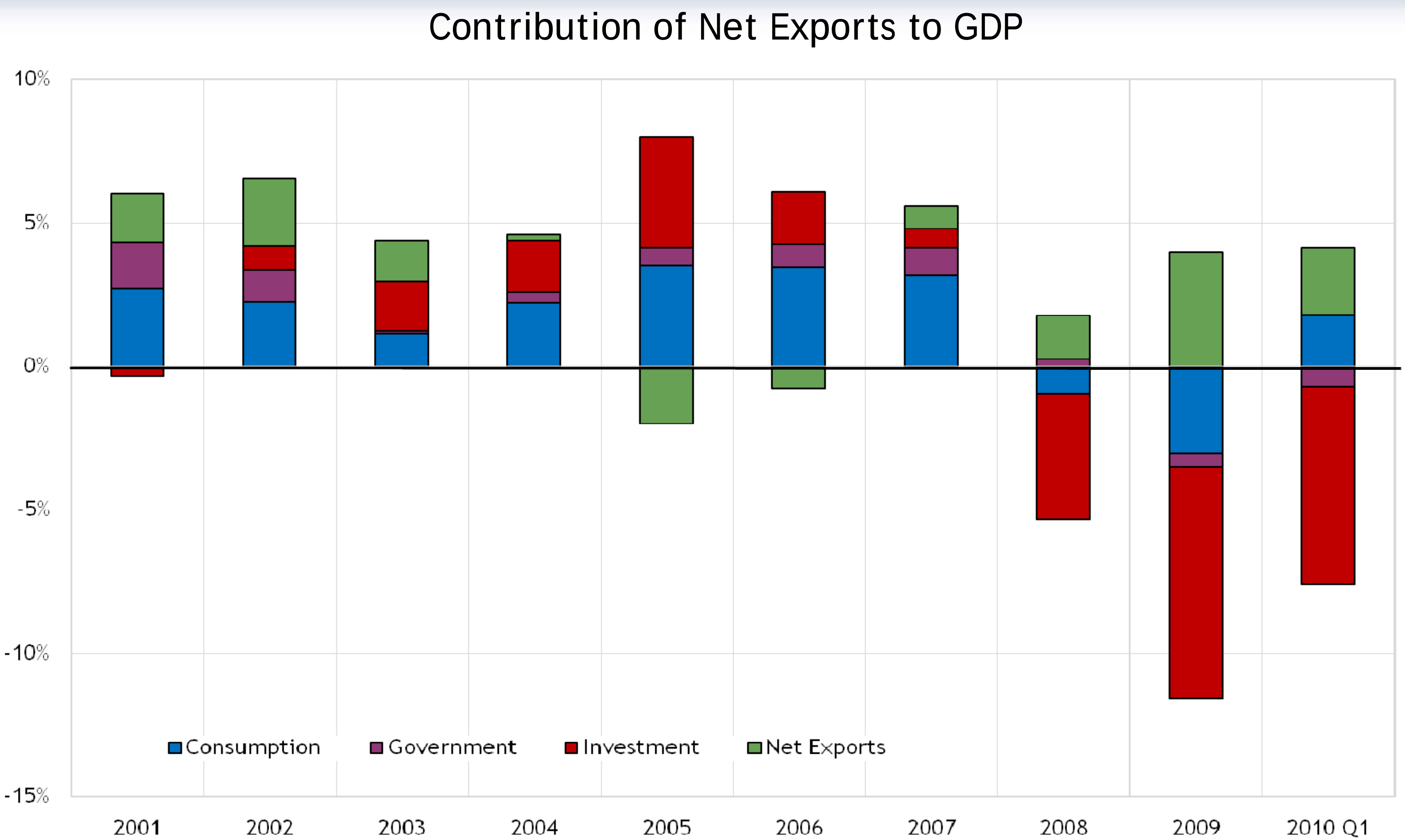
- national income,
- quality of life, and
- environmental sustainability

Despite the sharp decline in Irish living standards, national income levels (GNP based) remain close to euro area average



Source: IMF, World Economic Outlook, April 2010

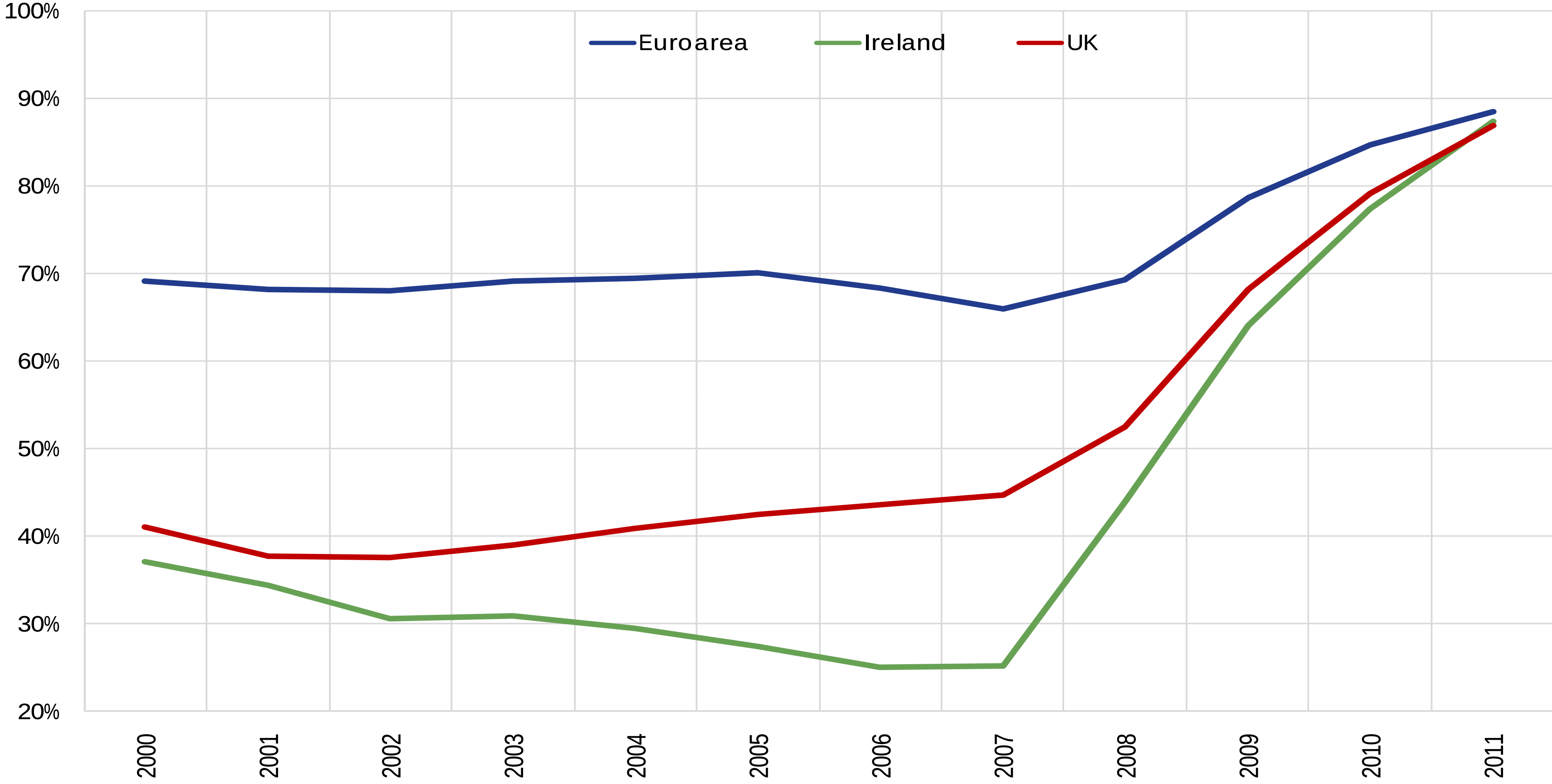
Strong positive contribution from net exports...but driven by large decline in imports.



Source: Forfás calculations, CSO National Accounts.

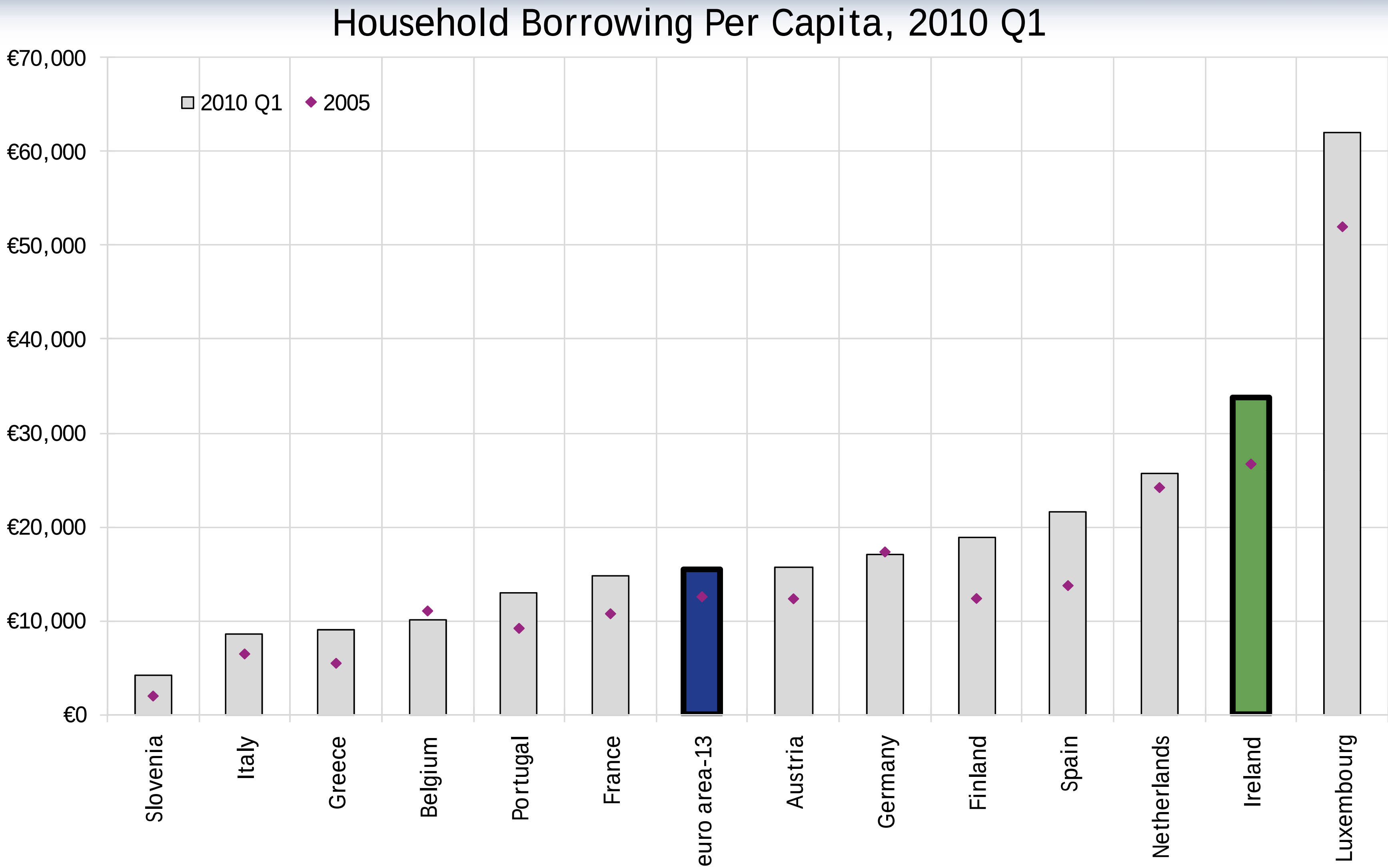
Public debt is growing rapidly

General Government Debt (as a % of GDP), 2000-2011F



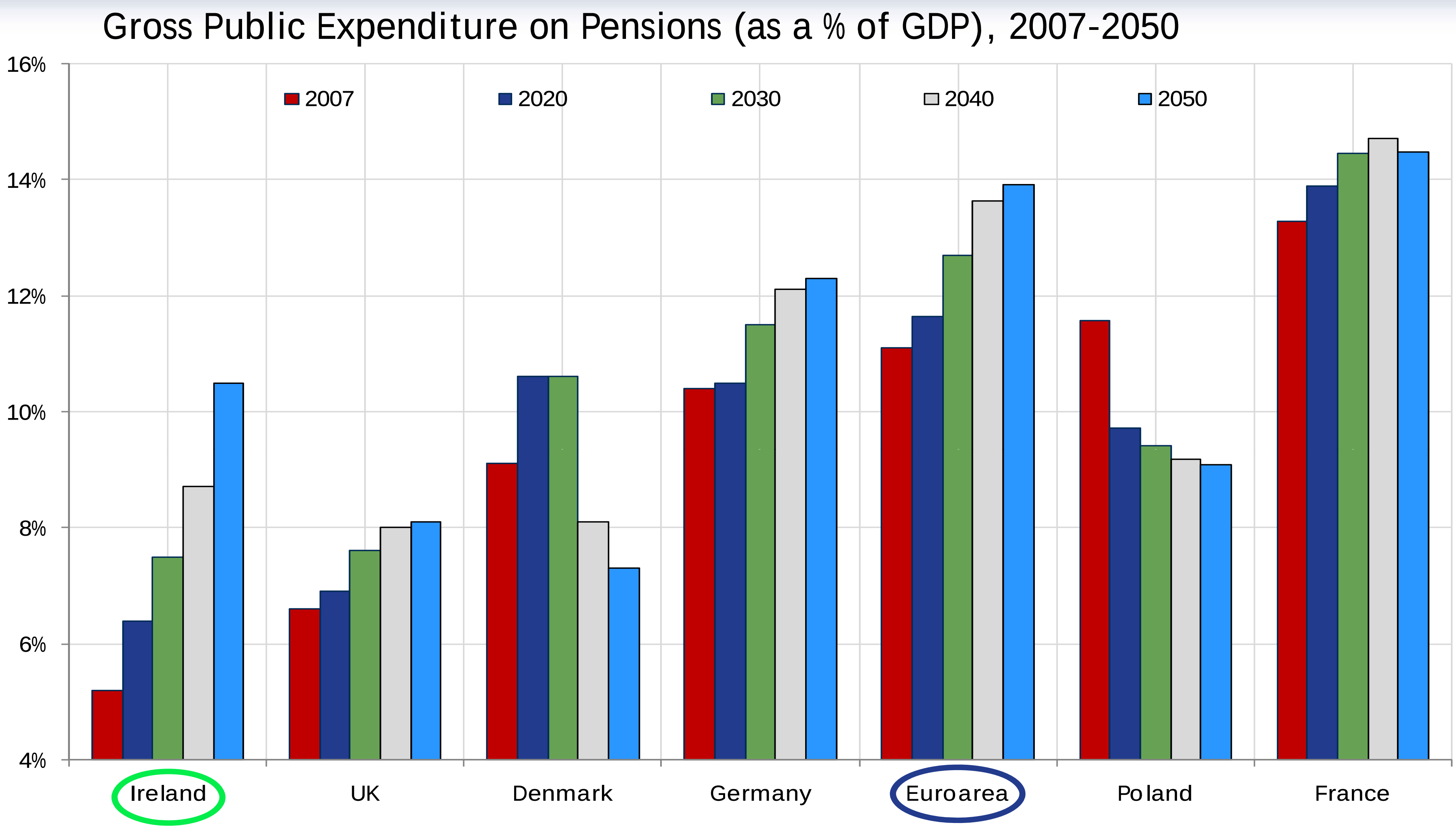
Source: Eurostat, Economy and Finance; and European Commission, Spring Economic Forecasts May 2010

Very high levels of household debt are moderating but remain a drag on recovery



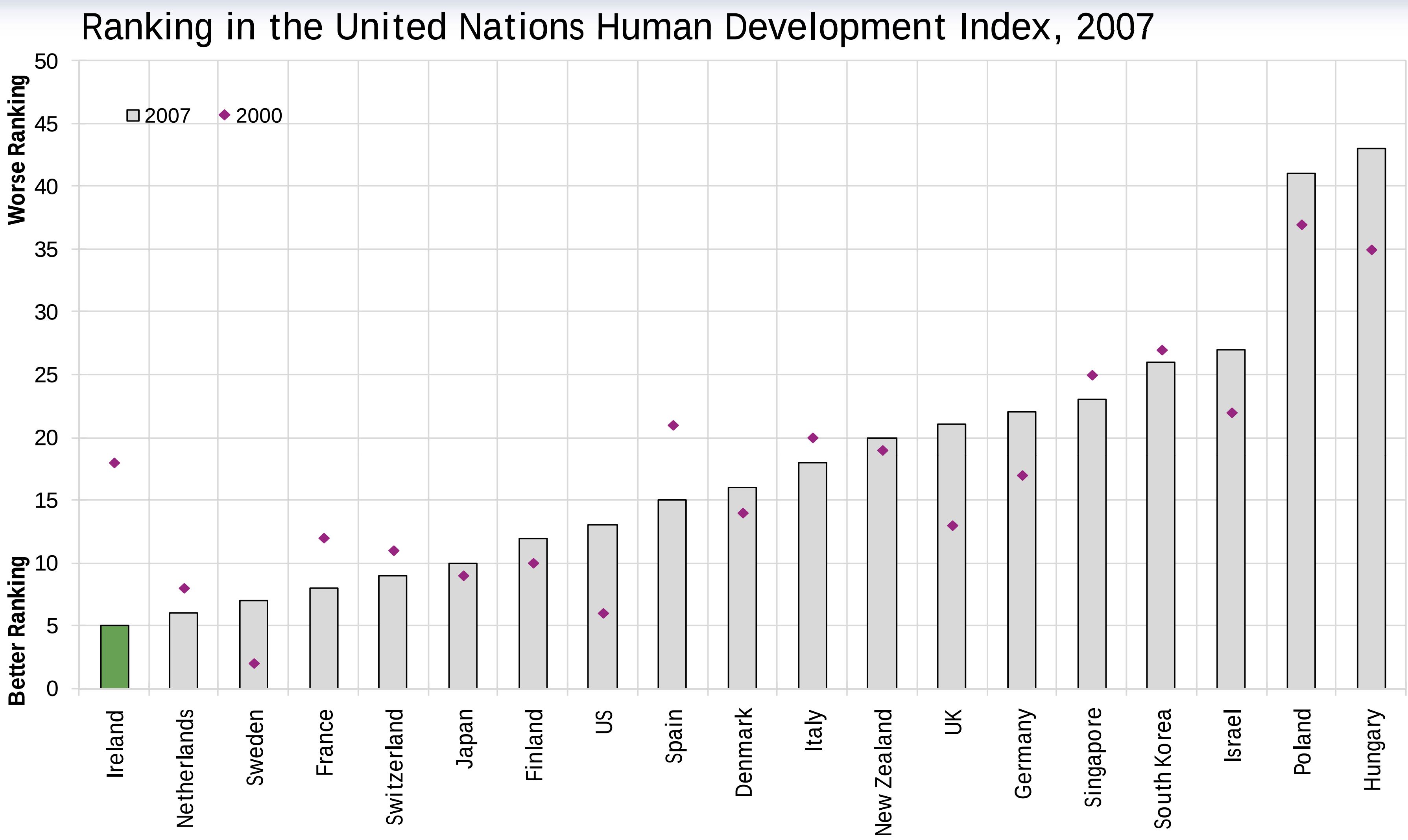
Source: European Central Bank, Aggregated Balance Sheet of euro area Monetary Financial Institutions

Ireland has demographic advantages but ageing population will put pressure on public finances



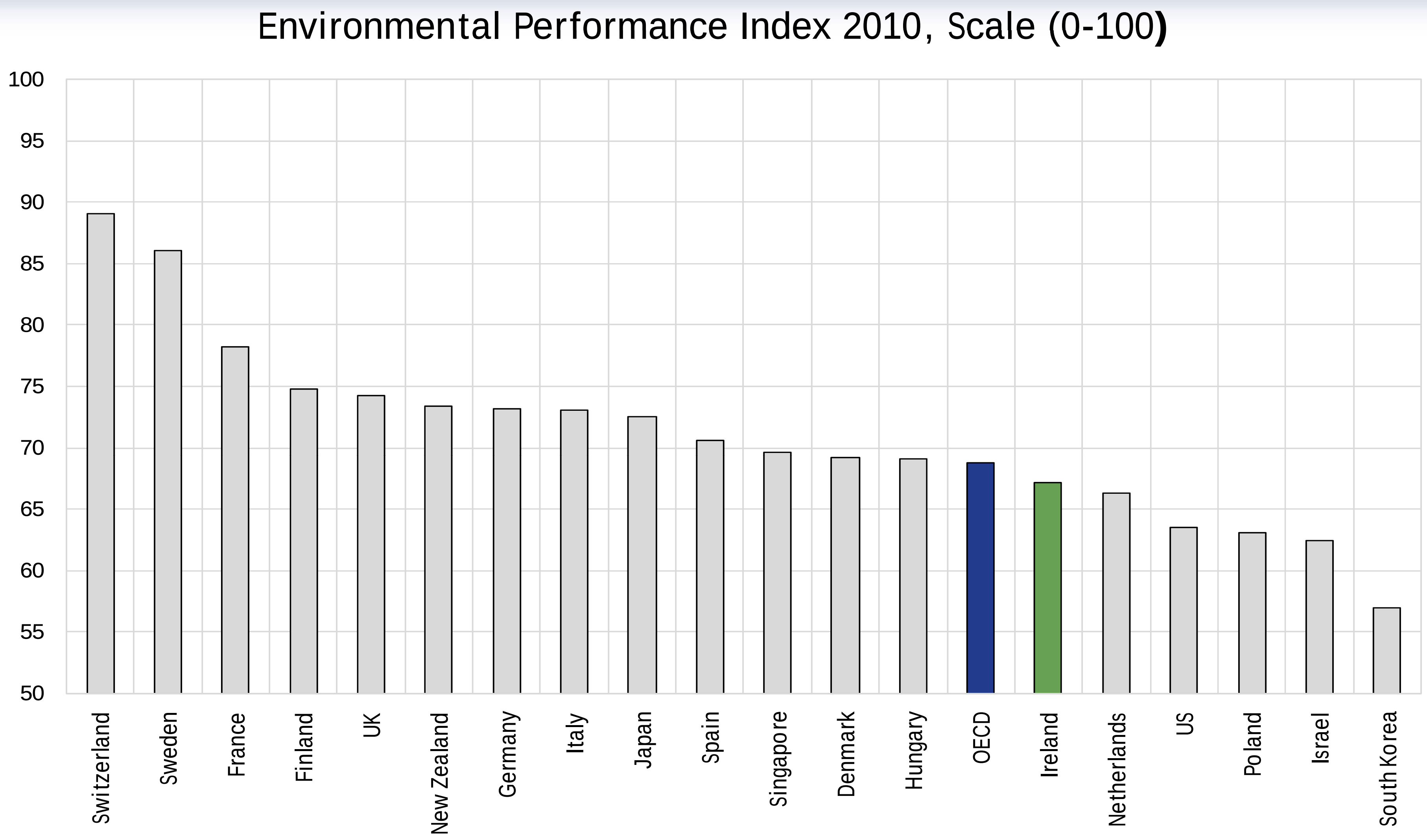
Source: European Commission, DG EcoFin, Pension schemes and pension projections in the EU-27 members, October 2009.

Ireland has made real improvements in quality of life over the past decade



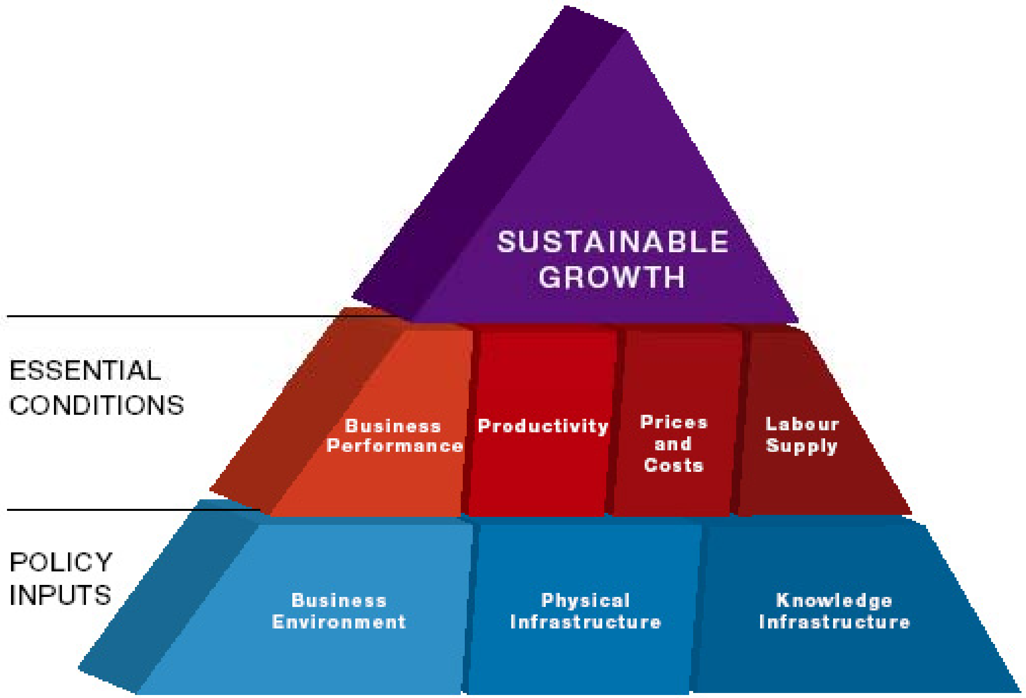
Source: Source: UN Human Development Indices, A Statistical Update, 2009

Ireland's environmental performance is marginally below the OECD average



Source: Yale Centre for Environmental Law and Policy

Essential Conditions



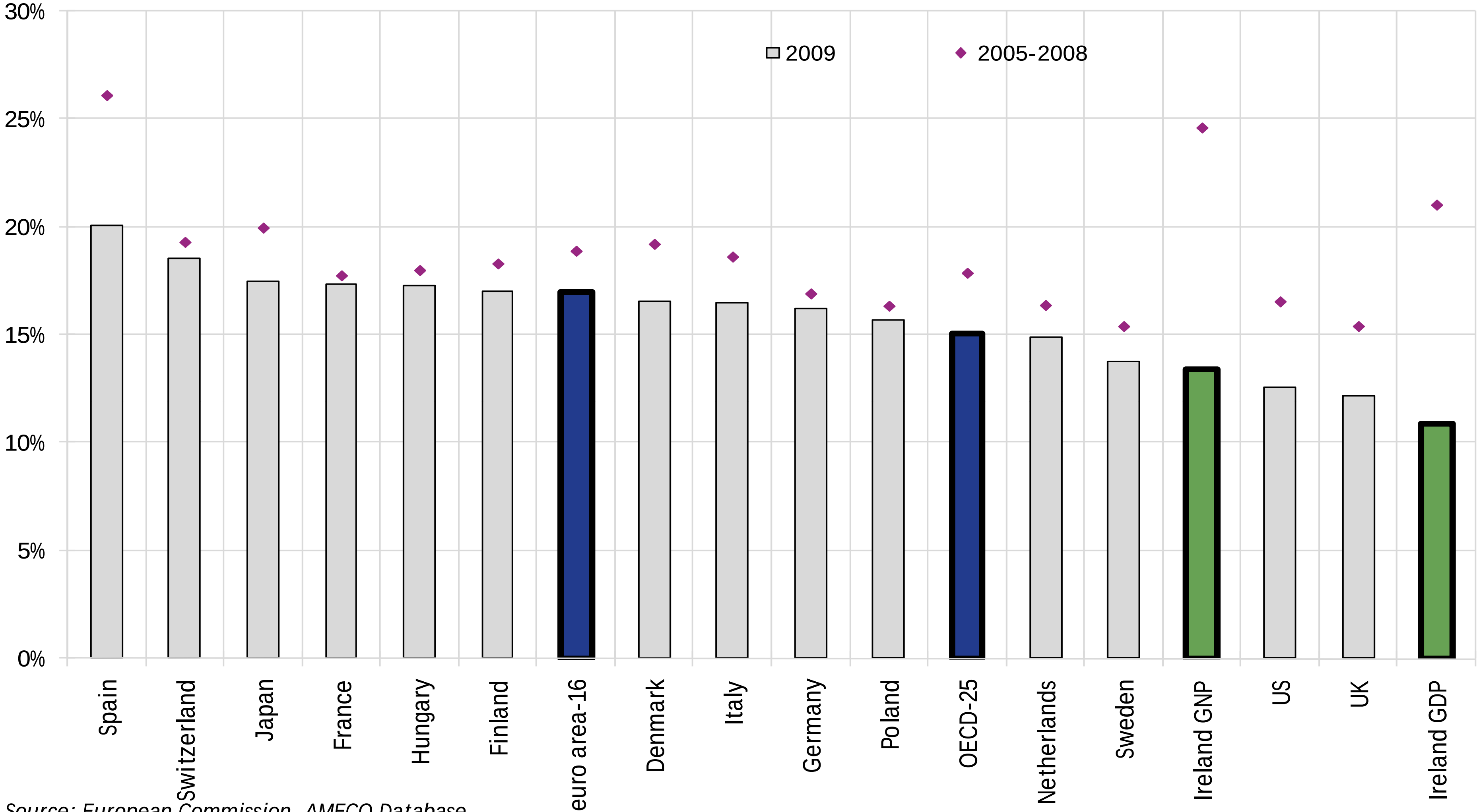
Business Performance:

Trade and Investment

Private sector investment has collapsed

-from an average of 24.6% of GNP over the 2005-2008 period to 13.4% in 2009

Gross Fixed Capital Formation by the Private sector (as % of GDP)



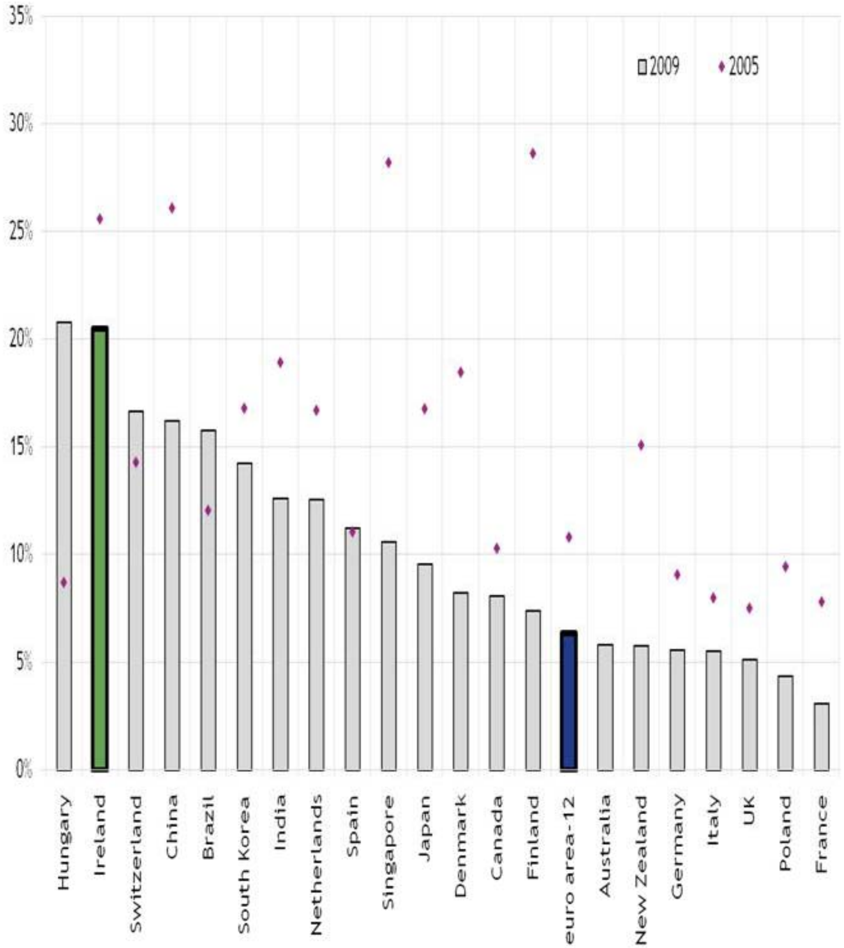
Source: European Commission, AMECO Database

Irish exports held up well during the crisis…but countries which experienced sharp falls in 2009 are rebounding in 2010

Source: OECD Economic Outlook 86, December 2009

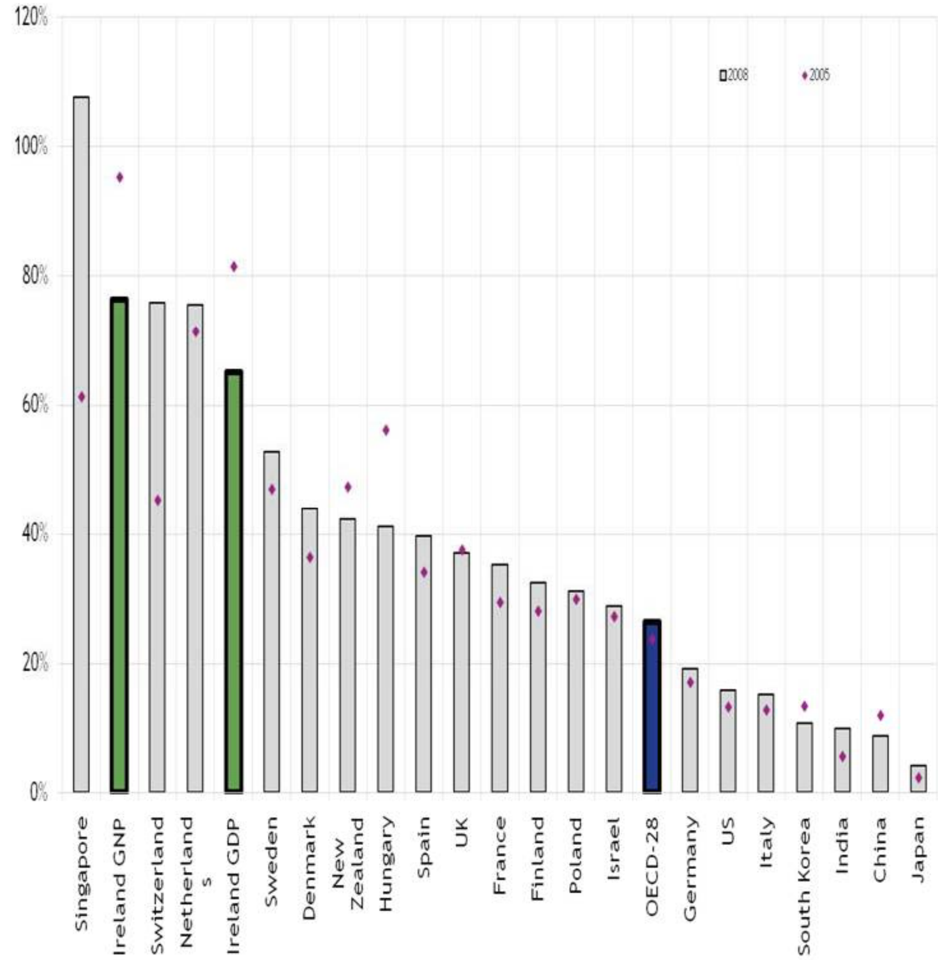
FDI performance remains strong, but our scores are falling

Rate of Return to US-Owned Companies, 2009



Source: US Bureau of Economic Analysis

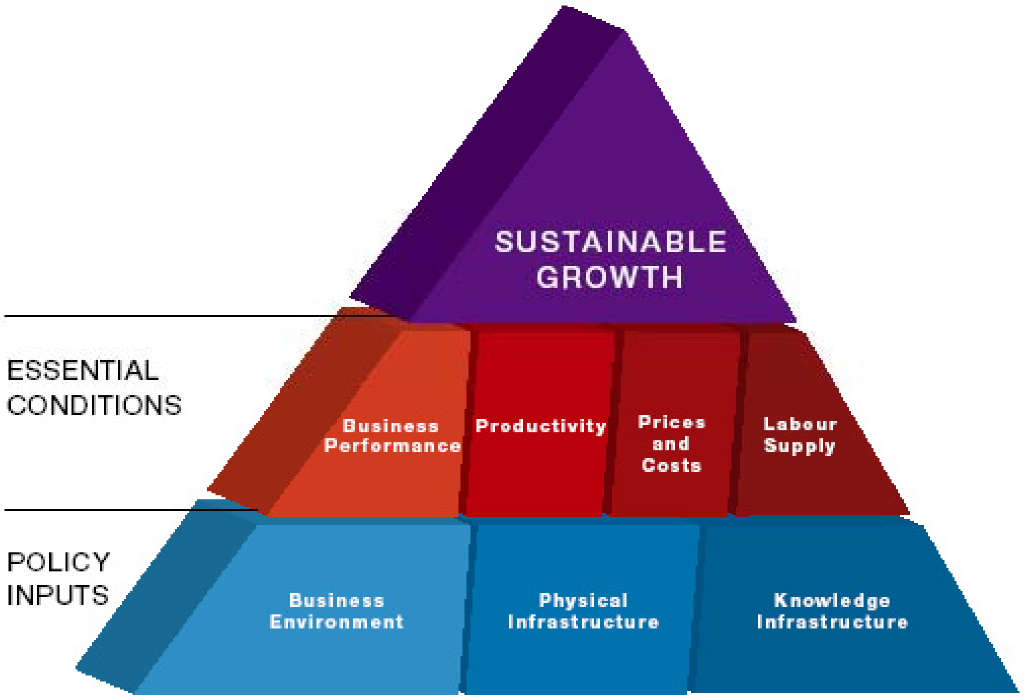
Stock of Inward Direct Investment (as % GDP), 2008



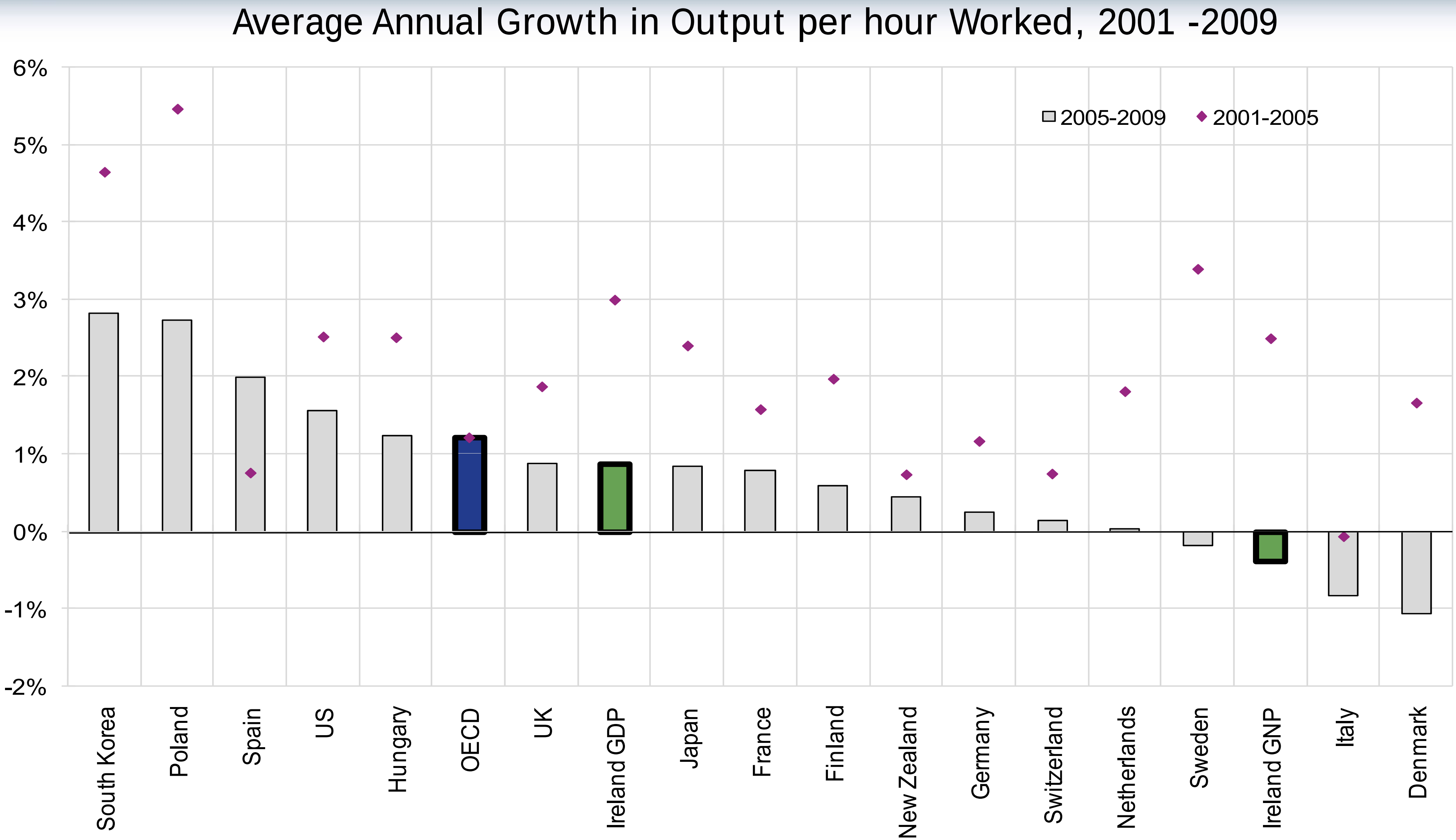
Source: Forfás Calculations, UNCTAD World Investment Report, 2009

Essential Conditions

Productivity



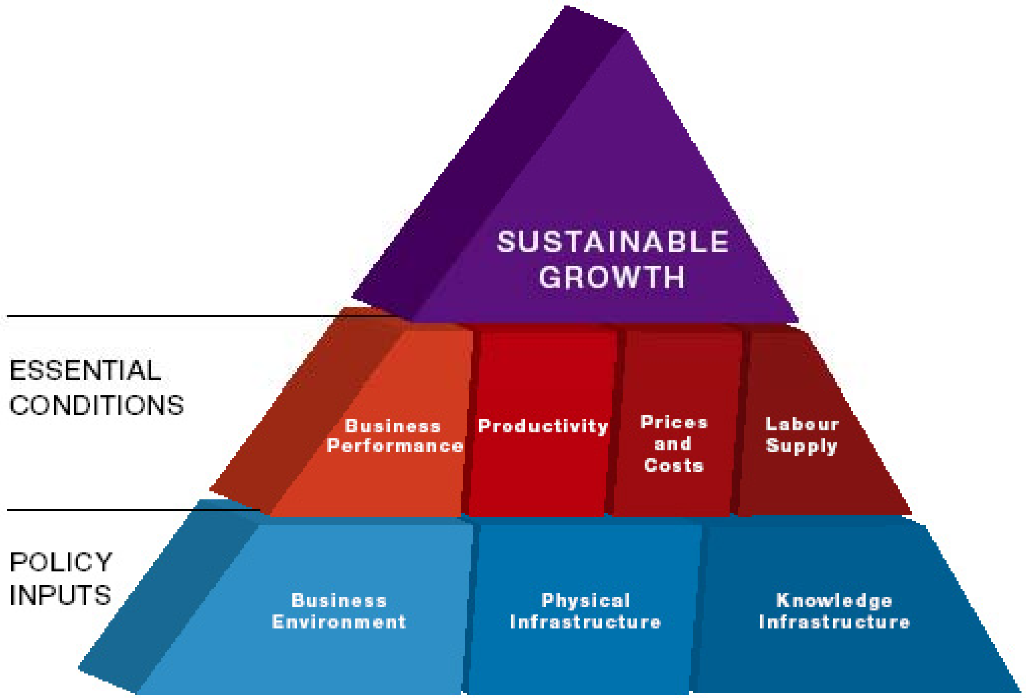
Significant room for improvement in Ireland's productivity performance



Source: Groningen Growth & Development Centre, Total Economy Database, January 2010

Essential Conditions

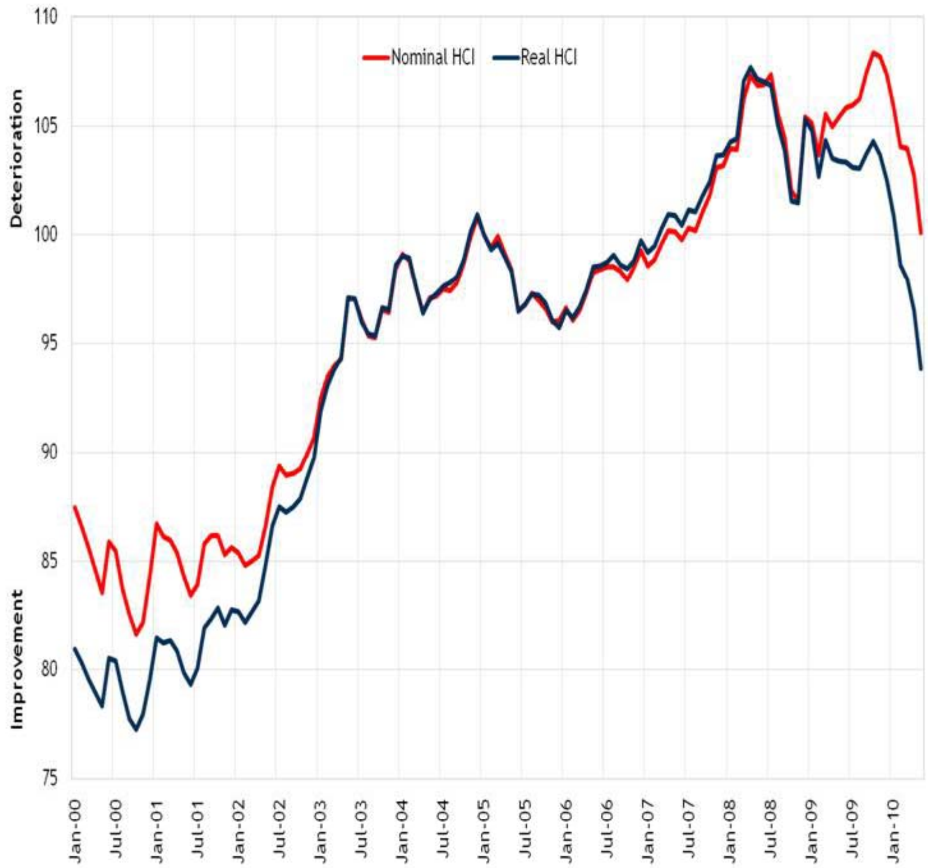
Prices and Costs



Ireland's cost competitiveness is improving

- Ireland experienced a 7.7% loss in cost competitiveness (real HCI) between January 2005 and April 2008 .
- Ireland has regained some of its competitiveness since then because of falls in relative prices and favourable exchange rate movements vis-á-vis key trading partners.
- In May 2010, Ireland's real HCI was 6.1% below the January 2005 value. However, the real HCI remains 19% above the January 2000 level.

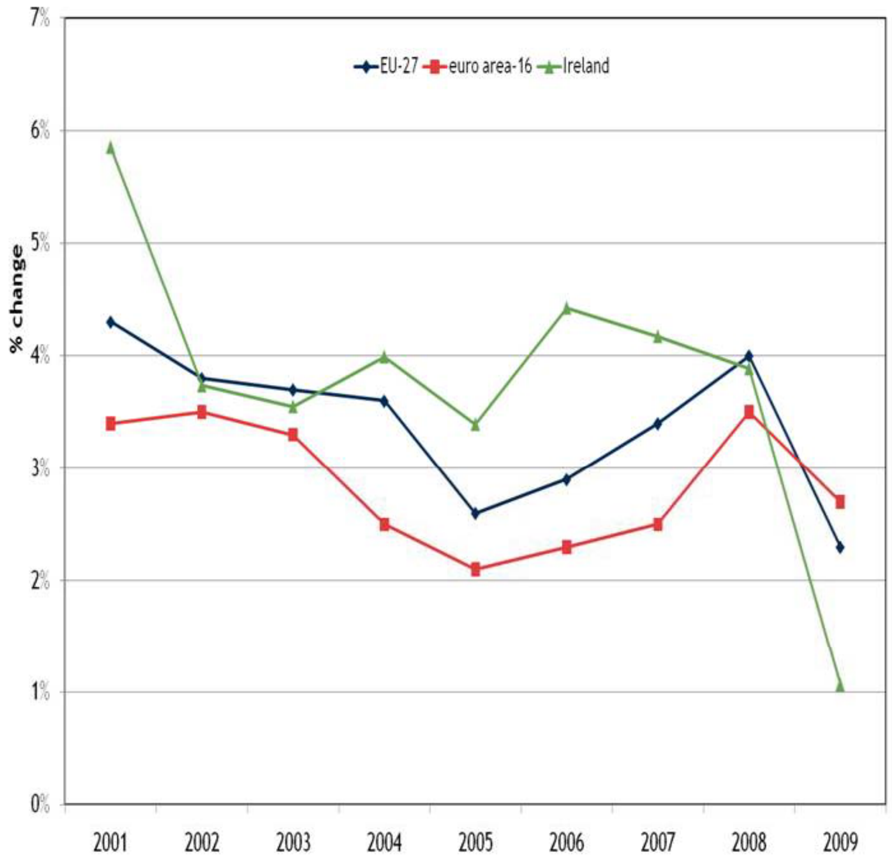
Harmonised Competitiveness Index, 2005 =100



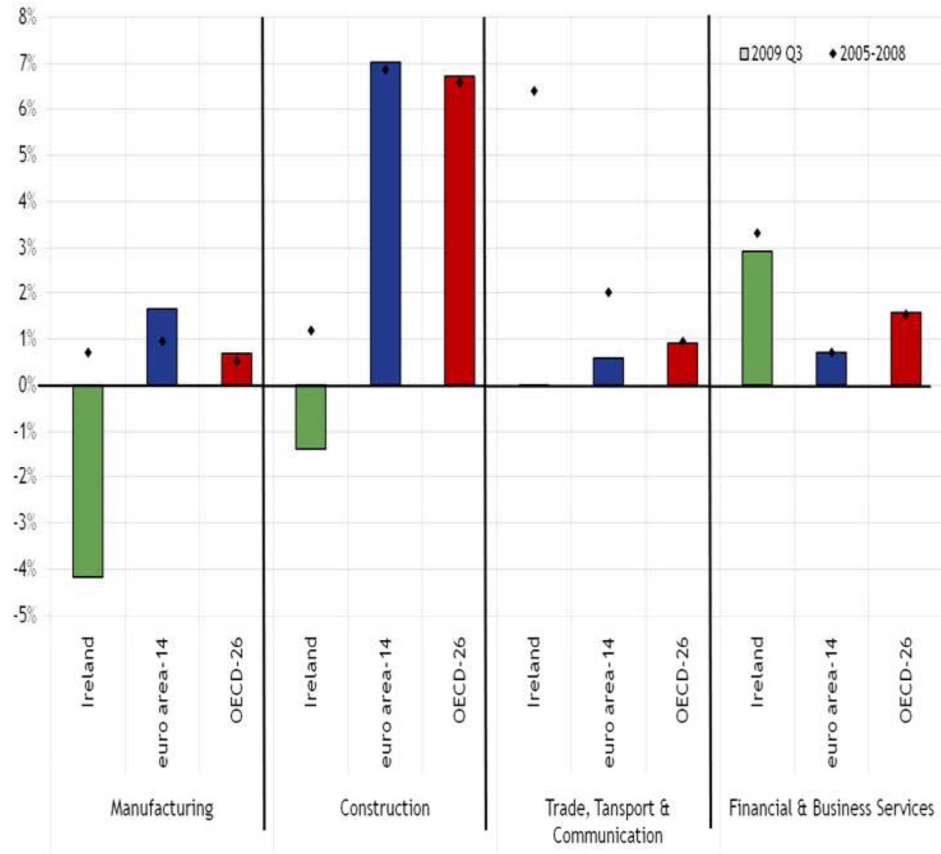
Source: Central Bank,

Labour costs - unit labour costs are falling but performance varies by sector

Annual Change in Unit Labour Costs



Annual Change in Unit Labour Costs



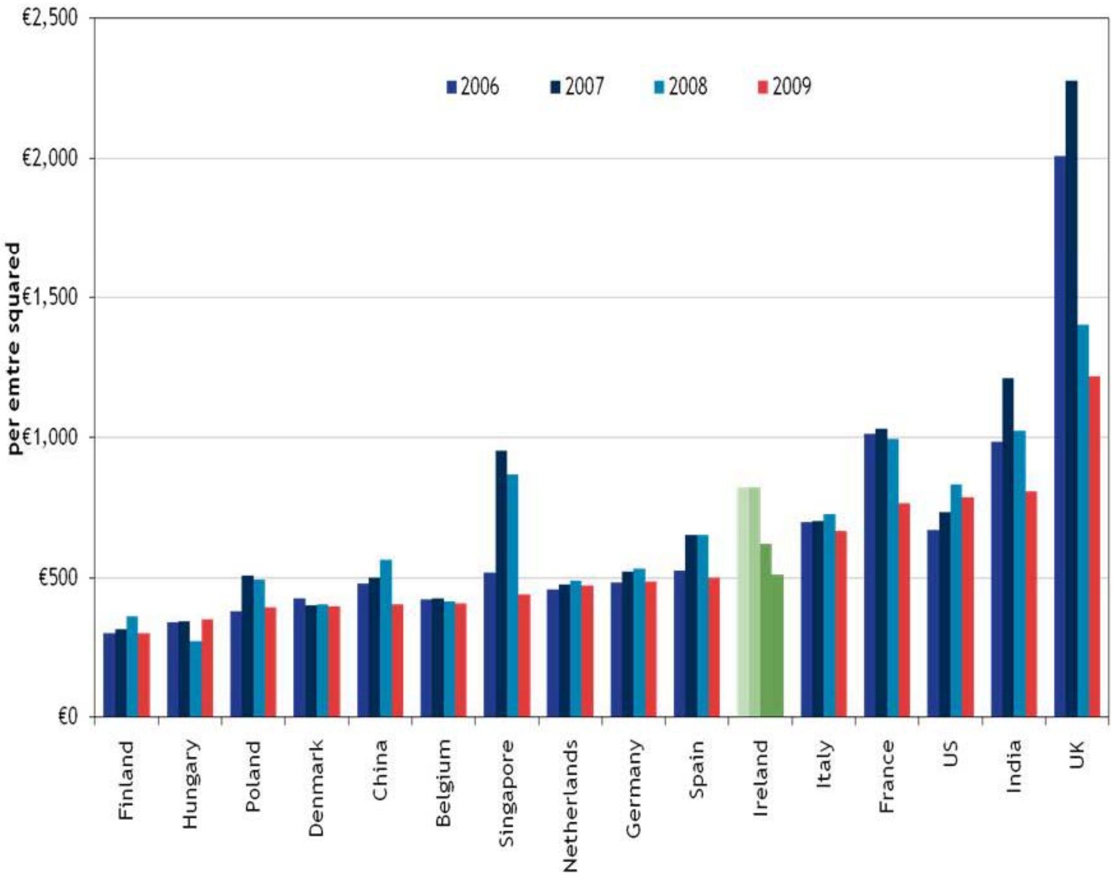
Source: OECD, Unit Labour Cost, Quarterly Indicators

Property - still amongst the most expensive despite significant falls in prices

- The cost of renting a prime office fell by 18% in Ireland in 2009 making us cheaper than the US and Italy.

- However, larger price falls in Singapore and Spain in 2009 mean they are now cheaper than Ireland.

Cost of Renting a Prime Office, 2006 -2009

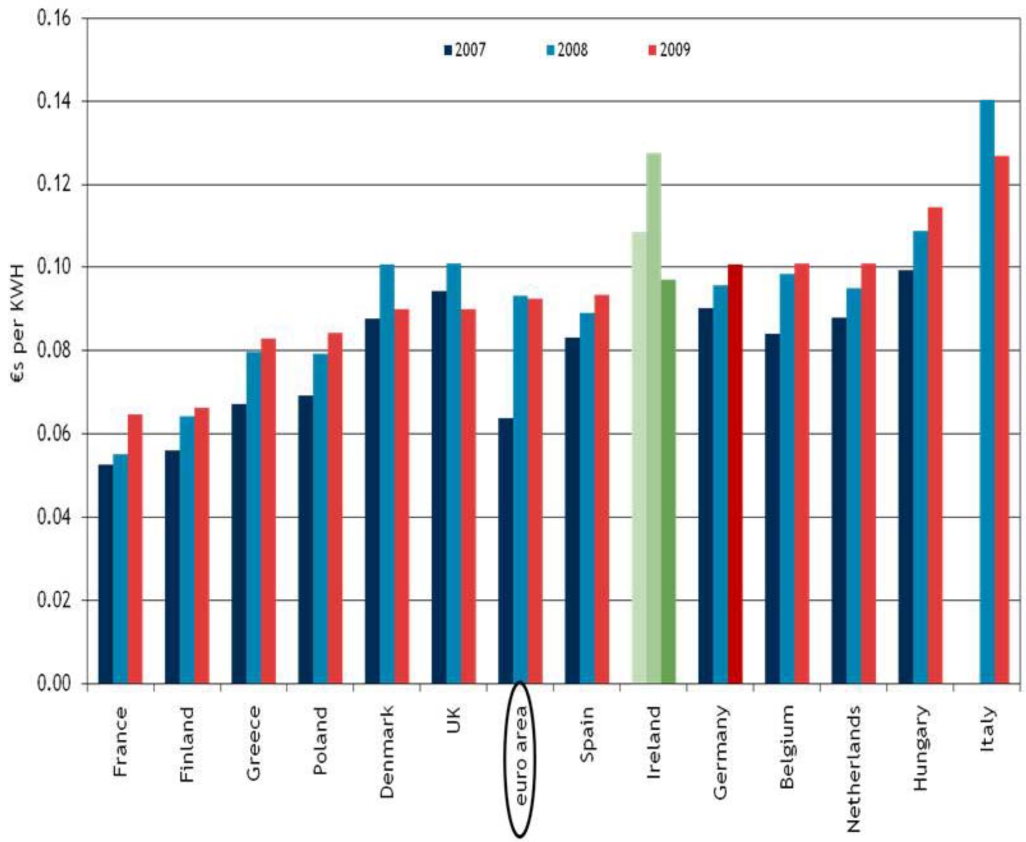


Source: Cushman & Wakefield

Energy costs fall significantly but likely to be cyclical

- The price of electricity for large energy users, decreased by more in Ireland (24%) than in any other benchmarked location.
- This downward adjustment is largely due to the steep decline in global fuel prices (gas and coal) and temporary rebates which are to be phased out by the end of 2012

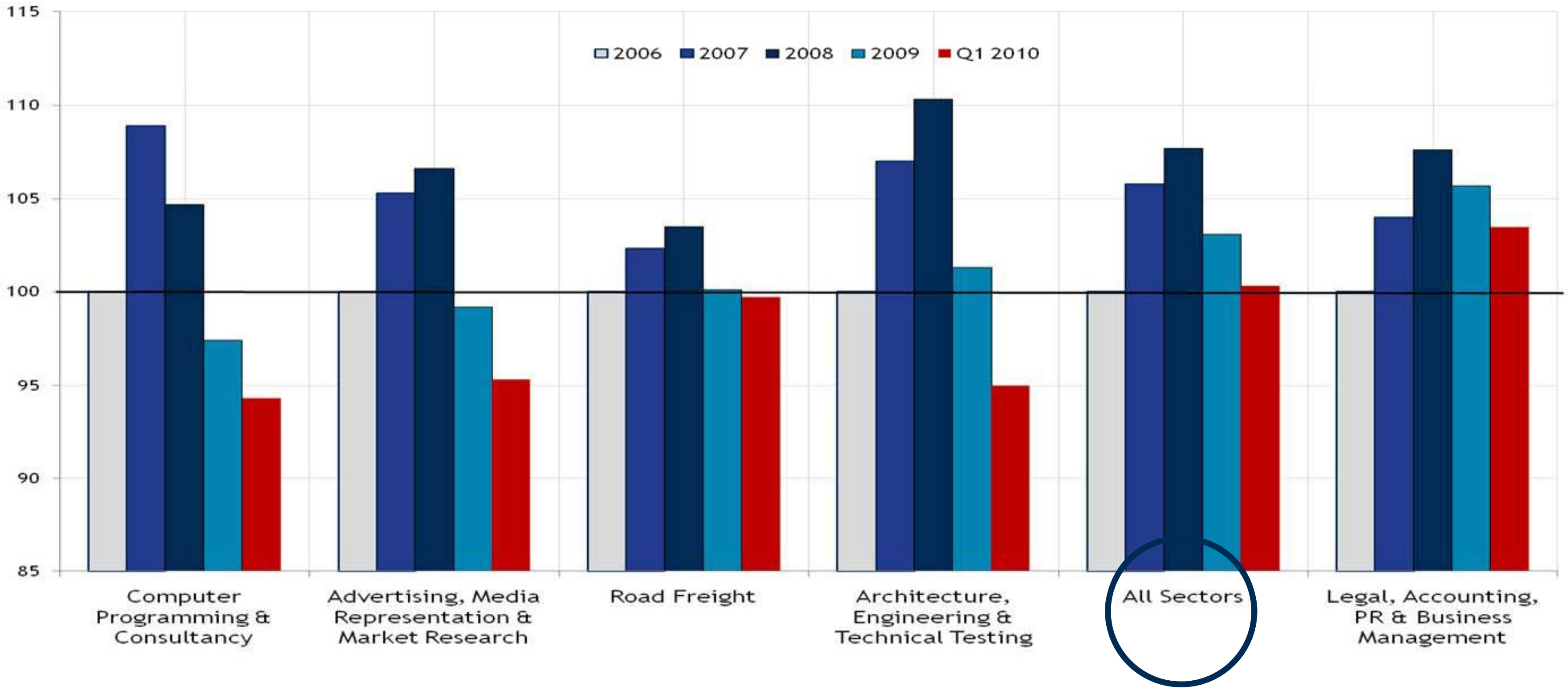
Industrial Energy Prices for Large Energy Users, 2007 -2009



Source: Eurostat, Environment and Energy

Business services costs decline

Services Price Index, 2006=100

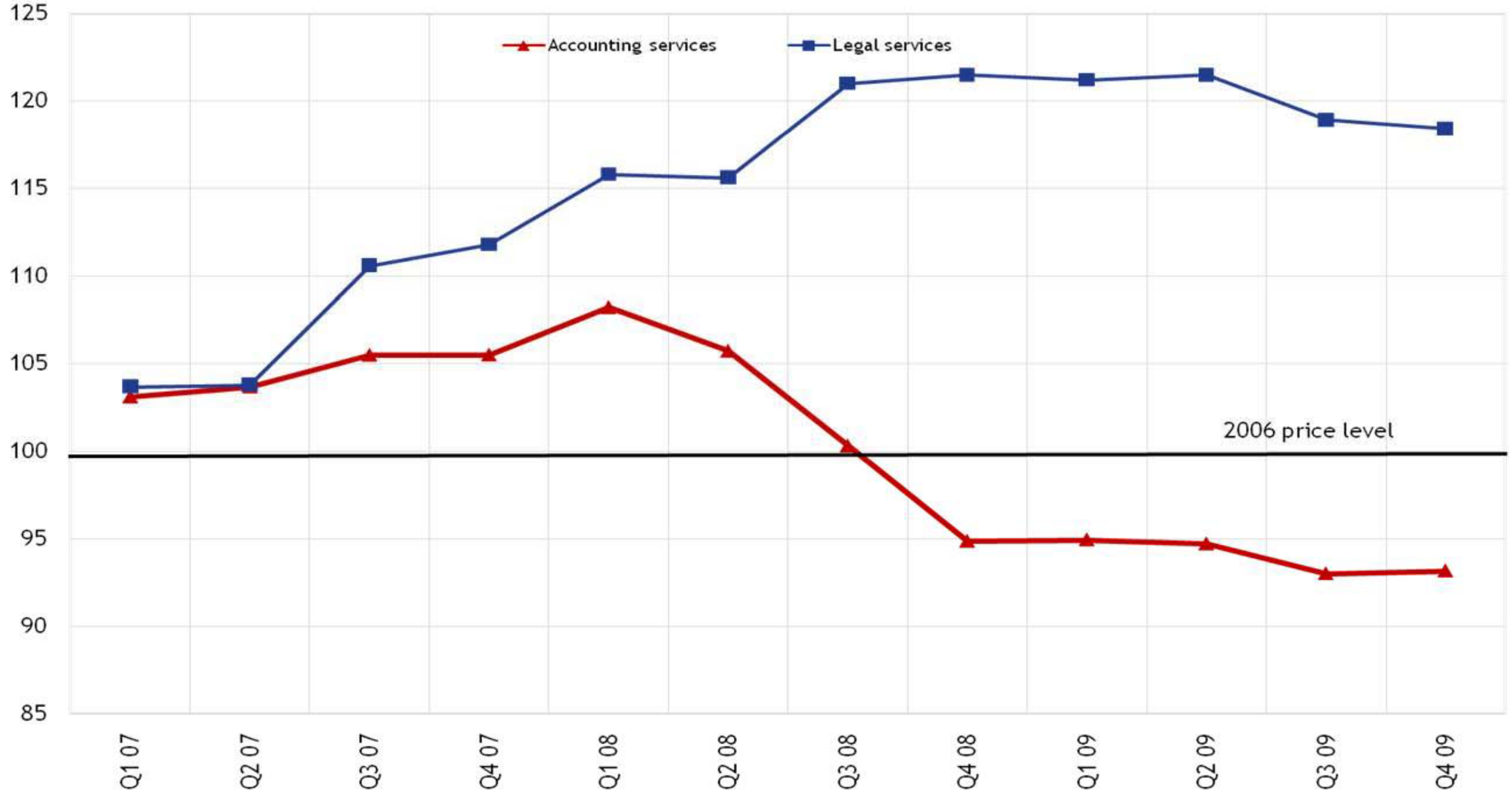


Source: CSO, Services Price Index

Note: This indicator is based on experimental CSO data

Accountancy costs fall significantly but only marginal declines in legal services costs

Accounting and Legal Services Index, 2006=100

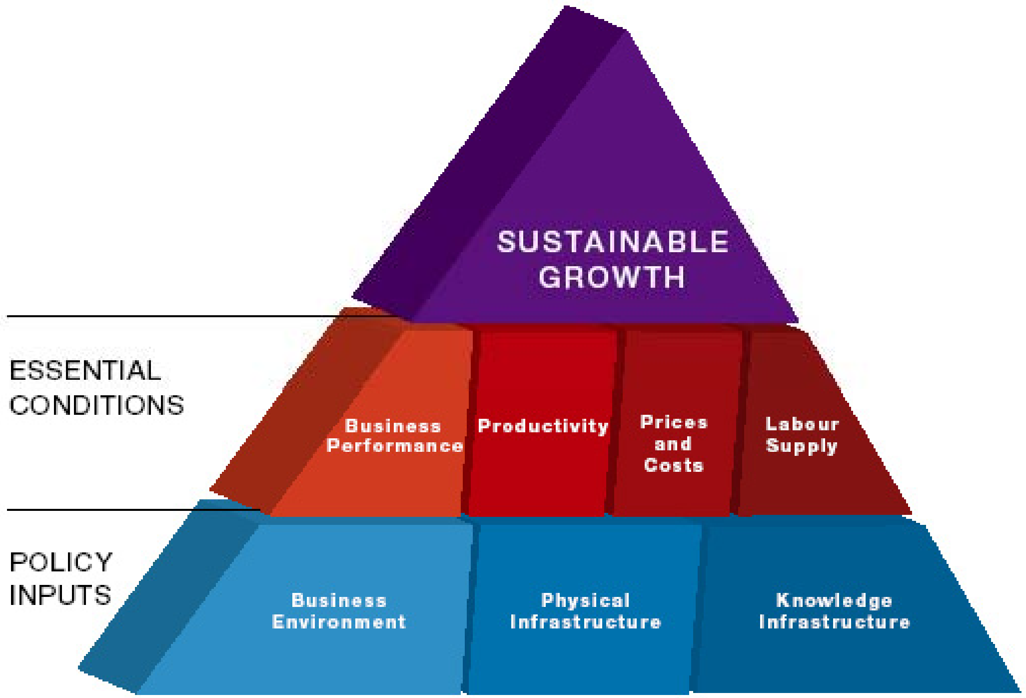


Source: CSO, Services Price Index

Note: This indicator is based on experimental CSO data

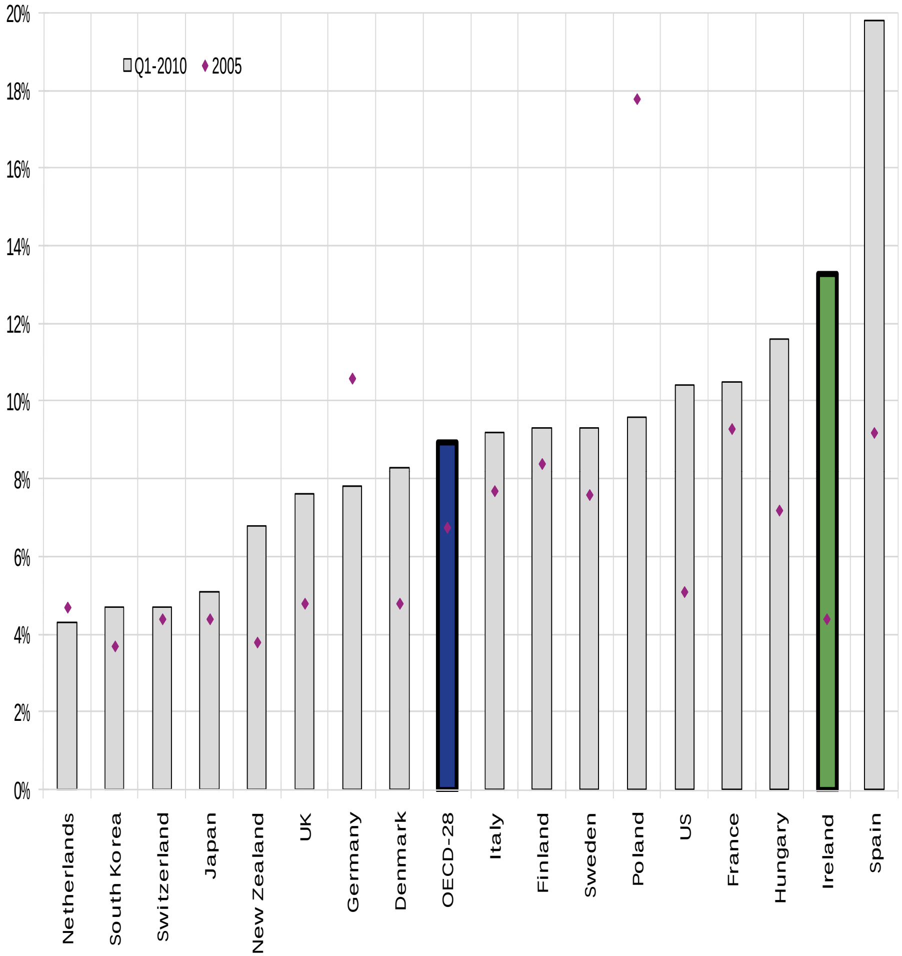
Essential Conditions

Labour Supply



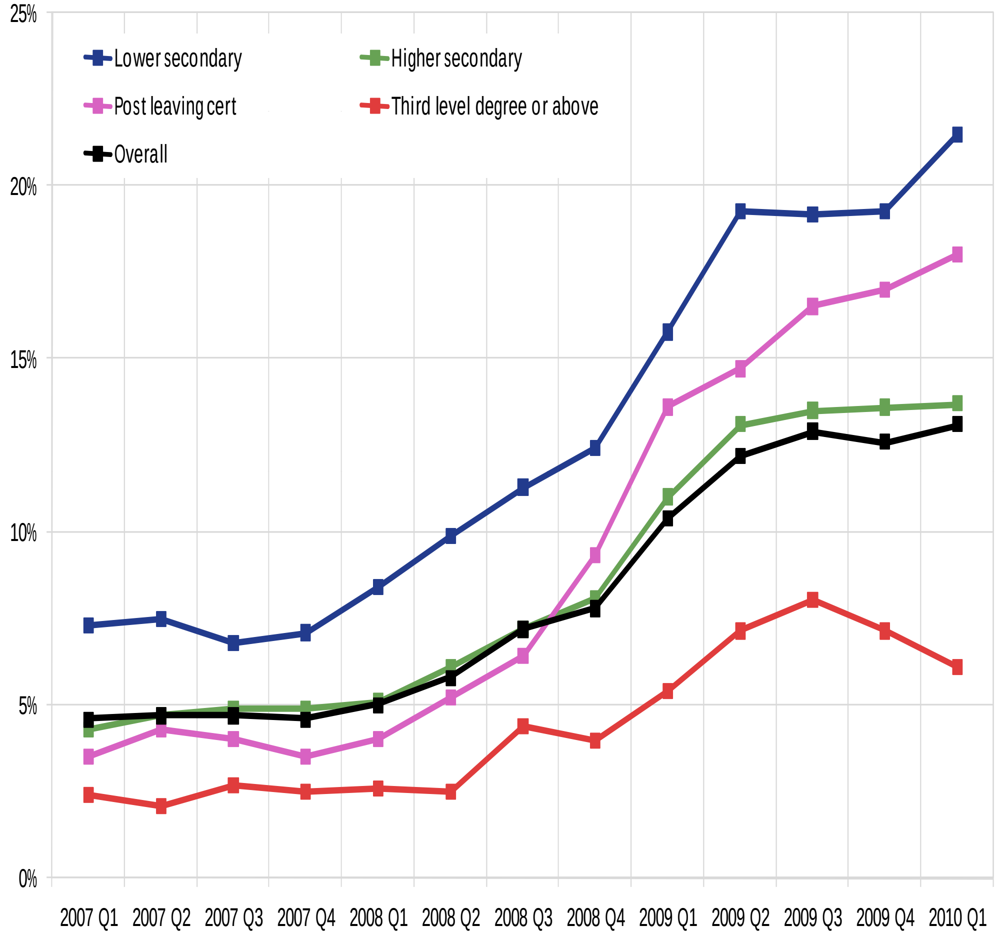
The steep rise in unemployment is affecting all parts of society…but those with lower educational attainment are more likely to be unemployed

Unemployment, Standardised Rates
Q1 2010



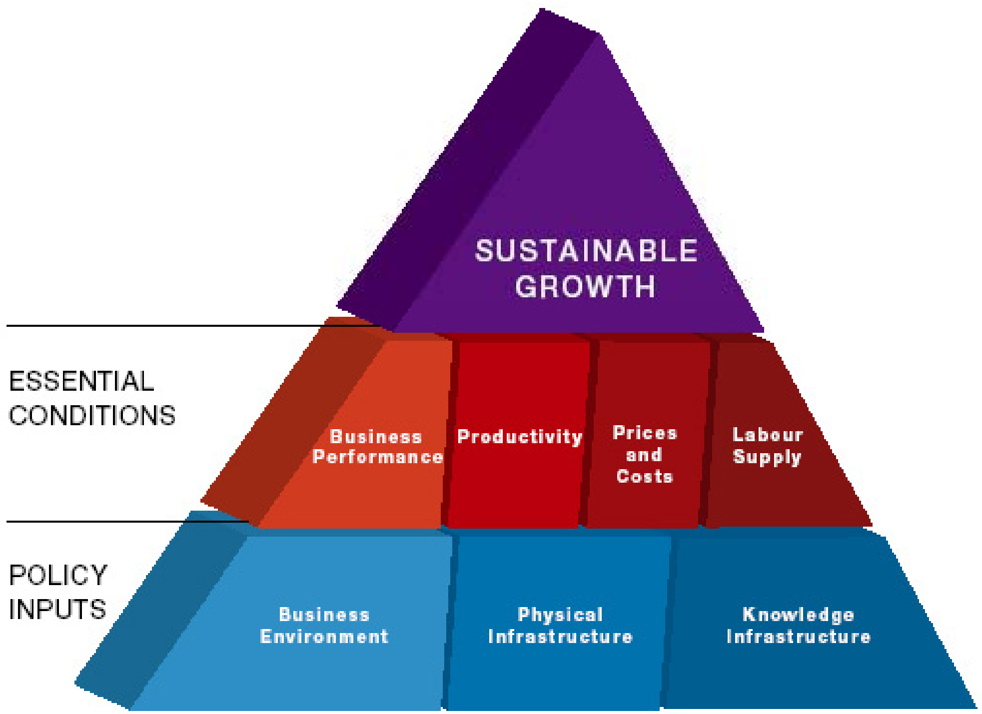
Source: OECD Stat.Extracts, Labour; CSO QNHS

Unemployment (%) by Educational Attainment
2007 Q1 – 2010 Q1



Source: CSO, Quarterly National Household Survey

Policy Inputs

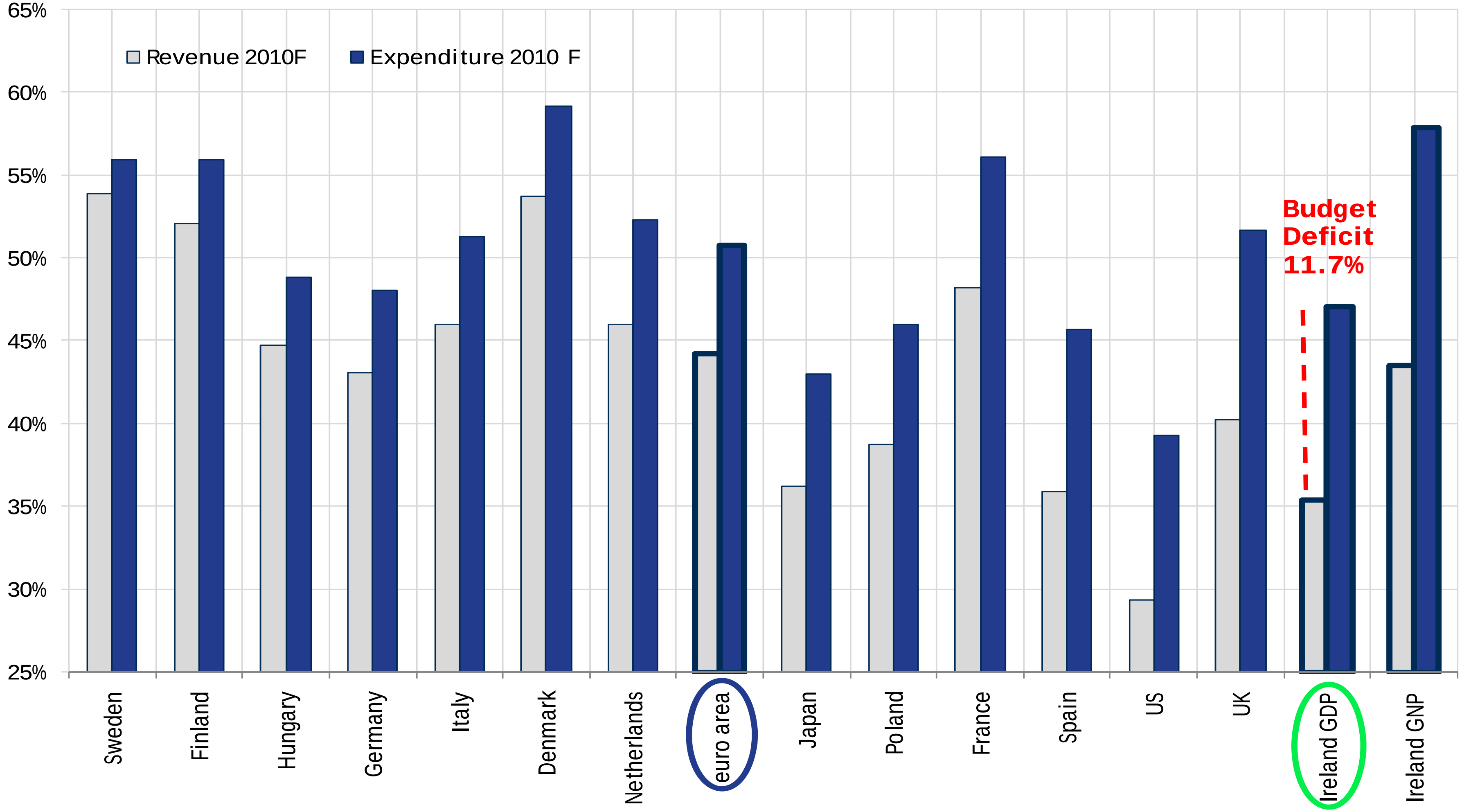


Business Environment:

Taxation and Finance

Despite stabilisation measures, budget deficit remains highest in the EU in 2010

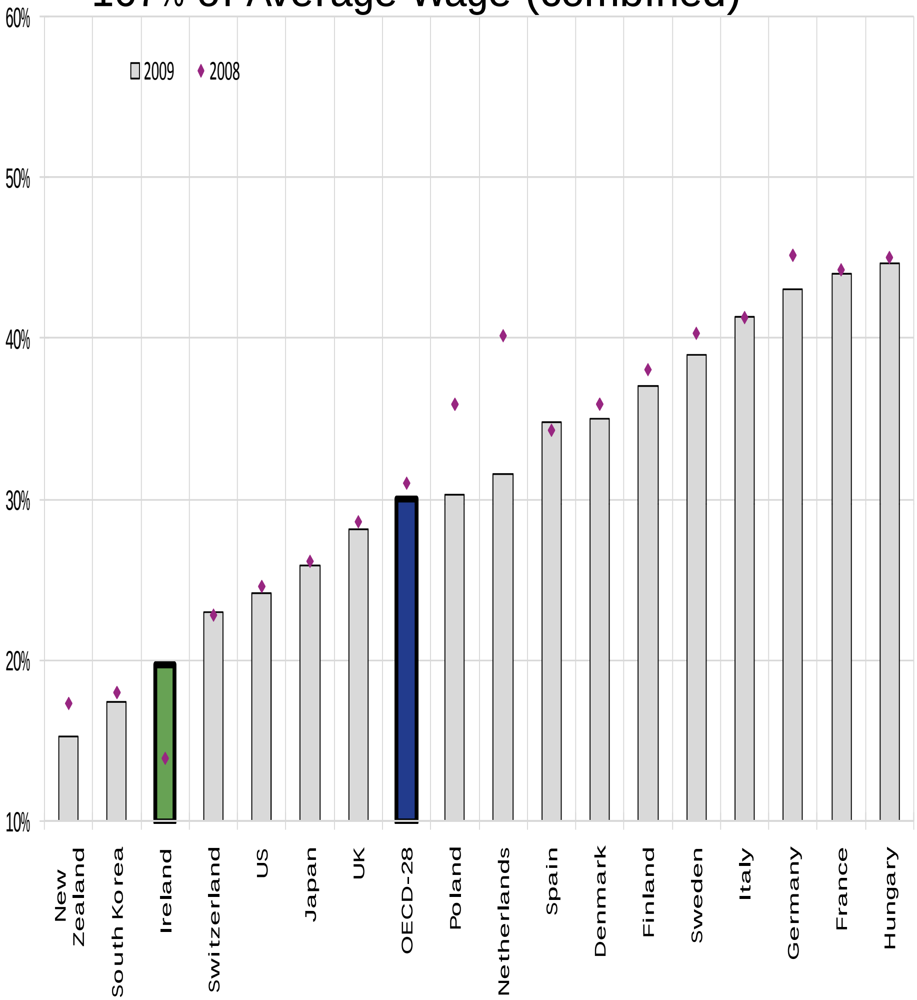
Total Government Revenue and Expenditure (as % of GDP) 2010F



Source: European Commission, DG EcoFin, Spring Economic Forecasts, May 2010

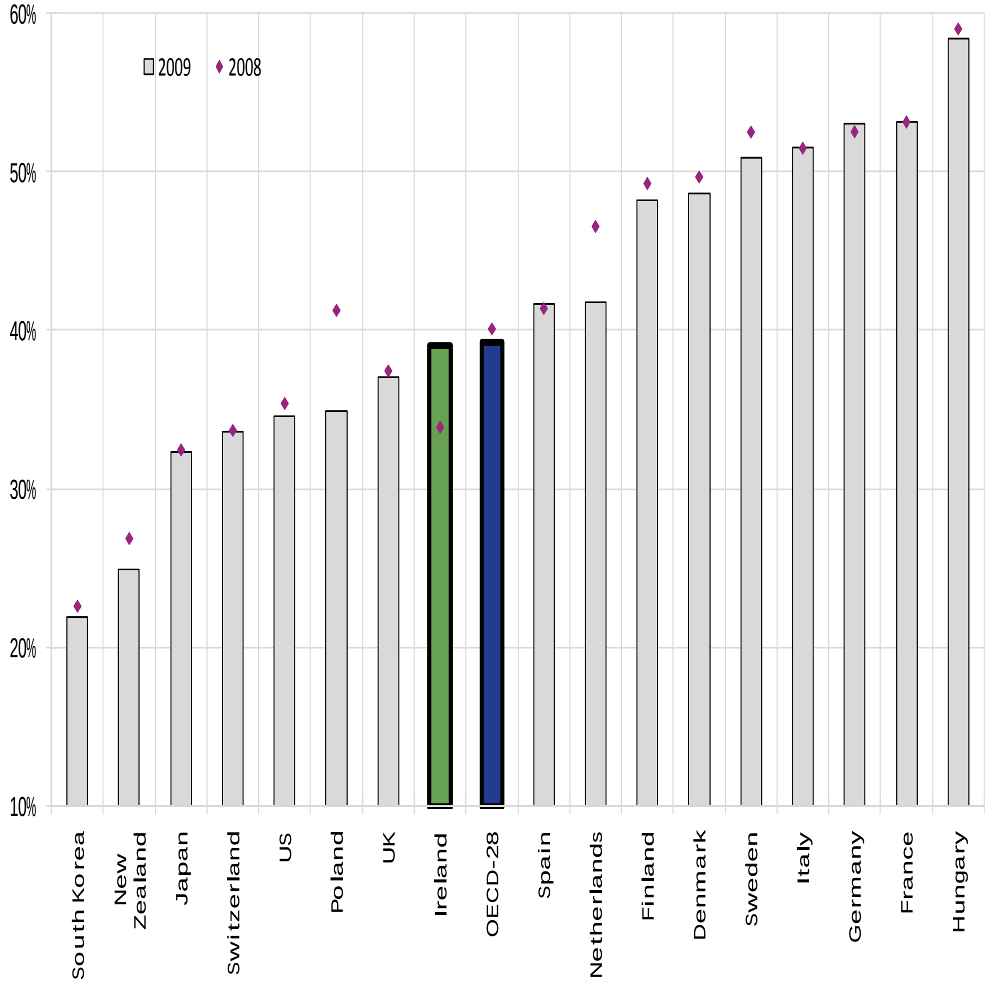
Tax wedge on labour has risen over the last three budgets

Fig. 5.06 Married Couple, 2 children 167% of Average Wage (combined)



Source: OECD Taxing Wages 2009

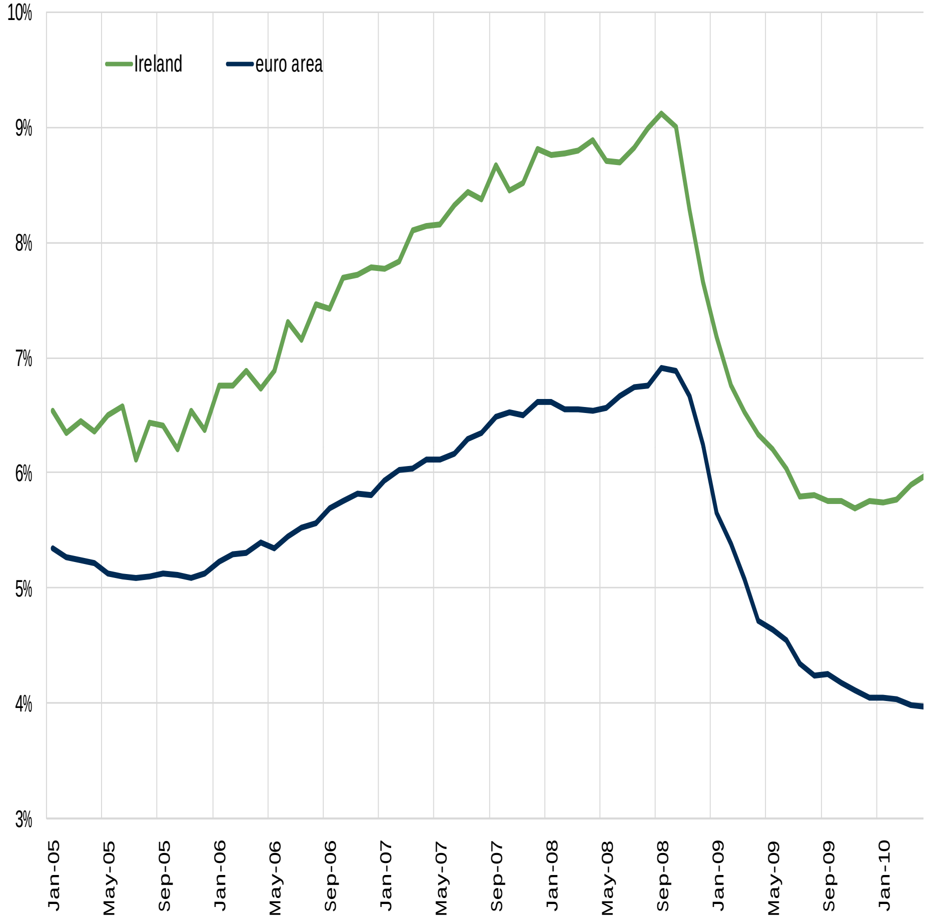
Fig. 5.07 Single Person on 167% of Average Wage



Source: OECD Taxing Wages 2009

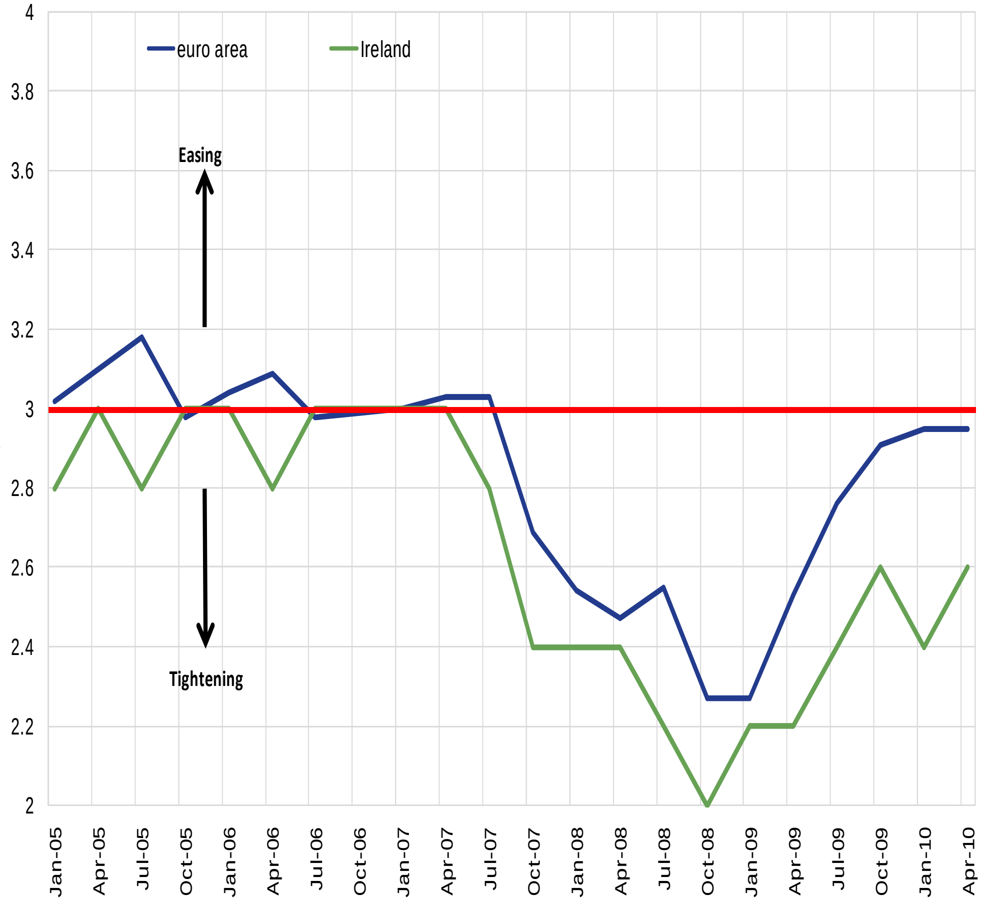
Cost of credit and access to credit remain more challenging than in the euroarea average

Fig. 5.10 Overdraft Interest Rates, 2005-January 2010



Source: European Central Bank, MFI Interest Rate Statistics

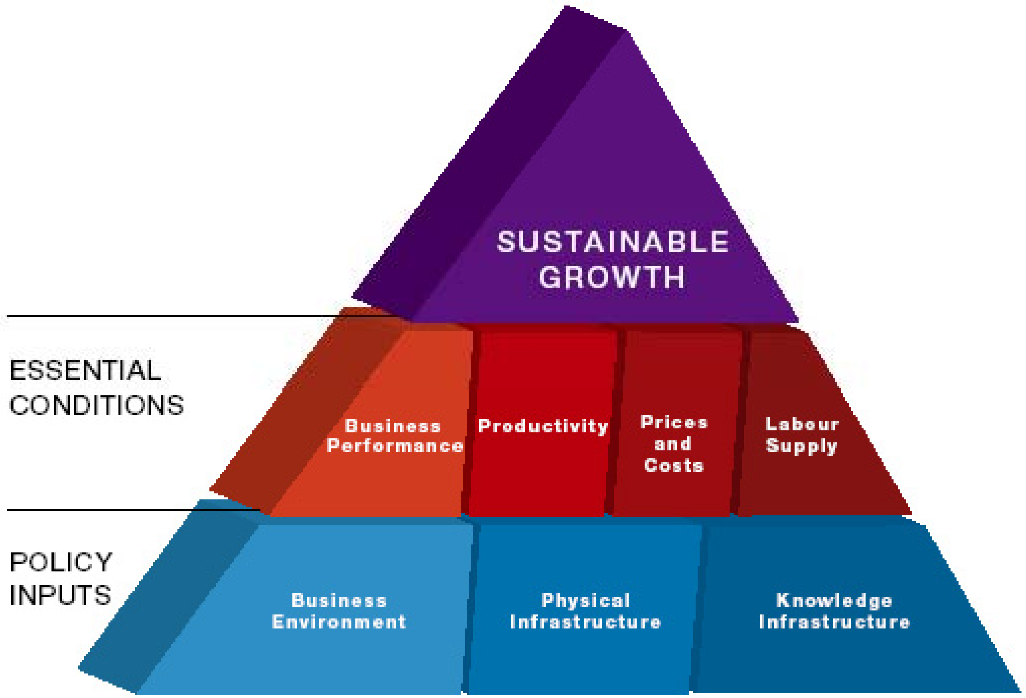
Fig 5.12 Change in Credit Standards for Loans for Enterprise (1-5)



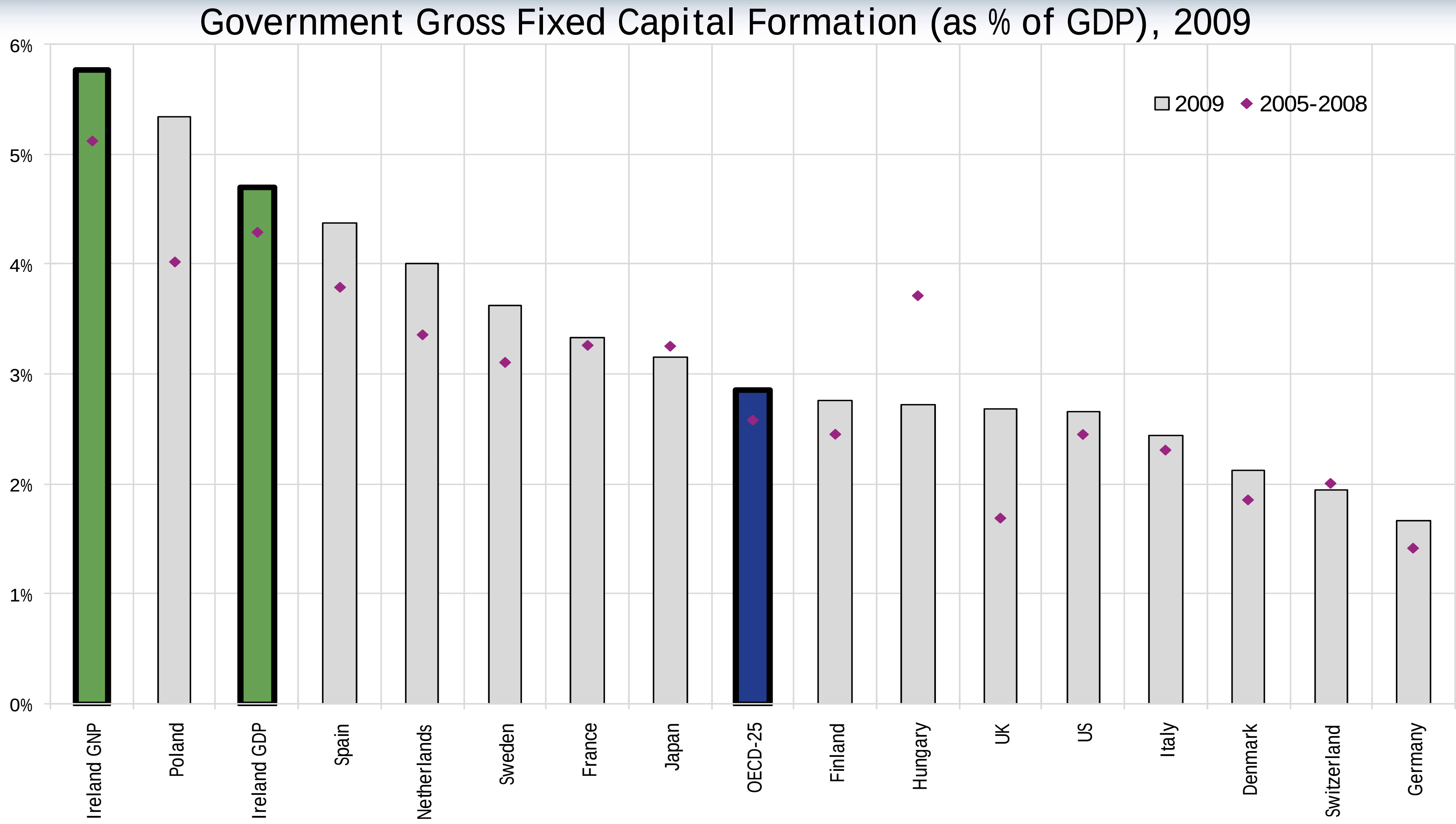
Source: Central Bank, European Central Bank, Euro area Bank Lending Survey

Policy Inputs

Physical Infrastructure

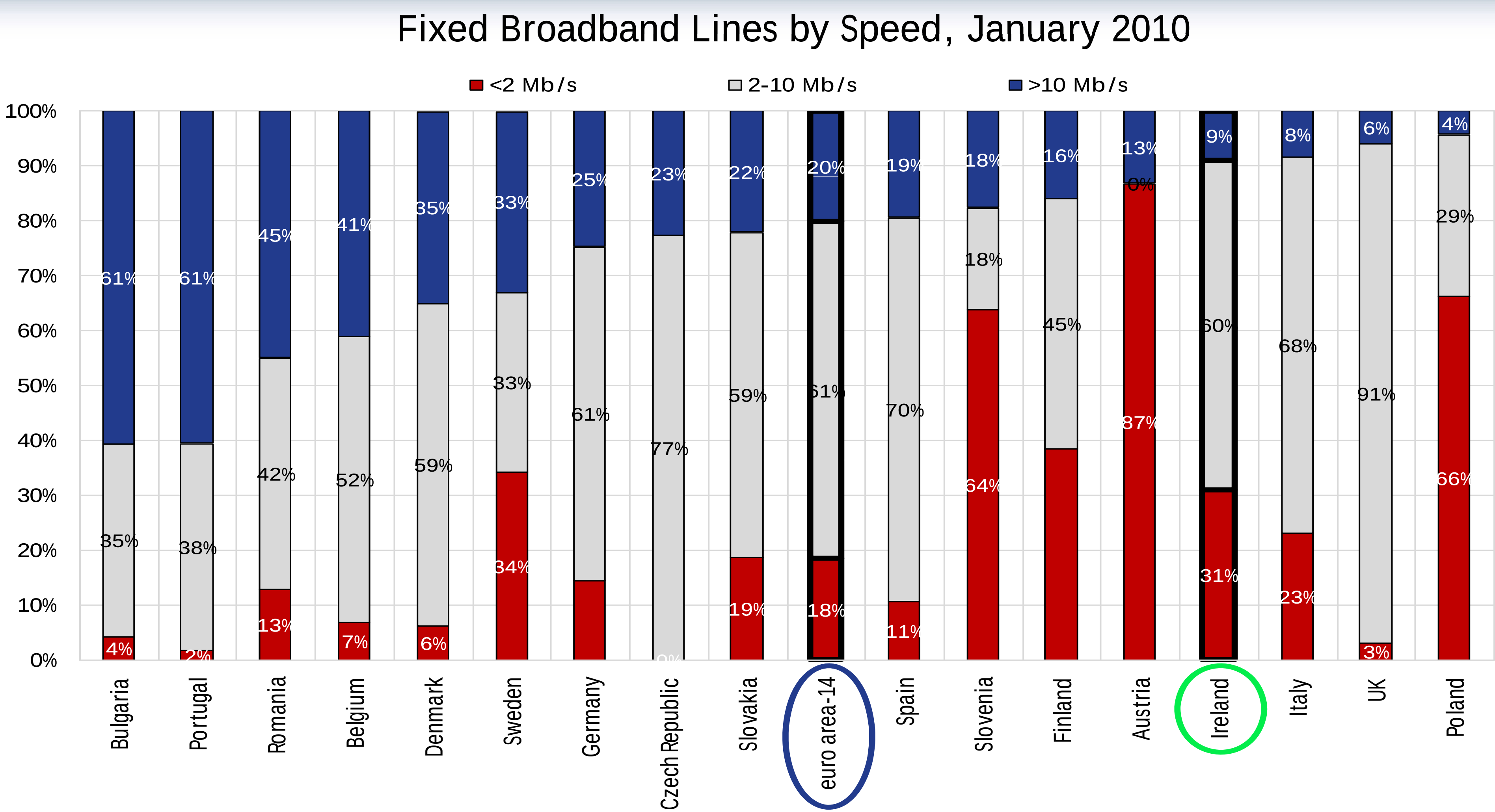


Infrastructure investment remains strong



Source: European Commission, AMECO Database, May 2010

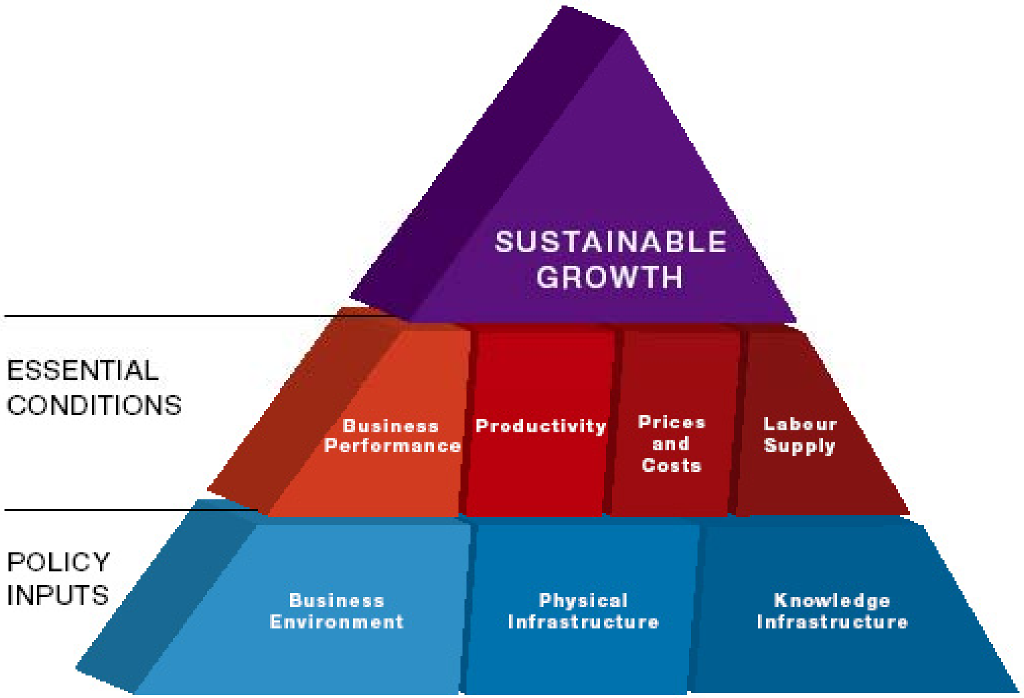
Improving broadband infrastructure is essential to support Irish exporters (particularly services)



Source: European Commission, Digital Competitiveness Report, May 2010

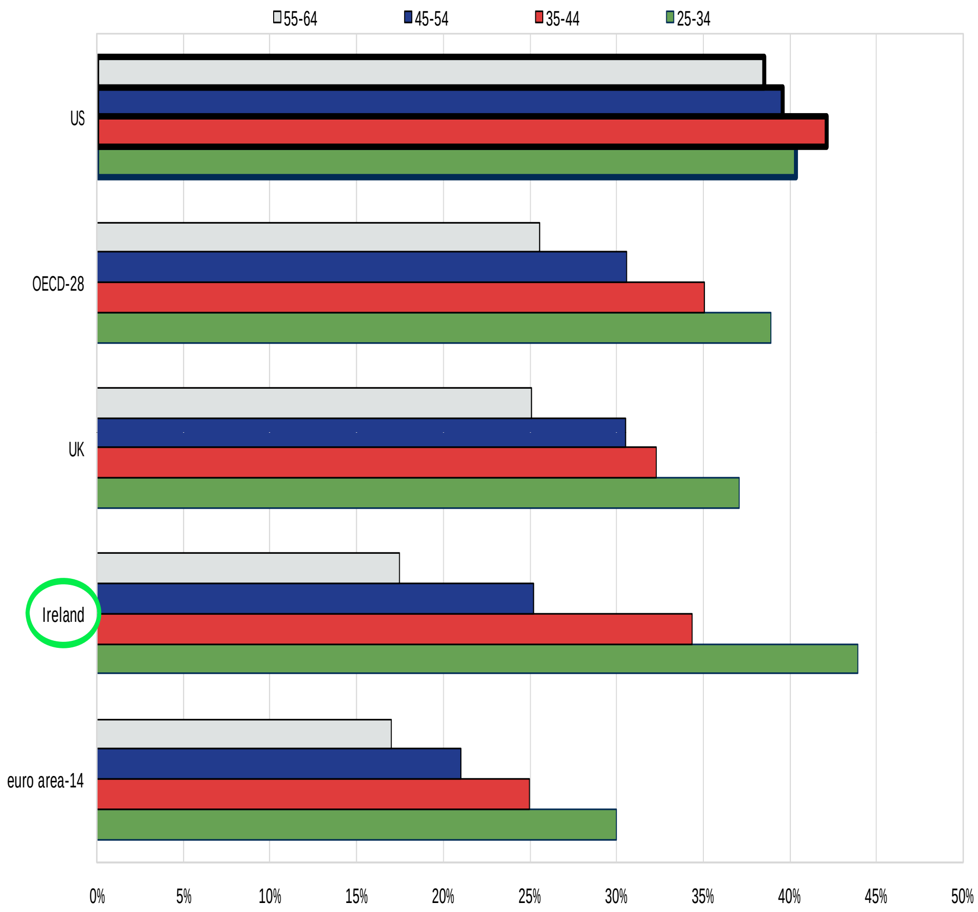
Policy Inputs

Knowledge Infrastructure



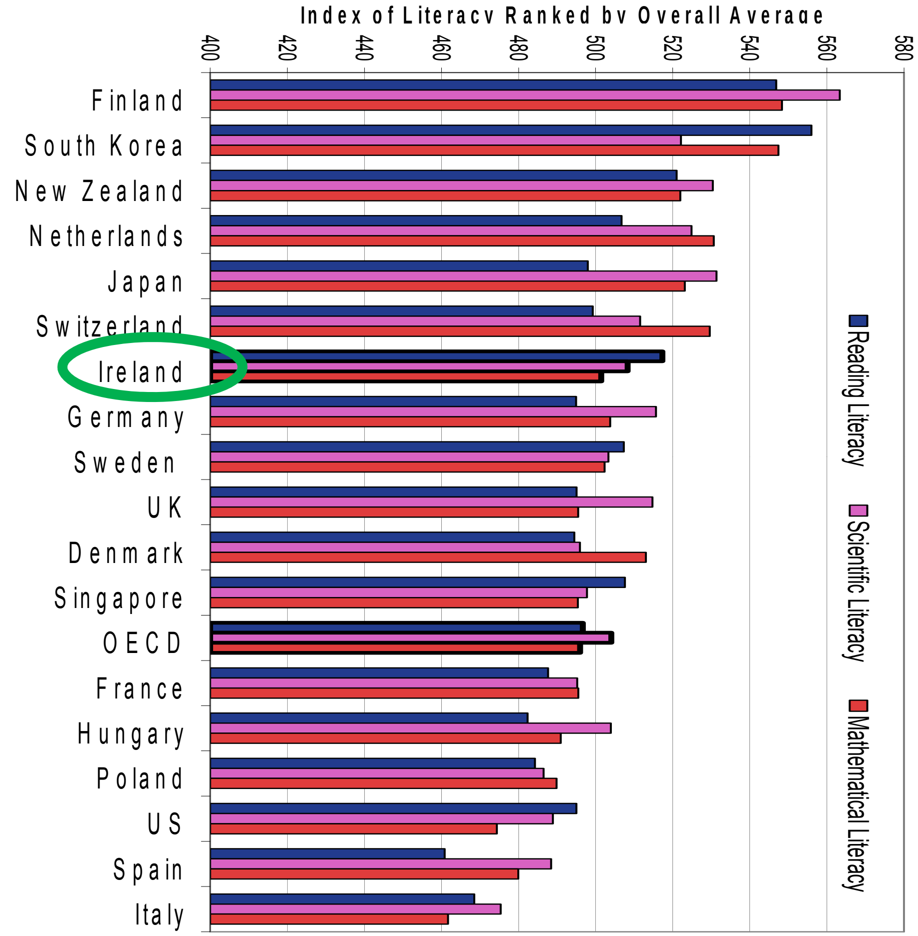
Educational attainment of younger people is a key strength...but performance is relatively average

Population by Age Cohort that has third level education



Source: OECD, Education at a Glance, 2009

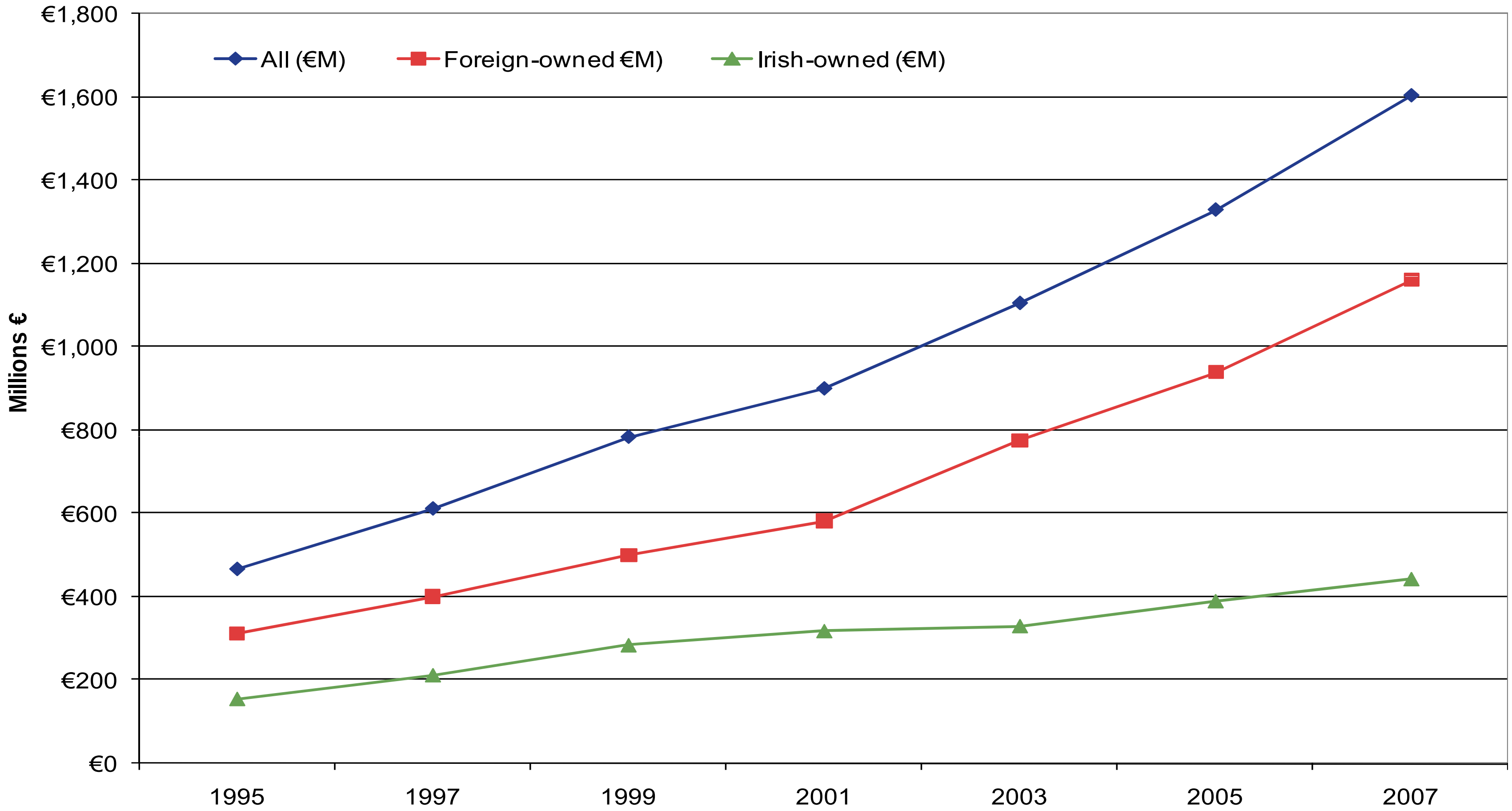
Scientific, Mathematical and Reading Literacy of 15 Year Olds, 2006



Source: OECD, PISA Database, 2006

Business R&D has grown significantly. Most business expenditure on R&D is undertaken by foreign owned companies.

Business Sector R&D Expenditure by Firm Type, 1995-2007



Source: Forfás, Research and Development Performance in the Business Sector, 2005/06; CSO, Business Expenditure on Research and Development, 2007/2008 www.competitiveness.ie

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