

Press Release

Growth in prices and pay should be brought into line with Eurozone norms, says Forfás Chief Executive

‘We must bring the rate of increase in prices and pay into line with other Eurozone countries if we are to remain competitive’, said Martin Cronin, Chief Executive of Forfás, which today (Friday, 28 June 2002) published its report *Comparative Consumer Prices in the Eurozone and Consumer Price Inflation in the Changeover Period*. ‘The rapid growth of our economy has led to accelerating growth in pay and prices. We should not allow this to become a wage-price inflationary spiral which would ultimately threaten employment and incomes through undermining the competitiveness of Irish industry and reducing the attractiveness of Ireland as a location for foreign investment.’

Forfás was asked to undertake the study earlier this year by the then Minister of State for Consumer Affairs, Mr Tom Kitt, T.D.

Consumer Prices in the Eurozone

The Forfás report, which was prepared by PricewaterhouseCoopers, shows that Ireland is now among the most expensive countries in the eurozone, having rapidly become more expensive since 1995. In 1999, Ireland was the 4th most expensive country in the eurozone after Finland, Germany and France, and the 7th most expensive in the EU overall. PricewaterhouseCoopers projections to February 2002 suggest that Ireland may now be marginally more expensive than Germany and France.

Prices and pay have risen principally because of our phenomenal economic success over the last years. Buoyant demand and constrained supply naturally led to higher prices. Wages have also grown strongly. The average take home pay of Irish employees is estimated to be the third highest in the eurozone in 2002, and our economic success has led to income per person, adjusted for price levels between countries, growing from 104% of the EU average in 1997 to 117% in 1999.

“The prices/pay issue we face today is a problem of success. Employment in our economy continues to grow, and unemployment remains low. However we must consider ‘strong action on a number of fronts’, said Mr Cronin. These include the following:

- We should bring wage growth more into line with other eurozone countries and this is an area where all the Social Partners have an important role to play. But wage levels also have to be looked at in the context of productivity. Higher productivity growth can be achieved through investment and through the use of new technologies, innovation and improved management. Public and private investment is required in those areas that will drive productivity and competitiveness in the future. Education and research and development are of particular importance.**
- We should address supply constraints in the labour and skills market and in the physical infrastructure. The National Development Plan is making an important contribution, but we need to ensure that these issues remain a priority.**
- We should consider how the level of competition in the supply of services, could be increased particularly through the reform of regulations which constrain supply.**

Consumer Prices in the Changeover Period

The report indicates that the change-over to the euro did not appear to lead to increased inflation at aggregate level. However, certain categories of consumer products did show a higher level of inflation than would have been expected. These categories include dentists' fees; opticians' fees; doctors' fees; pharmaceutical products; cinema; package holidays; beer, spirits, wine, soft drinks and bottled water in licensed premises; lunch/dinner in restaurants; and hairdressing.

A certain amount of this pricing behaviour may relate to 'convenience factors' such as bringing forward price increases to avoid duplicating costs entailed in changing prices. There is no evidence of widespread 'euro-profiteering', whereby sellers attempt to take advantage of confusion surrounding the introduction of the euro to increase prices and profits but it cannot be ruled out. This should only be possible in sectors where competition is inadequate whether due to regulatory factors or supply constraints. The extent to which unusual pricing behaviour during the changeover constitutes euro profiteering will only become apparent with the passage of time, as medium term trends emerge.

(ENDS).

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