



Ireland is Recovering Lost Ground

NCC publishes Costs of Doing Business in Ireland

(Thursday, 22 July 2010) The National Competitiveness Council (NCC) today published a report on the Costs of Doing Business in Ireland in 2010. The report analyses Ireland's relative cost competitiveness performance across four key business inputs - labour, property, utilities and business services - and looks at the broader cost environment that indirectly impacts on the cost of doing business here. The report shows that there have been tangible improvements in the cost of doing business, however some costs continue to increase or remain relatively high, particularly in sectors that are not exposed to international competition and are sheltered from the full rigours of domestic competition.

"Ireland's cost competitiveness has improved considerably for a range of key business inputs such as energy, property and a number of business services. This is good news for our exporters and for attracting investment but we must sustain our focus on driving down the cost of doing business here. Much of the improvement is due to the sharpness of the recession so it is critical that we act now to put in place the structural changes needed to ensure that costs do not rise again and erode competitiveness when the economy starts to grow" said NCC Chair Dr Don Thornhill.

"Comparing prices and costs across countries is a valuable exercise but it is important to remember that cost competitiveness is only one aspect of overall competitiveness. The availability of skilled labour, productivity and innovation performance, quality infrastructure, together with a variety of other factors ultimately determine the ability of a country to compete in world markets and to deliver well paid employment and prosperity for its people. Ireland's national competitiveness performance is assessed in detail in the NCC's forthcoming report, Benchmarking Ireland's Performance" he continued.

"The cost of doing business in Ireland is falling and this is to be welcomed. Those entering into new contracts in particular are receiving good value. We need to continually monitor the cost base and push for further reductions in areas that have not yet adjusted. The lowering cost base will open up new opportunities for Ireland in attracting mobile investment and growing exports." commented Martin Shanahan, Chief Executive of Forfás.

Summary of Key Findings

Although prices are moderating, the NCC cautions that further action is required to regain our cost competitiveness. The key findings are:

- Ireland experienced a significant loss in cost competitiveness as measured by the real harmonised competitiveness indicator over the past decade reflecting a combination of an appreciation of the euro against the currencies of many of our trading partners and higher price inflation in Ireland.

However, since January 2008, Ireland has regained some of its lost cost competitiveness as domestic inflation remains below that of our main trading partners and as the euro has weakened.

- Although prices in Ireland have moderated in the past year, a range of key business inputs in Ireland remain relatively expensive including property, broadband and legal fees. Improving our relative cost competitiveness requires the cost of doing business in Ireland to fall relative to that of our trading partners. Therefore, falling prices in Ireland do not automatically equate to improvements in cost competitiveness. For example, while the costs of renting a prime industrial unit fell by 18 per cent in Ireland between 2008 and 2009, Ireland's ranking improved by just one place to third most expensive, as rents fell in 12 of the 16 other countries benchmarked.
- While the costs of many goods and services have fallen significantly in Ireland in the past two years, there are notable exceptions - particularly in locally trading sectors of the economy. For example, the costs of waste water services increased by 18.8 per cent in Ireland during 2009. The cost of legal services has declined very slowly, and in Q4 2009 they remained 18.4 per cent above the 2006 price.
- The drivers of falling prices are also important to consider. For example, the cost of industrial electricity in Ireland decreased by 24 per cent - more than any other benchmarked location in 2009. The gap between the price of industrial electricity for large energy users in Ireland and the euro area average has narrowed significantly (from 37 per cent in the second half of 2008 to five per cent in the second half of 2009). However, recent price falls may not be sustainable as they appear to be largely due to falling international fossil fuel prices and a temporary reduction in electricity prices for large energy users. While these improvements in cost competitiveness are very welcome, continuing progress on longer term structural changes are essential if improvements in cost competitiveness are to be sustained.
- The costs of a range of public and administered services continue to negatively affect Irish cost competitiveness. The cost of health and education services continues to rise rapidly, further increasing the gap between these components and the other goods and services included in the consumer price index. Transport costs, such as urban public transport and taxis, are relatively expensive in Ireland compared with our main trading partners.
- Exchange rates have a significant impact on the relative costs of doing business in Ireland. As they are volatile and outside of our control, it is critical that we concentrate on those cost factors that are, at least to some degree, influenced by government policy.

While the report uses the most up to date statistics available, these are generally for 2009, and so do not reflect the full positive impact of changes in cost structures. Anecdotal evidence would suggest that Ireland's competitiveness continued to improve through the first half of 2010. The NCC expects these improvements to show up in the data over the rest of the year.

The full report is available for download from the NCC's website, www.competitiveness.ie and www.forfas.ie.

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Note to Editors:

This is part one of a two part study of Ireland's cost competitiveness performance. Part two will examine the factors that influence the cost of business inputs in Ireland and identify the policy actions required to improve performance.

About the NCC and Forfás

The NCC reports to the Taoiseach on key competitiveness issues for the Irish economy and makes recommendations on policy actions required to enhance Ireland's competitive position. The research and analysis underpinning the outputs of the NCC is undertaken by Forfás. Forfás is Ireland's policy advisory board for enterprise and science.