Press Release

NCC launches Statement on Prices and Costs

The National Competitiveness Council (NCC) today (Wednesday 15th September, 2004) launched its **Statement on Prices and Costs**. The Statement benchmarks Ireland's performance against EU and a selection of other developed countries for the prices of consumer goods and services, wages and a selection of non-pay costs for businesses.

Key Findings

Consumer Prices

- In the four years to May 2004 the average price of Irish goods and services increased by 22 per cent relative to our trading partners.
- Ireland's consumer price inflation has exceeded the eurozone and EU-15 countries for the past seven years, increasing by 17.5 per cent between December 1999 and December 2003. By comparison EU-15 prices increased by only 8.4 per cent over the same period.
- Between 2001 and 2002, Ireland overtook the UK and Sweden to become the third most expensive country in the EU for consumer goods and services. By 2003 Ireland was almost on a par with Finland as the most expensive country within the eurozone, both countries being significantly more expensive than the next group of eurozone countries.
- Ireland is now the most expensive country in the eurozone for food, non-alcoholic beverages (retail), tobacco and rentals for housing. Ireland is the second most expensive country in the eurozone for alcoholic beverages (off-licence) and for restaurants and pubs.
- The main contributors to Irish inflation in the five years to January 2004 were restaurants and pubs (25 per cent of total inflation over this period), alcohol and tobacco (13 per cent), housing, water and fuels (11 percent), recreation and culture (11 per cent) and food and non-alcoholic beverages (10 per cent). Most Irish inflation over this period has been generated domestically and is not as a result of rising prices for imported goods.

Business Costs

- As with prices, wages in Ireland have been rising faster than in other EU countries for a number of years with nominal compensation per employee (before tax) growing by 37.1 per cent between 1998 and 2003. This compared with average growth in nominal compensation per employee of just 8.7 per cent in Germany.
- By 2004 gross annual average compensation in Ireland was estimated at €38,140, higher than that of the EU-15 average (€34,630) and the UK (€35,750).

- Of the countries surveyed, Ireland is the second most expensive for electricity costs for industrial users. In the three years to September 2004, electricity prices for industry have increased by approximately 40 percent and a typical industrial user pays 40 per cent higher electricity costs in Ireland than in the UK.

"There is considerable evidence to suggest that both business costs and consumer prices in Ireland are now out of line with other advanced economies. Our relative cost position is not justified by economic fundamentals and poses a threat to our continued economic success. Improving Ireland's international costs competitiveness must remain a high priority for Government," said Mr William Burgess, Chairman of the NCC.

"Irish inflation fell significantly in early 2004, in part due to the action of Government and the Social Partners. It has, however, has accelerated again in recent months. Policy-makers must take action to reverse this acceleration and eliminate the inflation differential with the rest of the euro area. At worst, the gap between Irish and average euro area prices should not be allowed to widen further."

"The fall in the cost of insurance for many businesses and consumers over the last year has demonstrated the potential of determined Government actions in lowering prices for consumers and improving cost competitiveness for businesses. This determination to improve cost competitiveness now needs to be applied across a range of policy areas, and in particular:

Fiscal Policy: Government could help reduce price inflation and wage demands by avoiding large increases in excise duties, VAT and administered prices in the Budget for 2005.

Competition and Regulation: Better regulation is needed in areas such as energy, telecoms, transport, retailing and professional services in order to stimulate more competition and put downward pressure on prices in these sectors.

Trade Policy: The Government should support the efforts of the European Commission to open up Irish and other EU markets to more competition from abroad, particularly for food, services and utilities, thereby putting downward pressure on the high Irish prices and costs in these sectors.

Incomes Policy and Social Partnership: Wages should not increase above the rate agreed in Sustaining Progress.

Labour Market Policy: Higher labour market participation could ease labour shortages and upward wage pressures. Improvements regarding the tax burden of the low paid and better childcare facilities are critical. Action to encourage immigration of workers with skills in short supply would also ease labour market pressures.

"Without action, the combination of the recent acceleration in Irish consumer price inflation alongside the growing risk of a sharp decline in the value of the dollar against the euro makes the possibility of a further significant deterioration in Ireland's cost competitiveness all-too-possible, putting at risk employment and living standards," concluded Mr Burgess.

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