The National Minimum Wage

An Ibec submission to the Low Pay Commission

13 March 2020

Key Messages

1. **It is now inevitable that significant employment and economic disruptions will occur as a result of the Coronavirus crisis, which will particularly impact the hospitality and related sectors. We therefore recommend that the Low Pay Commission should postpone any decision in relation to the minimum wage and it should remain at its current level.** If these disruptions prove short lived and the Irish economy continues on its recent trajectory, Ibec recognises that there should be a proportionate and sustainable increase in the minimum wage of no more than the 2020 rate of inflation.

2. **The retail and hospitality sectors account for more than 50% of minimum wage workers. The dual challenges of large-scale disruption due to the Coronavirus outbreak and the potential for a hard Brexit at the end of the year will make 2020 a particularly difficult year for these sectors**. The Irish retail sector has faced many difficulties in the last year due to a weak sterling, ongoing Brexit uncertainty, increased online shopping and squeezed margins due to increased competition within the sector. Likewise, the hospitality sector saw an increase in the VAT rate, from 9% to 13.5%, along with rapidly rising insurance costs. The challenges of the previous year, combined with the expected difficulties of 2020 mean that the retail and hospitality sectors are not well positioned to absorb additional labour costs at this time.

3. **Any future changes to the minimum wage should be made with due regard to disparities in the cost of living and sectoral employment across Ireland. Ibec recommends that future work by the Low Pay Commission should consider the impact of changes to the national minimum wage on a regional basis.** In 2019, the largest driver of inflation was the cost of housing and utilities, which rose by 3.3% annually. Most of that increase was due to rising rents and mortgage interest payments. There are large differences in rent and housing costs across the country, with average rents in Dublin more than twice as high as average rents in the border region and counties Mayo, Roscommon and Longford[1]. Given such large disparities, a regional consideration of the impact and optimal level of the minimum wage is warranted.

4. **As a small, exporting economy, labour costs are central to our international competitiveness.** Movements in the euro-sterling exchange rate last year caused Ireland's competitiveness to deteriorate relative to our trading partners. At the same time, business costs are rising at a faster rate than competitor countries. Between Q2 2017 and Q2 2018 the cost of services to business in Ireland (as measured by Eurostat's Producer Price Index) increased by 4.3%, but by no more than 2% in any other competitor member state. The potential for either a hard Brexit or a minimal free trade agreement between the EU and the UK at the end of 2020 underscores the need for Irish businesses to remain competitive in a changing environment.

[1] Daft.ie. (2020). *Irish Rental Report Q4 2019*

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Ref: Consultation on the National Minimum Wage

I am pleased to communicate the views of Ibec and its members on the issues surrounding the National Minimum Wage. Ibec represents the interests of Irish business, including indigenous and multinational enterprises and SMEs, spanning all sectors of the Irish economy.

Ibec and its sector associations work with Government and policymakers at a national and international level to shape business conditions and drive economic growth. In this submission, we will set out the views of our members on the key areas of consideration when determining the national minimum wage.

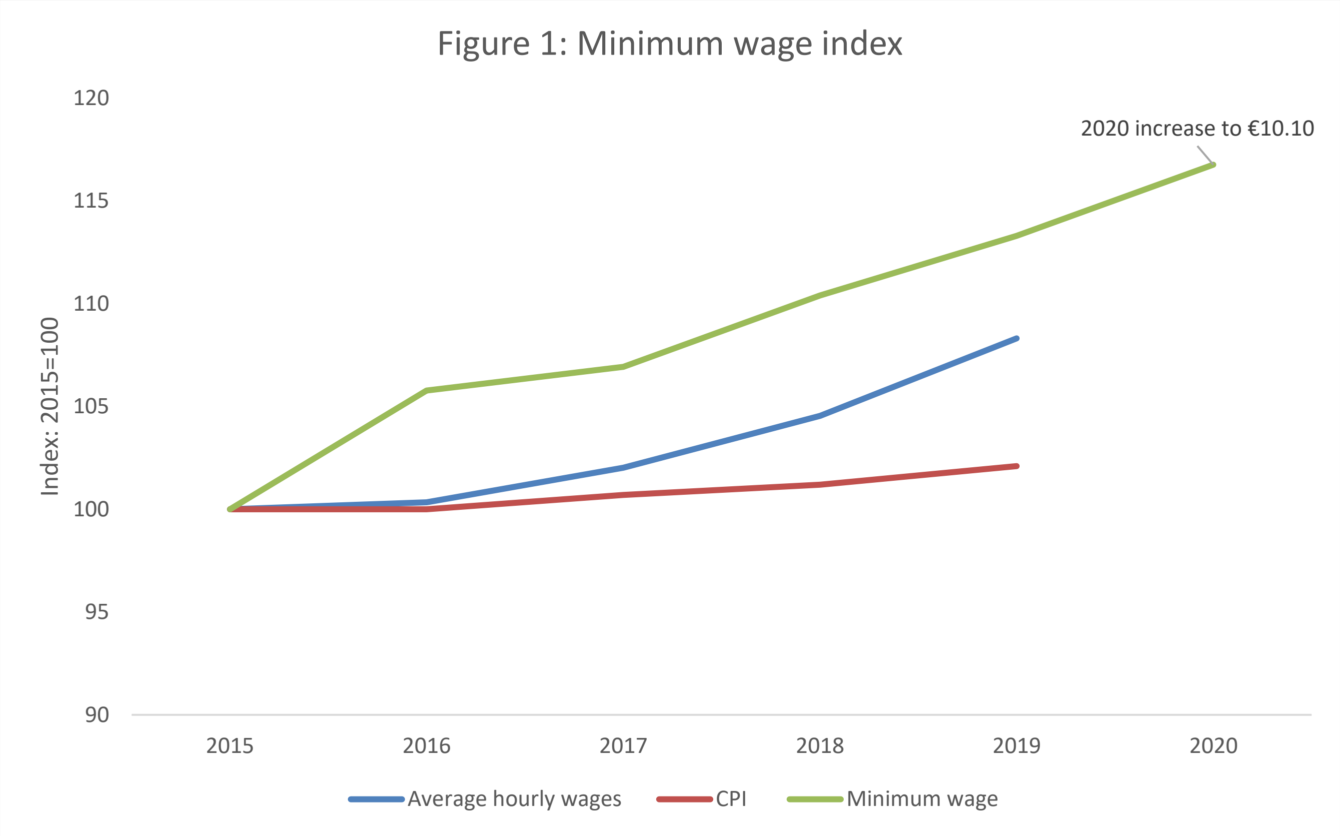
1. Introduction

All early indicators suggest that until the recent escalation of the Coronavirus crisis, the Irish economy has continued its strong growth trajectory into the early part of 2020 despite the continued threat of a hard Brexit. Employment growth in 2019 continued its rapid pace. Consumer sentiment and business confidence have both seen a January bounce following a muted end to 2019. However, this optimism is likely to be short lived due to unanticipated effects of the Coronavirus on global growth and demand in the early part of the year. There are also many risks on the horizon, most notably Brexit.

It is still unclear what the final Brexit outcome will be and there is a risk that there could be a 'no-deal' disorderly outcome with no extension of the transition period, come the end of the year. This would have a significant impact on the economy, particularly in sectors such as retail and hospitality, which employ the majority of workers on the minimum wage.

Ibec supports the minimum wage as a principle and recognises that the wage floor should increase as economic circumstances improve. It is vital, however, that the minimum wage is appropriate, competitive and affordable whilst also considering the cost of living. Ibec has analysed these factors and determined that in the event of significant disruptions to the Irish economy via extended Coronavirus impact, Brexit, or a deterioration in the position of the global economy, the national minimum wage should remain at its current level. In the event that these disruptions prove short lived and the Irish economy continues on its current growth trajectory, Ibec agrees that there should be a *fair and sustainable increase in the minimum wage of no more than the 2020 rate of inflation* (as determined by the CPI).

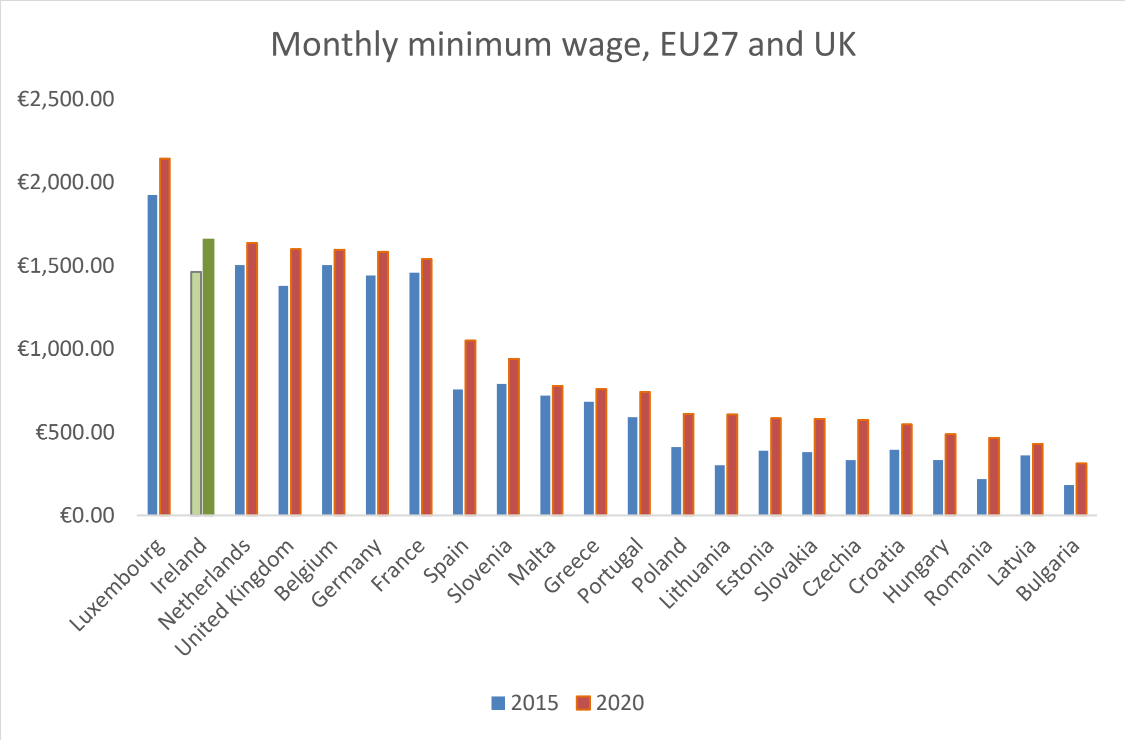
2. Minimum wage, average wages and the cost of living



Source: CSO

The rate of increase in the minimum wage has consistently outpaced growth in both wages and inflation since 2015. The minimum wage is now 16.8% higher than it had been in 2015, while average hourly wages have increased by just 9.9% between Q4 2015 and Q4 2019. Likewise, the cost of living, as measured by the CPI, has grown by only 2.6% since January 2015.

If the minimum wage increased at the same rate as inflation from 2015 to 2019, it would currently be €8.83. If it increased at the same rate as average wages over that period, it would be €9.50.



Source: Eurostat

According to Eurostat, Ireland has the second highest monthly minimum wage in the EU, after Luxembourg. While many European countries experienced larger increases in percentage terms than Ireland in the period between 2015 and 2020, these were generally from a much lower base. For countries with a monthly minimum wage of more than €1000, Ireland had the 3rd highest increase in monthly minimum wage from 2015 to 2020, at 13.3%. This increase occurred over a period of consistently low growth in the cost of living in Ireland.

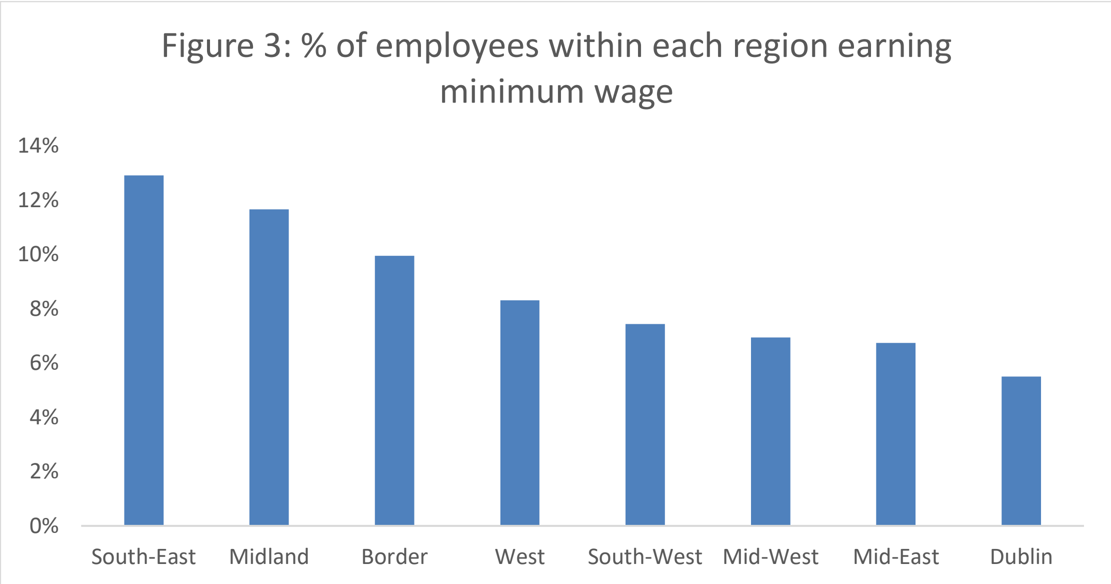
Inflation has increased modestly to 1.3% annually in January 2020, up from 0.9% in 2019 as a whole. The main drivers of this moderate inflation seen during 2019 were increases in the cost of housing and utilities, and restaurants, hotels and bars. Offsetting these increases and helping to keep the overall rate of inflation low were decreases in the cost of food, household equipment, and telephone services. An additional factor contributing to low inflation was a relatively weak sterling caused by Brexit uncertainty. As one of our larger trading partners, the devaluation of sterling over the year has kept the cost of imports comparatively low which in turn has fed into lower prices for Irish households.

Irish inflation is closely mirroring eurozone inflation, which remains low at 1.4%. It is expected that inflation will continue at a moderate pace over the course of the year, with what little inflation there is driven by rising wages and expansionary monetary policy from the ECB.

3. Regional disparities in the impact of the minimum wage

Any consideration of the minimum wage should be made with due regard to disparities in the cost of living and sectoral employment across Ireland. Ibec recommends that future work by the Low Pay Commission should consider the impact of changes to the national minimum wage on a regional basis.

As acknowledged in the recent ESRI study into the regional and sectoral effects of the minimum wage on hours worked, the impact of a change in the national minimum wage level can vary between regions.[2] In particular, the study highlighted that an aggregated approach to setting the minimum wage at the national level risks exposing employees in certain sectors and regions to negative impacts, including reduced work hours. It is therefore important that regional issues are considered in determining the appropriate minimum wage rate.



Source: CSO

More than 10% of employees in the South-East, Midland and Border regions are minimum wage earners in contrast with just 5.5% of employees in Dublin. Some 32% of minimum wage earners live in the Border, West and South-East regions, where average rents are considerably lower than in Dublin and the Mid-East.

In 2019, the largest driver of inflation was the cost of housing and utilities, which rose by 3.3% annually. Most of that increase was due to rising rents and mortgage interest payments. There are large differences in rent and housing costs across the country, with average rents in Dublin more than twice as high as average rents in the border region and counties Mayo, Roscommon and Longford[3]. Consequently, minimum wage earners can face significant differences in the cost of living across regions, primarily driven by disparities in housing costs.

Given such large disparities, a regional consideration of the impact of the minimum wage is warranted. The minimum wage rate that is optimal for Dublin may not be the appropriate rate

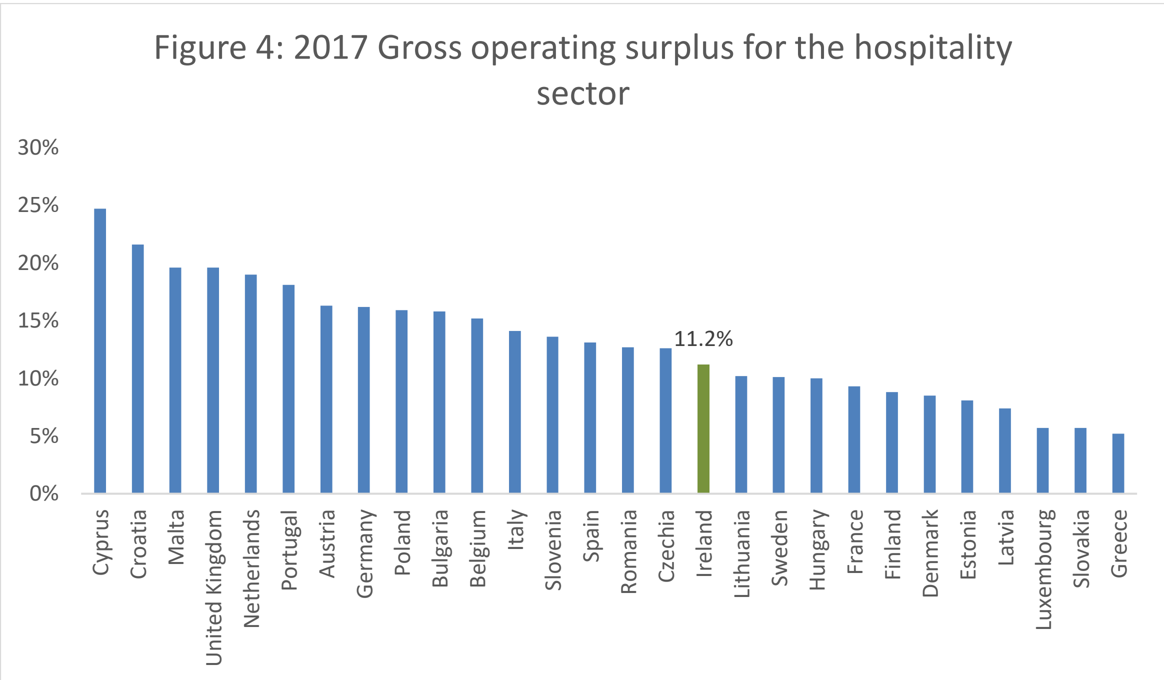
[2] McGuiness, S. Redmond, P and Delaney, J. (2019). *The prevalence and effect on hours worked of the minimum wage in Ireland: A sectoral and regional analysis.*
[3] Daft.ie. (2020). *Irish Rental Report Q4 2019*

for Donegal. The Low Pay Commission should consider some type of adjustment mechanism to address this issue of regional disparity.

4. Sectoral affordability

The retail and hospitality sectors are by far the biggest employers of minimum wage workers. Over 28% of retail and wholesale employees and 27.8 % of accommodation and food service employees were earning the national minimum wage as of 2018. Consequently, these sectors would be the most impacted by any further increase in the national minimum wage.

While the broader Irish economy has been experiencing strong growth, the picture for the retail and hospitality sectors was less positive in 2019. Firstly, an increase of the VAT rate to 13.5% in 2019 added to the costs faced by Irish businesses operating in the hospitality sector, squeezing profits in an area that already has relatively low margins compared to competitors. In 2017 (latest available data), the Irish hospitality sector had the 12th lowest margins in the EU at 11.2%. Several years of dramatic increases in the price of insurance for businesses have also significantly increased costs within the retail and hospitality sectors.



Source: Eurostat

Ongoing uncertainty surrounding Brexit and the dramatic devaluation in sterling last year further contributed to falling demand in the hospitality sector. In a year which saw otherwise strong growth in the Irish economy, earnings generated by overseas travel to Ireland fell by 0.1%. When fares are excluded, total expenditure in 2019 was €5.1bn, a decrease of 0.9% on 2018.[4] Given the current escalation in travel restrictions as part of Coronavirus containment measures, this reduction in tourism spending is likely to be substantial in 2020.

[4] CSO (2020). *Tourism and Travel Q4 2019*

The outcome of Brexit and its full impact has yet to be determined, with either a hard Brexit or an extremely limited free-trade agreement a likely outcome if the transition period is not extended beyond this year. Either scenario would spell further difficulties for the Irish hospitality and retail sectors in the immediate future.

The difficulties faced by the retail and hospitality sectors are already feeding through to employment levels in these areas. The number of people employed in the retail sector in Q4 2019 fell by 0.7% compared with the same period in 2018. This is in contrast with total employment growth of 3.5% across all sectors over the same period. Employment growth in hospitality was just 2.6% between Q4 2018 and Q4 2019.

Unprecedented challenge of the Coronavirus

Looking into the coming year, the unanticipated shock of the Coronavirus pandemic, the full impacts of which are not yet known, mean that this is likely to be an especially challenging year for the hospitality and retail sectors due to a sharp drop-off in demand, global disruptions in travel and flights, and the cancelling of events that make up a significant part of the retail and hospitality calendar, such as St Patrick’s Day events and Six Nations rugby matches.

The full effects of the pandemic on the Irish economy will depend on the duration and spread of the virus outbreak, but it is already clear that significant containment measures taken by the Irish government in combination with massive reductions in tourism and travel worldwide will particularly impact on the hospitality and retail sectors.

In light of the potential need for reduced working hours and expected increases in labour costs due to quarantine measures and extended sick leave for employees, an increase in the minimum wage level would be poorly timed for sectors already pressed on several fronts.