



RESTAURANTS
ASSOCIATION

OF IRELAND

Submission to the Low Pay Commission on the National Minimum Wage

A REPORT PREPARED FOR THE RESTAURANTS ASSOCIATION OF IRELAND

BY ECONOMIST JIM POWER

6th March 2020

EXECUTIVE SUMMARY

- The Restaurants Association of Ireland (RAI) represents over 2,500 members in the Republic of Ireland, including full-service restaurants, hotel restaurants, gastro pubs, coffee shops and cafes, industry suppliers, golf clubs and cookery schools. It also has 100 trade partners, businesses that are its approved suppliers of products and services for restaurants. The main aim of the association is to develop the restaurant industry in a professional and high-quality manner by providing strong support to its membership.
- The Accommodation and Food Services Sector is a very important component of the Irish economy. Employment in the sector stood at 179,800 on a seasonally adjusted basis in the final quarter of 2019, which is equivalent to 7.6% of total employment in the economy. Since the second quarter of 2011, just before the special VAT rate of 9% was introduced in July 2011, employment in the sector increased by 62,500 or 53.3%. The increase in the VAT rate in Budget 2019 is proving very challenging for the sector.
- The restaurant sector is a key component of the Accommodation and Food Services sector. It is estimated that the sector contributes over €2.2 billion per annum to the Irish economy in terms of wages and purchases of inputs, and it employs over 72,000 people.
- The restaurant sector has a broad geographical footprint and provides valuable full-time and part-time employment in every county around the country. It also supports local businesses through the purchasing of produce and services.
- The Irish economy is currently enjoying healthy growth, but there are some dark clouds on the horizon. COVID-19 poses a significant risk to a global economy that was already under pressure; the risks of the UK crashing out of the Brexit transition mechanism at the end of 2020 are very real; and sterling remains vulnerable to Brexit-related shocks. Domestically, the costs of doing business are high and rising; political uncertainty is now a significant issue; Irish FDI model is under pressure from global corporation tax developments; and the costs of doing business are high and still rising.
- The Irish tourism product is now coming under some pressure due to a combination of factors. Brexit, sterling weakness and the slower UK economy have affected the Great Britain market; the global economy is performing at a subdued pace; air access issues relating to the grounding of the B737MAX have had a negative impact; and the cost competitiveness of the Irish tourism product is coming under pressure due

to rising costs and prices. In addition, COVID-19 now poses an immense risk to the global economy in general, but to global tourism in particular, given the potential for either mandatory or voluntary travel restrictions.

- Maintaining cost competitiveness is crucial to the future prosperity of the economy. For a service export like tourism, international competitiveness is absolutely crucial to success. If the tourism product is not competitive, foreign visitors will be diverted to other cheaper markets, and domestic tourists will have a stronger incentive to go overseas. The other key element of competitiveness for visitors from outside the Euro area is the value of the euro.
- The restaurant sector has benefited from the overall economic uplift. However, trading conditions are quite challenging for many restaurant owners. It is still facing a number of headwinds which include the impact of currency movements on the tourism sector; Brexit; the fact that the personal sector is still pressurised and consumers are still generally resistant to higher prices; upward wage pressures; upward pressure on many of the other costs of doing business, particularly insurance costs; difficulties in recruiting and retaining labour; and the potentially very negative consequences of COVID-19 for tourism generally, but any congregating of people could come under threat.
- In considering further increases to the minimum wage it is essential that all of the realities facing restaurant operators are taken into account. It is important to recognise that the restaurant sector is a crucial element of the overall tourism package. It is vital that Ireland has a broad range of restaurant types and that these businesses are sustainable and profitable in order to push up quality and professionalism. The market is currently characterised by an increase in the number of restaurants experiencing trading and financial difficulties for a variety of reasons
- The Restaurant sector is very sensitive to wage costs and it is essential that increases in the minimum wage do not impact negatively on employment, hours worked, the price of the product and general wage levels in the sector. Consequently, further increases in the minimum wage would need to be considered very carefully, particularly given the competitiveness challenges now facing the Irish economy in general and the tourism sector in particular from Brexit, the increase in the VAT rate in Budget 2019, and intense pressure on a range of input costs, particularly insurance and commercial rates. The Restaurant sector in Dublin should not be taken as a barometer of the sector countrywide, but even in Dublin it is clear that many restaurants are under pressure. Trading conditions are more challenging around the country.
- In the year to the fourth quarter of 2019, average hourly earnings in the accommodation and food services sector expanded by 3.9%. Between the fourth

quarter of 2013 and the fourth quarter of 2019, average hourly earnings increased by 10.9%.

- In the year to the fourth quarter of 2019, average weekly earnings in the accommodation food services sector expanded by 7.5% and they increased by 21.2% between the fourth quarter of 2013 and the fourth quarter of 2019.
- Wage pressures are building, but it is important that wage competitiveness is maintained, given the challenges now facing the Irish economy as a result of Brexit threats, adverse currency movements, and the global pressure on Ireland's corporate tax model. In the face of these challenges, it is imperative that Ireland remains as competitive and business-friendly as possible.
- It is important that the minimum wage is not used as the main element of reducing inequality. Getting housing costs down, reducing the personal tax burden, and targeted social welfare would be more prudent from a policy perspective.
- As a principle, the National Minimum wage is socially and economically positive and it should increase as economic circumstances improve. However, it is vital that the minimum wage is set at an appropriate level and that it does not undermine employment or damage the competitiveness of the Restaurant sector and the general tourism proposition.

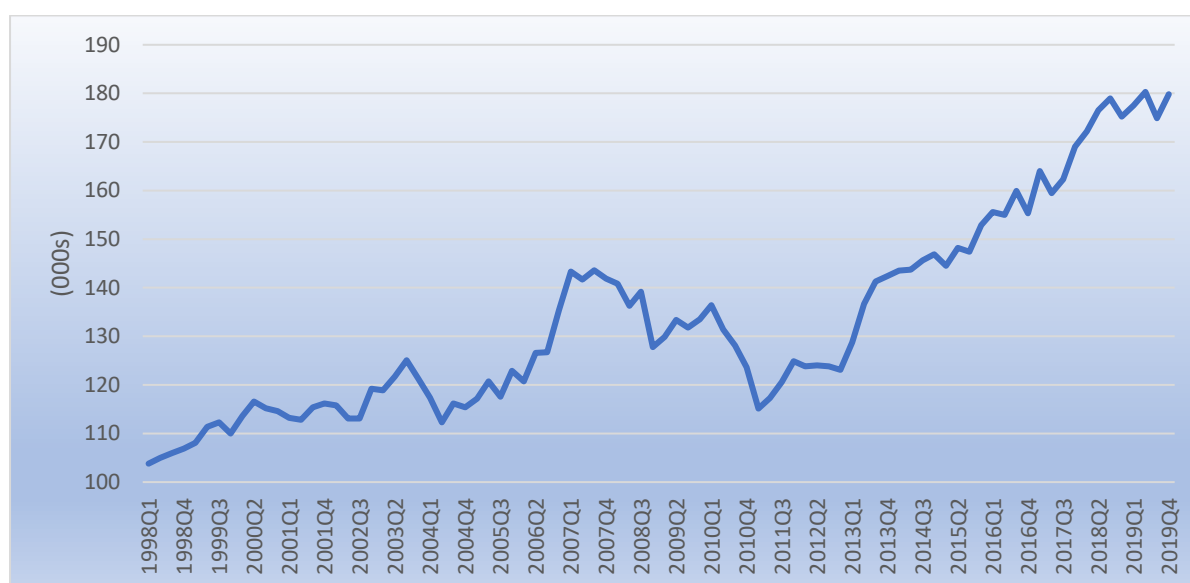
INTRODUCTION

The Low Pay Commission is an independent body whose principal function is to examine and make recommendations to Government on the appropriate level of the national minimum wage and related matters on an annual basis. This report has been prepared for the Restaurants Association of Ireland as an input into the Low Pay Commission in 2020.

The Restaurants Association of Ireland (RAI) is the representative body for restaurants in Ireland. The body was formed in 1970 with the aim of creating a strong lobby group that would represent the restaurant sector on all issues of importance to the Irish restaurant industry. The RAI now represents over 2,500 members in the Republic of Ireland, including full-service restaurants, hotel restaurants, gastro pubs, coffee shops and cafes, industry suppliers, golf clubs and cookery schools. It also has 100 trade partners, businesses that are its approved suppliers of products and services for restaurants. The main aim of the association is to develop the restaurant industry in a professional and high-quality manner by providing strong support to its membership.

The Accommodation and Food Services Sector is a very important component of the Irish economy. The latest labour force survey from the Central Statistics Office (CSO) estimated that employment in the sector stood at 179,800 on a seasonally adjusted basis in the final quarter of 2019, which is equivalent to 7.6% of total employment in the economy. Since the second quarter of 2011, just before the special VAT rate of 9% was introduced in July 2011 in order to boost employment in the sector, employment increased by 62,500 or 53.3%. The reversal of the VAT reduction in Budget 2019 has become a significant concern for the sector.

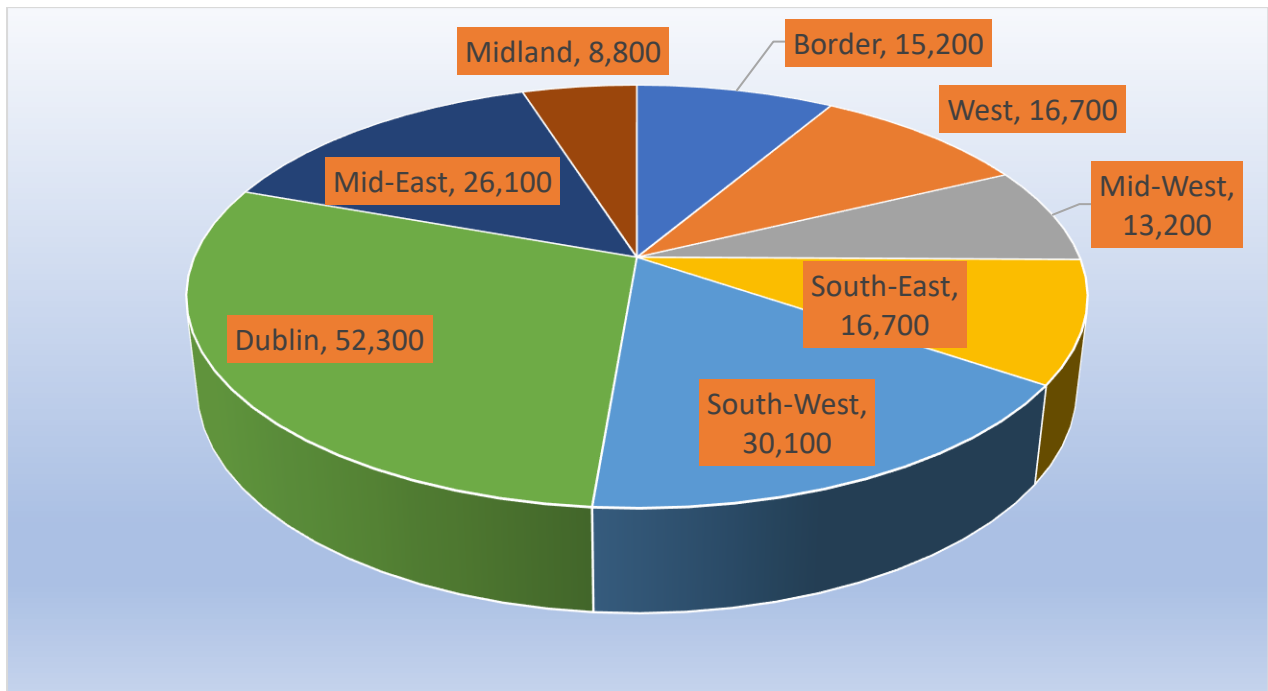
Figure 1: Employment in the Accommodation and Food Services Sector



Source: CSO, Labour Force Survey Quarter 4 2019, 18th February 2020.

The Accommodation and Food Services sector makes a broad regional footprint. Figure 2 shows the breakdown of employment in the sector by region. Dublin accounts for 29.2% of total employment in the sector, but employment is spread across the regions and makes a very strong economic and social contribution to rural and regional economies. In the context of the priority that is being given to achieving more balanced regional economic and social development in official government policy, the strong contribution from the sector is very important.

Figure 2: Employment in Accommodation & Food Services Sector by Region (Q4 2019)



Source: CSO Statbank, Labour Force Survey Quarter 4 2019.

The CSO estimates that in 2017ⁱ, there were 19,205 active enterprises in the Accommodation and Food Services sector. This represents an increase of 10% on 2008.

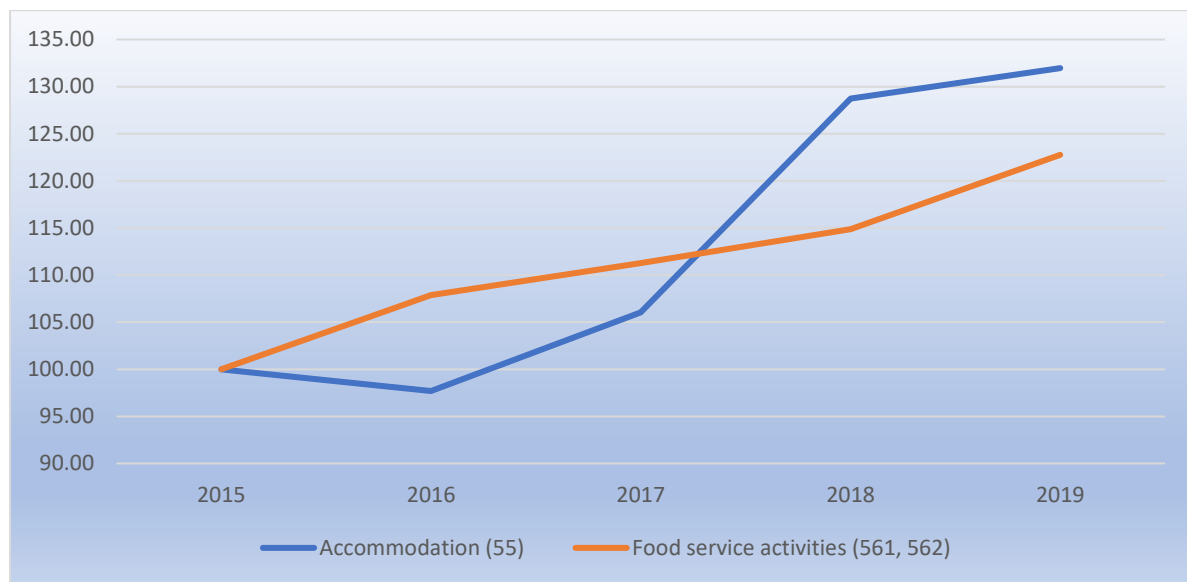
The restaurant sector is a key component of the Accommodation and Food Services sector. There are over 3,500 restaurants in Ireland, employing over 70,000 people. It is estimated that the sector contributes over €2.2 billion per annum to the Irish economy in terms of wages and purchases of inputs. The sector is also a significant employer of part-time workers, particularly students. For many young people, experience in the restaurant sector is their first exposure to customer service and as such provides a very solid education and training for young people who want to move on to other careers.

The Restaurant sector is one of the most important elements of Ireland’s tourism offering. It makes a strong contribution to the overall economy, but it makes a very important contribution to rural and regional employment and economic activity. The sector sources much of its raw material from Irish food producers, supports local employment and is a significant driver of local economic activity.

The restaurant sector has a broad geographical footprint and provides valuable full-time and part-time employment in every county around the country. It also supports local businesses through the purchasing of produce and services.

The sector went through a very difficult adjustment period from 2008 through to 2013 in line with the rest of the economy. The sector was particularly vulnerable as it is very dependent on inward tourism and domestic discretionary spending, both of which came under significant pressure during the severe economic downturn. The sector reacted strongly to the changed and much more difficult economic climate, by reducing costs and menu prices, and improving the quality of the offering. This approach, when combined with the Government decision to cut the VAT rate to 9% in July 2011, enabled the sector to come through the difficult economic circumstances.

Figure 3: Services Index Value



Source: CSO Statbank, Services Value Index.

Figure 3 measures the trends in output at current prices of a sample of enterprises in the Accommodation and in the Food Services sector since 2015. It shows clearly the strong recovery in output, which contributed to the strong growth in employment in the sector. Between 2015 and 2019, output from the Accommodation sector increased by 32% and output from the Food Services sector increased by 22.8%.

This report examines the issues around the minimum wage in Ireland. The first section outlines the current status of the Irish economy and the challenges it faces; the second section examines the minimum wage in Ireland and the international context; the third section looks at various aspects of Irish competitiveness; and the final section considers the context for the restaurant sector.

SECTION 1

THE IRISH ECONOMIC CONTEXT

THE INTERNATIONAL BACKGROUND

2019 was a challenging year for the global economy. Global growth slowed consistently as the year progressed. Economic recession was not experienced, but rather it was a year of modest growth, muted inflationary pressures and considerable uncertainty emanating from the US/China trade dispute, Brexit and a generally more uncertain and fractious global geopolitical environment. At the moment, global politics are much more worrying than economic fundamentals, but politics have a significant impact on sentiment and economic outcomes.

The US economy slowed as the year progressed and this forced the Federal Reserve to reverse course and cut interest rates three times by a total of 0.75%. On 3rd March 2020, US interest rates were cut by a further 0.5% in order to offset the negative economic impact of COVID-19. The US central bank had been tightening rates between December 2015 and December 2018.

Growth in the Euro Zone was the biggest disappointment in 2019. Germany and Italy moved close to technical recession and inflation remained well below the European Central Bank's target of '2% or slightly lower'. There was no surprise in the fact that the UK economy was undermined by Brexit uncertainty and business investment in particular was in a state of uncertainty-driven paralysis. Chinese growth slowed due to the trade dispute with the US, and ongoing domestic economic and financial restructuring. The Japanese economy weakened significantly and is now in real danger of plunging into recession.

All in all, global growth outturn was the weakest since the calamitous events of 2007/2008 and did set a more challenging backdrop for Ireland.

DOMESTIC ECONOMIC OVERVIEW

The Irish economy delivered another solid year in 2019. Economic growth data for the first nine months of the year show that gross domestic product (GDP) expanded by 5.9%. Consumer expenditure increased by 3.4% and exports of goods and services expanded by 12.1%. The modified and more realistic measure of economic growth – modified domestic demand expanded by 2.5%. These data describe an economy that is growing at a steady and sustainable pace, rather than at an overheated pace.

THE LABOUR MARKET

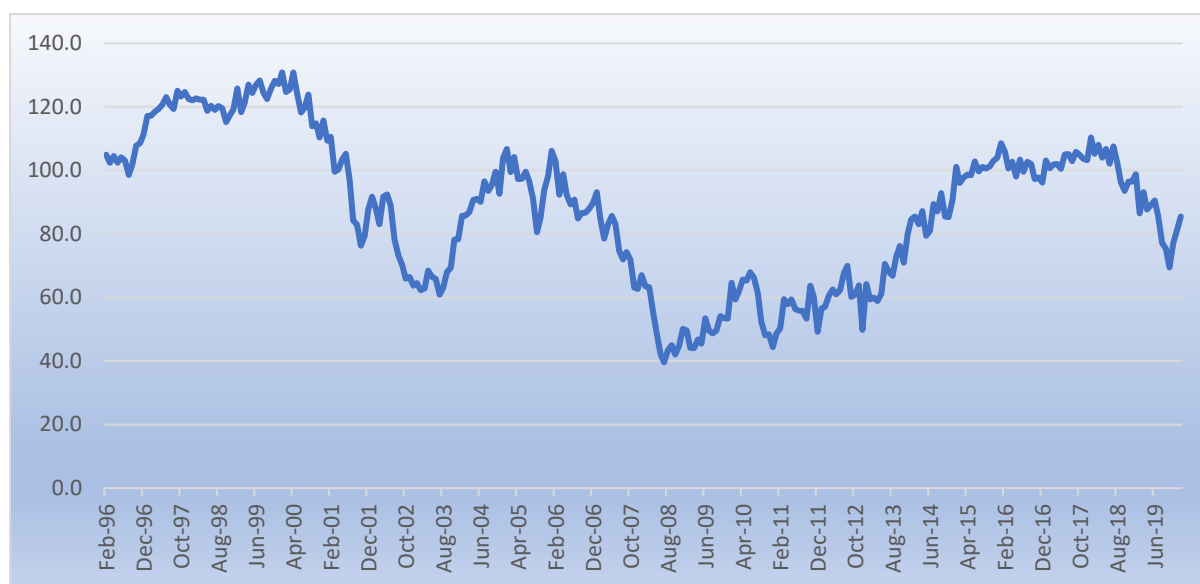
The number of people in employment expanded by 79,900 or 3.5% in the 12-month period to Quarter 4 2019. Total employment reached a new high of 2.361 million. The number of people unemployed declined by 12,900 during the year and the unemployment rate in December declined to 4.7% of the labour force, down from 5.5% a year earlier. There was a

further decline of 4,000 in unemployment in January, but there was a modest increase in February.

CONSUMER BEHAVIOUR

Retail sales, which is spending on physical goods, expanded by 2.1% in volume terms and 1% in value terms in 2019. The gap between the value and volume of growth is still significant, which is suggestive of continued price compression in the retail sector. The retail sales numbers are somewhat depressed by weaker car sales, and when cars are excluded, the volume of retail sales increased by 4.3% and the value of sales increased by 2.3%.

Figure 4: Consumer Confidence



Source: KBC Bank

Consumer confidence was fragile during the year and fell to its lowest level in over six years in October. However, it rebounded in subsequent months. This consumer fragility was mainly Brexit related and with the avoidance of a hard Brexit in January, confidence is stronger again.

EXTERNAL TRADE

The export performance was strong in 2019. Merchandise or goods exports expanded by a strong 8.5%. The UK market proved challenging, with the value of exports down by 2.3%. This reflects the weakness of sterling and the slowdown in the UK economy.

THE HOUSING MARKET

The housing market moderated significantly during the year. Increased supply, the Central Bank's mortgage lending restrictions and Brexit uncertainty all combined to generate a sharp deceleration in house price inflation. In the year to December, national average house prices increased by just 0.9%. Prices outside of Dublin increased by 2.8% and Dublin prices declined by 0.9%. From an economic perspective, these price trends have to be seen as positive.

In the final quarter of last year, 6,450 new residential dwellings were delivered, which is 18.5% higher than a year earlier. For 2019 as a whole, 21,241 new dwellings were delivered, which is 18.3% higher than 2018, which is nearly five times higher than 2013. We are still clearly not building enough houses, but it is steadily moving in the right direction and the incoming government will obviously be able to take credit for this improvement.

THE PUBLIC FINANCES

The public finances continued to improve. An Exchequer surplus of €647 million was recorded for the full year. Tax revenues continued to perform strongly and expanded by 6.8% to reach a record level of €59.3 billion. Tax revenues came in €1.37 billion ahead of target, with corporation tax coming in €1.4 billion ahead of target.

THE ECONOMIC OUTLOOK

In the early days of January, the Department of Finance updated its Irish growth forecast for 2020 reflecting the lessened risk of the potential for a disorderly Brexit in 2020. The revised forecasts are predicated on a free-trade agreement between the EU and UK that mirrors existing arrangements or the agreement of an extension to the transition period.

GDP is forecast to expand by 3.9% in 2020 and growth is projected to average 2.9% between 2020 and 2025. These forecasts look realistic based on the facts available at the moment. However, there are still dark clouds on the external horizon.

External Challenges & Risks

- The Coronavirus (COVID-19) is gathering momentum and is starting to pose a real threat to an already fragile global economy.
- Donald Trump faces an election in November and he will be keen to avoid a sharp slowdown in his domestic economy caused by a trade war with China. Consequently, progress on the trade dispute has been made and on January 15th he signed a Phase 1 trade agreement with China. This removes the immediate threat of an all-out trade war, but there can be no guarantees that there could be a further outbreak of trade hostilities down the road. It is hard to see the Chinese delivering on all of their commitments. There is a distinct risk that Trump might next direct some of his trade attention towards the EU.
- Global equity markets are at very elevated levels, and the risk of a serious correction at some stage cannot be discounted. In 2019, the S&P 500 expanded by 31.2%; the FTSE 100 by 19%; the German DAX by 25.5%; and the French CAC by 26.4%. There are few other viable options for investors at the moment and equities remain the preferred investment choice, despite their elevated levels and many investors continue to be pushed out the risk curve. This poses a risk for the global economy. COVID-19 has generated considerable nervousness and market negativity in recent weeks.
- The UK eventually left the EU on January 31st and the trade negotiations commenced in early March. These negotiations will be extremely difficult and the risks of a significant trade disruption next January cannot be ruled out. It appears very likely

that the UK Prime Minister will not seek an extension to the Brexit transition mechanism and will exit this mechanism come what may on 31st December. Whatever happens, there will be a significant deterioration in the ability of Ireland to trade with the UK. It is just a question of how bad it will be.

The International Monetary Fund (IMF) published its latest global economic outlook in January. The growth forecast for 2020 and 2021 has been revised modestly downwards since October. Global growth is estimated at 2.9% in 2019 and is forecast to increase to 3.3% in 2020 and 3.4% in 2021. This points to a continuation of sluggish growth, with downside risks. The downside risks identified include rising geopolitical tensions, particularly between the US and Iran; intensifying social unrest; a further worsening of relations between the US and its trading partners; and deepening economic frictions between other countries. The IMF is warning that a materialisation of these risks could cause global growth to fall below the projected baseline. COVID-19 has altered this benign outlook and the global economy is now under serious risk of a sharp temporary shock to growth.

Domestic Risks and Challenges

- While the moderation in house price inflation in 2019 was very welcome, rents are still rising and housing affordability is a big issue. The Central Bank is sensibly not likely to ease the mortgage lending rules, the imperative to increase housing supply should remain the key focus of policy makers. Capacity constraints in the construction sector represent an impediment to progress.
- The pressure to increase expenditure on public services is growing as the economy expands. This has been highlighted during the general election campaign. Ireland still has a high level of debt and fiscal prudence is essential regardless of who is in power.
- General Election 2020 has marked a dramatic shift in the Irish political system. Formation of a stable government is likely to prove very problematical. A prolonged period of political uncertainty would not be good for business and consumer confidence. Equally, the formation of a government focused on high spending and high taxation would not be in the interests of the economy. The Irish electorate appears to have succumbed to populist politics and this is a matter of deep concern for the future prosperity and sustainability of the economy.
- In an economy approaching full employment, the recruitment and retention of workers will prove a significant challenge for all employers, and wage costs are likely to rise.
- For small businesses in particular, the cost and availability of affordable insurance is a major problem. It must be properly addressed and solved by the incoming government.
- Ireland's corporate tax model will come under increasing pressure and will threaten the overall FDI model in the longer term, and corporate tax revenues in the more immediate future.

SECTION 2

THE NATIONAL MINIMUM WAGE

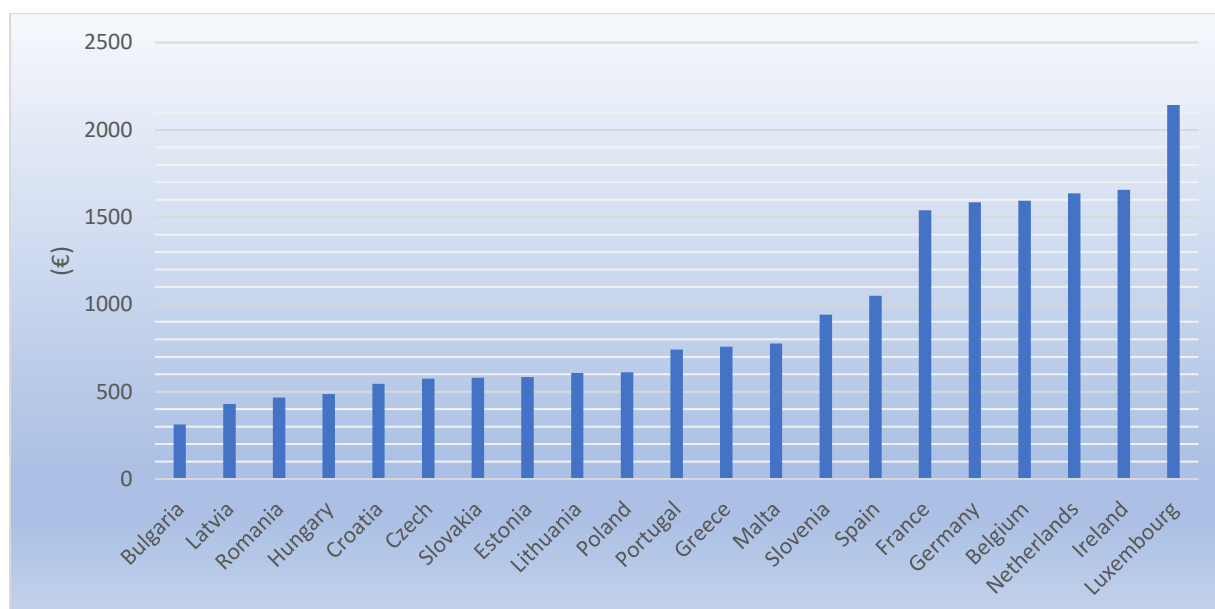
The National Minimum Wage was introduced in Ireland under the National Minimum Wage Act 2000. It was initially introduced at a rate of €5.59 per hour. In February 2020, it was increased by 3.1% from €9.80 to €10.10 per hour. Average consumer prices increased by 0.9% in 2019. Between January 2000 and February 2020, the minimum wage has increased by 80.7%. Over the same period, the consumer price index increased by 41.2%.

The most recent data from the CSOⁱⁱ show that in Q4 2018, 7.6% of employees for whom earnings data was reported, earned the National Minimum Wage or less. This is down from 8.6% in Q4 2017. This works out at 137,200 employees, which is 13,500 down on a year earlier.

In the Accommodation and Food services sector, 38,100 workers reported earning the National Minimum Wage or less, equivalent to 27.8% of the total. The Wholesale and Retail trade accounted for 38,700 or 28.2% of the total. Half of those earning the minimum wage or less in Q4 2018 were in the 15-24 age group.

As of January 2020, 21 of the 27 EU Countries had a national minimum wage. Denmark, Austria, Cyprus, Italy, Finland and Sweden do not have such legislation. Figure 5 shows the monthly minimum wage in the 21 EU countries. Ireland is the second highest of the 21 countries.

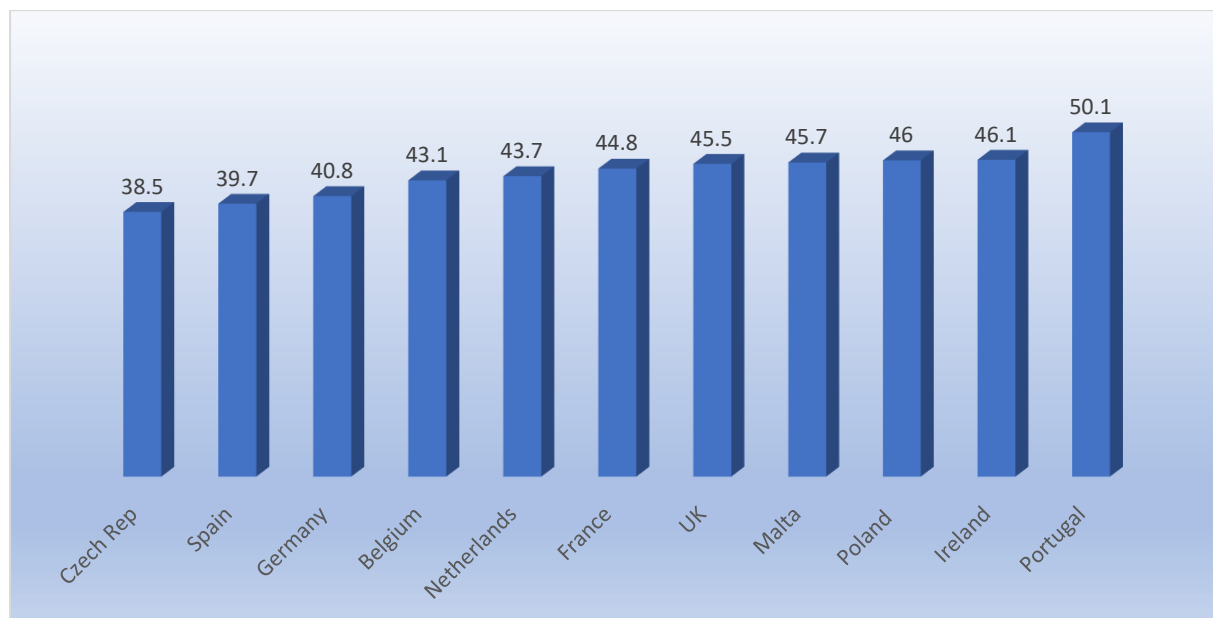
Figure 5: Minimum Wage per Month EU-27 Comparison (Selected Countries)



Source: Eurostat, January 2020

Figure 6 shows a comparison of monthly minimum wage as a proportion of average monthly earnings. In 2018, Ireland stood at 46.1%. This is up from 44% in 2015.

Figure 6: Monthly Min. Wage as % of Average Monthly Earnings 2019 (NACE 2)

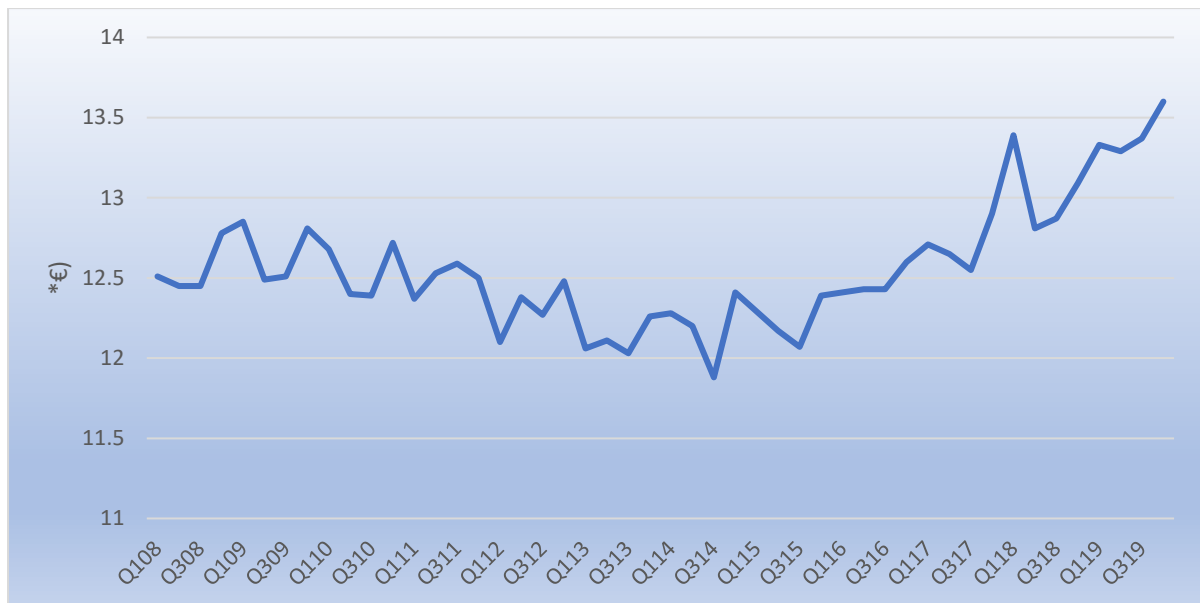


Source: Eurostat, Note: Czech Rep, Spain, Poland, Ireland, Netherlands (2018); Belgium (2017) & France (2016),

Figure 7 shows the trend in average hourly earnings in Accommodation and Food Service Activities since the first quarter of 2008. Average earnings declined sharply between 2008 and 2013, which made a significant contribution to the improvement in the sector's competitiveness. There has been a significant uplift since 2016.

In the year to the fourth quarter of 2019, average hourly earnings in the accommodation and food services sector expanded by 3.9%. Between the fourth quarter of 2013 and the fourth quarter of 2019, average hourly earnings increased by 10.9%.

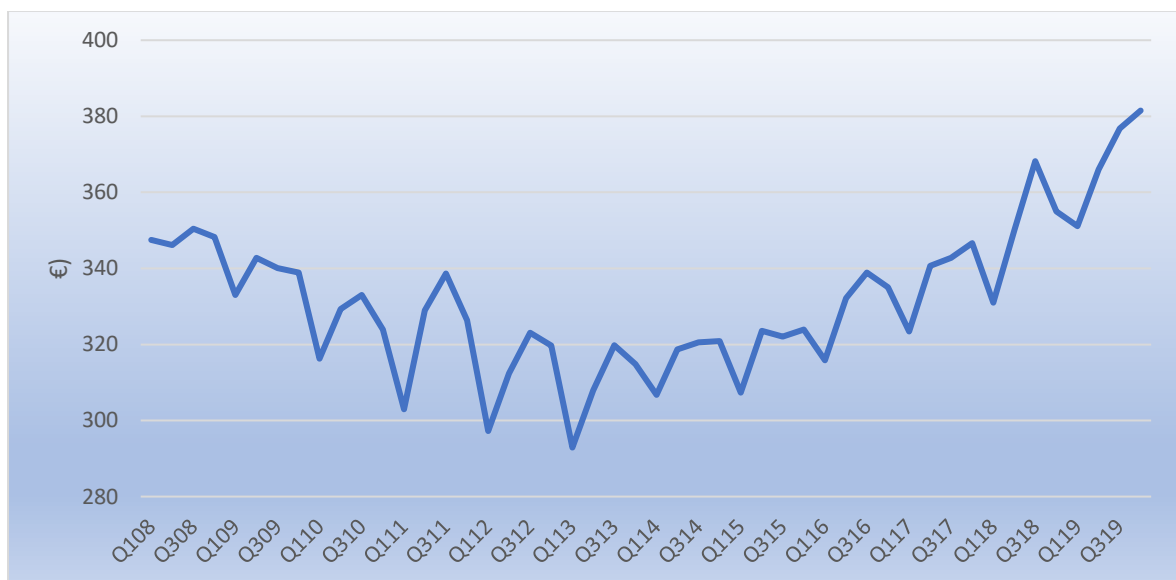
Figure 7: Average Hourly Earnings Accommodation & Food Services



Source: CSO Statbank

In the year to the fourth quarter of 2019, average weekly earnings in the accommodation food services sector expanded by 7.5% and they increased by 21.2% between the fourth quarter of 2013 and the fourth quarter of 2019.

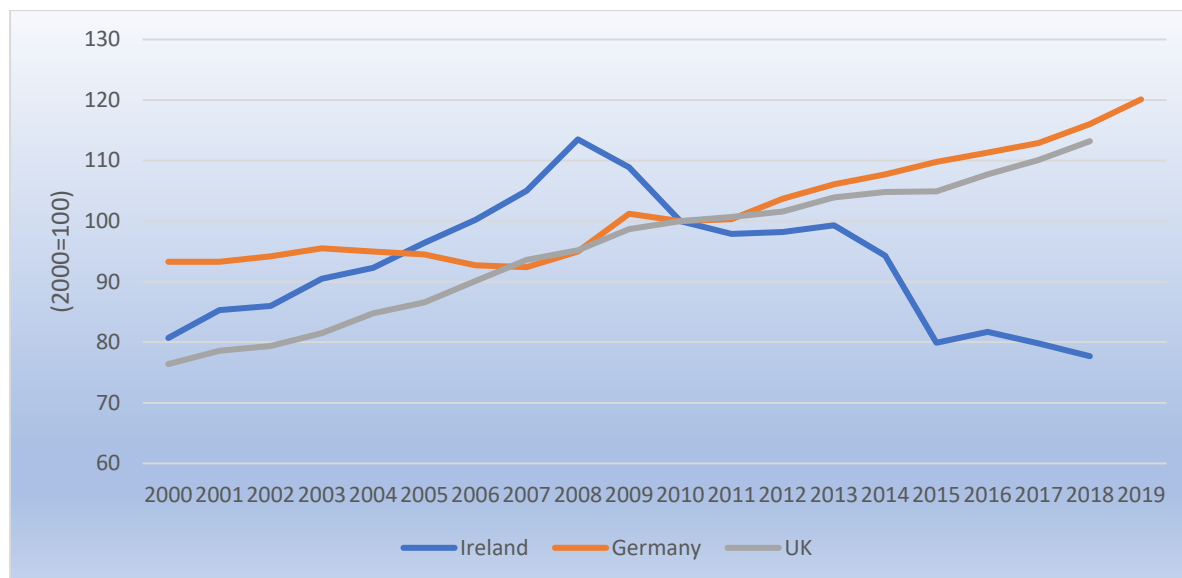
Figure 8: Average Weekly Earnings in Accommodation & Food Services Sector



Source: Statbank

It is important that wage competitiveness is maintained, given the challenges now facing the Irish economy as a result of Brexit threats, adverse currency movements, and the global pressure on Ireland’s corporate tax model. In the face of these challenges, it is imperative that Ireland remains as competitive and business-friendly as possible.

Figure 9: Indicators of Competitiveness – Nominal Unit Labour Costs



Source: Eurostat

Figure 9 shows the trend in unit labour costs in nominal terms for the UK, Germany and Ireland. Countries. The unit labour cost is defined as the ratio of labour costs to labour productivity, and is a reasonable measure of relative competitiveness. From 2015 onwards, the data are somewhat distorted for Ireland due to the impact that multi-national IP transactions had on GDP that year and subsequently. However, it is clear that after 2008, the relative competitiveness of the economy improved significantly and made a major contribution to the strong growth recovery from 2014 onwards. In the period leading up to the Irish recession in 2008, unit labour cost growth in Ireland had totally outpaced that in the UK and Germany, but the gap narrowed and went into reverse during the deep Irish recession. It is important for Ireland's future prosperity that this relative improvement be maintained.

The economic boom from 2000 onwards obviously fuelled strong growth in wages in Ireland, but this was compounded by the introduction of the National Minimum Wage. All available evidence suggests that excessive wage growth helped fuel the unsustainable Irish economic model (along with other factors) and contributed to the undermining of the competitiveness of the economy in a significant way. This ultimately contributed in a significant way to the very damaging economic correction from 2008 onwards.

Now that the economy is in recovery, it is essential that maintaining competitiveness is top of the policy agenda, and control of wage costs should be a key part of this. A reduction in the personal tax burden would be the most economically positive way to put money back into the pockets of workers. For those on low wages, targeted social welfare measures would be most appropriate. In an economy approaching full employment, this will be very challenging.

An IMF paperⁱⁱⁱ(2016) argues that in competitive labour markets, fixing wages above market-clearly levels necessarily hurts job creation, growth, and investment as competitiveness suffers and jobs are automated. It suggests that labour intensive industries competing in international markets are likely to be most affected. The research suggests that the employment effects could be mitigated if workers increase effort and firms drive productivity enhancements. However, pushing wages above efficiency levels could just serve to increase involuntary unemployment and induce firms to substitute capital and higher-skilled labour for low-skilled labour.

The IMF paper also shows that there are trade-offs associated with minimum wage policies. These trade-offs include competitiveness, youth unemployment and the extent to which minimum wage increases feed through to more general wage increases across the economy. In a range of countries considered, the pass through to general wages is in a range of 10% to 45%. The paper warns that minimum wage increases can end up being passed on to the consumer in higher prices, reducing consumer purchasing power, including those on lower incomes than minimum wage earners, and where profits take a hit, competitiveness may suffer.

The IMF argues that addressing income inequality requires a broad policy approach and the task cannot be shouldered by minimum wage policy alone.

SECTION 3

THE COMPETITIVENESS CHALLENGE

Ireland is a small and very open economy and is very exposed to external factors and developments that are beyond its control. The economy is very dependent on international trade, foreign direct investment and overseas tourism, hence maintaining competitiveness is of vital importance.

Two of the most important determinants of competitiveness are productivity and costs. Competitiveness includes normal business costs such as wages, the cost of credit, legal costs and insurance costs. It also includes non-cost items such as the availability of a high quality competitive workforce; a top quality physical and IT infrastructure; the nature of digital engagement, high quality public services such as health, education and law and order; an abundance of appropriate high quality and affordable housing for rental and owner-occupier purposes; the nature of innovation and entrepreneurship; and a generally strong quality of life, including amenities such as restaurants and public amenities.

For most firms, particularly in small and medium-sized businesses, labour costs tend to be the most driver of business costs. This is particularly the case for service firms such as restaurants.

There are two elements to competitiveness, domestic and international. Domestic competitiveness is concerned with the ability to conduct business in the domestic economy, and international competitiveness is concerned with the ability to compete in international markets and with overseas companies. Both are inter-related and inter-dependent.

THE NATIONAL COMPETITIVENESS COUNCIL

The National Competitiveness Council^{iv} defines national competitiveness as ‘the ability of enterprises to compete successfully in international markets.’ In the 2019 report ‘*Ireland’s Competitiveness Challenge 2019*’, the Council pointed out that while Ireland is a competitive economy, there is room for improvement; and that Ireland cannot afford to be complacent about its strong overall performance and must continuously strive for improvement, so that it remains a competitive economy.

The threats to the future sustainability of the Irish economy include the concentrated nature of the economy, which leaves the country highly exposed to the performance of a small number of firms, a small number of sectors, and a small number of external markets; the challenge of climate change; and the fact that Ireland is a high cost economy.

THE NCC pointed out that labour costs are a key factor in determining competitiveness and it expressed concern at the recent faster pace of labour cost growth. It stressed that ‘*the challenge for the Government is to ensure that the interaction between wages, prices and productivity levels is sustainable and enhances both competitiveness and living standards.*’

Ireland’s international competitiveness improved markedly after 2011. The country moved from 16th to 6th of 63 economies in the IMD’s World Competitiveness Yearbook 2017; in

2018 it slipped to 12th place, but improved to 7th place in 2019. Ireland was ranked 24th in the World Economic Forum's Competitiveness Report 2019.

Despite these strong international showings, the National Competitiveness Council described Ireland as 'a relatively high-cost location', and is calling for competitiveness to be positioned as the central pillar of Ireland's economic policy.

THE CENTRAL BANK'S HARMONISED INDEX OF COMPETITIVENESS

The Central Bank of Ireland, in conjunction with the ECB has developed a set of price and cost harmonised competitiveness indicators (HCIs). The HCIs are conceptually equivalent to effective exchange rates; they track the movements in nominal exchange rates and also take into account movements in a chosen national deflator such as the Consumer Price Index or the Producer Price Index. In effect these measures seek to monitor and measure how an economy's competitiveness is developing in relation to those countries with which it trades.

Between October 2000 and April 2008, there was a massive loss of competitiveness for the Irish economy:

- The Nominal HCI appreciated by 31.2%;
- The HCI adjusted for Consumer Prices appreciated by 38.8%; and
- The HCI adjusted for Producer Prices appreciated by 26.6%.

Between April 2008 and December 2016, there was a significant improvement in competitiveness;

- The Nominal HCI improved by 10.6%;
- The HCI adjusted for Consumer Prices improved by 22.8%; and
- The HCI adjusted for Producer Prices improved by 5.11%.

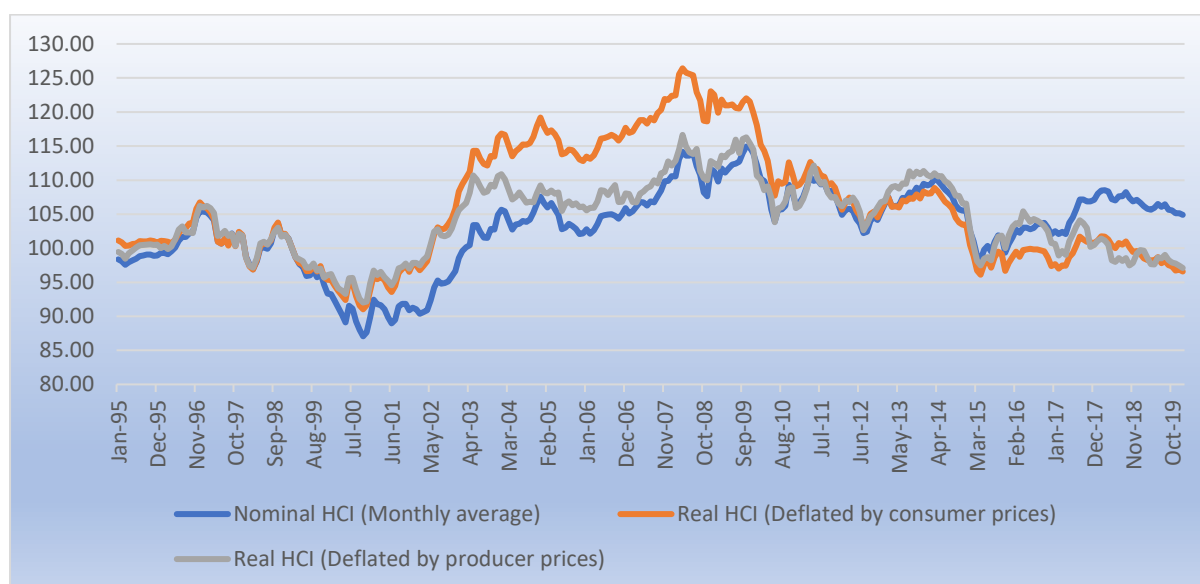
It is essential, particularly in the face of the immense challenges facing the Irish economy, that these gains in competitiveness are maintained and improved upon. There is nothing that can be done to influence the nominal exchange rate, but all elements of cost competitiveness must be monitored and controlled very diligently.

Between January 2019 and January 2020:

- The Nominal HCI improved by 1.7%;
- The HCI adjusted for Consumer Prices improved by 2.6%; and
- The HCI adjusted for Producer Prices improved by 2.6%.

The relatively stable performance of sterling has helped Irish competitiveness over the past year, but this is outside of Ireland's control and the UK currency remains vulnerable to Brexit uncertainty. Hence, there is an ongoing imperative to control all costs very diligently.

Figure 10: Harmonised Competitiveness Indicators



Source: Central Bank of Ireland

THE COSTS OF DOING BUSINESS IN IRELAND – NATIONAL COMPETITIVENESS COUNCIL

Every year the National Competitiveness Council benchmarks business costs in Ireland against costs in competitor countries. The National Competitiveness Council (NCC)^v (July 2019) pointed out that while Ireland is performing well in aggregate in terms of competitiveness, Ireland is a high cost economy and there are still areas of concern that should be addressed. These include low productivity in many sectors, and costs that are out of line with our international competitors in areas such as the cost of credit, commercial rents, and business services.

The following are the key conclusions of the NCC that impact on the competitiveness of Ireland as a tourist destination and on the operating environment for related businesses:^{vi}

- In 2017, total hourly labour costs in Ireland are the 8th highest in the Euro Area – 2.3% higher than the Euro Area average 20.6% higher than the UK;
- In 2018, the monthly minimum wage in Ireland was higher than Spain and the UK;
- Certain utility costs such as electricity and gas tend to be higher in Ireland than other jurisdictions, but Ireland is more competitive regarding other utility costs such as telecoms;
- In the first half of 2018, the Irish weighted average non-household electricity prices for non-household consumers consuming between 20 and 500 MWh was €0.14/kilowatt hour, compared to €0.13 in the UK and €0.10 in the Euro Area;
- Gas prices for non-household consumers have been consistently above the UK since 2013;
- The Standalone Fixed Voice charges for business in Ireland fell sharply in Q4 2018 and was the lowest of six EU countries considered;
- Business Fixed Broadband costs in Ireland have been trending lower and at €42.46 are lower than the UK, but higher than Germany, Denmark and Spain;

- Business post-paid mobile services in Ireland at €30 per month are more than twice the UK at €13.71;
- Businesses in Ireland face higher interest rates than the average business in the EU or Euro area, regardless of size of company or duration of loan;
- Irish interest rates for non-financial corporations stood at 3.3% in January 2019, compared to just under 2% in the Euro Area. Irish businesses now face higher interest rates than in 2014;
- For non-financial corporations, in January 2019 loans up to €0.25 m had an average interest rate of 5.5%, compared to 2.2% in the Euro area;
- Ireland is a relatively expensive location in which to resolve a commercial dispute through a first-instance court. The total cost of enforcing a contract was 27% of the total award. Lawyers fees account for 70% of the cost. In the World Bank's Ease of Doing Business Report, the analysis suggests that the time taken for filing and service, trial and judgment and enforcement is 650 days in Ireland, compared to 437 days in the UK and 578 days on average across OECD countries.

SECTION 4

THE RESTAURANT SECTOR AND THE MINIMUM WAGE

The Irish economy has experienced a strong recovery since 2013. The recovery has been broadly based, with almost all sectors benefiting.

The restaurant sector has benefited from the overall economic uplift. However, trading conditions are quite challenging for many restaurant owners. It is still facing a number of headwinds which include the impact of currency movements on the tourism sector; Brexit; the fact that the personal sector is still pressurised and consumers are still generally resistant to higher prices; upward wage pressures; upward pressure on many of the other costs of doing business, particularly insurance costs; and the potentially very negative consequences of COVID-19 for tourism generally, but any congregating of people could come under threat.

In considering further increases to the minimum wage it is essential that all of the realities facing restaurant operators are taken into account. It is important to recognise that the restaurant sector is a crucial element of the overall tourism package. It is vital that Ireland has a broad range of restaurant types and that these businesses are sustainable and profitable in order to push up quality and professionalism.

The market is currently characterised by an increase in the number of restaurants experiencing trading and financial difficulties for a variety of reasons.

TOURISM AND THE RESTAURANT SECTOR

TOURISM

The number of overseas visitors to the country increased by 1.8% to reach a new record of 10.8 million in 2019. The Great Britain market was challenging, with growth of just 0.8%. In 2019, visitors from Great Britain accounted for 35% of the total market. This is down from 41% in 2016.

Table 1: Overseas Visitors to Ireland

	2019	% YEAR-ON-YEAR	MARKET SHARE 2019
Great Britain	3,787,700	+0.8%	35.0%
Other Europe	3,910,200	+2.6%	36.2%
USA & Canada	2,412,500	+1.2%	22.3%
Other Areas	697,200	+5.5%	6.5%
Total	10,807,500	+1.8%	

Source: CSO

It is estimated by Fáilte Ireland that despite the record number of overseas visitors in 2019, the tourism spend was down around 1.8%, reflecting a change in the composition of the overseas market. The UK visitor share has been falling significantly, and the growth in North

America and Europe has been stronger in numerical terms. However, UK visitors tend to have a higher daily spend, whereas European and North American visitors do tend to be more frugal.

The Irish Tourism Industry Confederation (ITIC) estimates that the Irish tourism industry earned an estimated €9.3 billion in 2019. Overseas visitors accounted for 55.9% of the total; domestic visitors accounted for 20.4%; visitors from Northern Ireland accounted for 4.1%; and 18.8% came from fares paid to Irish air and sea carriers.

The Irish Hotels Federation released data in February 2020, showing that overall hotel occupancy rates in 2019 increased slightly to 73% from 72% the previous year. However, this statistic hides significant regional variations. Dublin had an average capacity of 82%, but it was 53% in the midland region and 65% along the Wild Atlantic Way. Simultaneously, hotel capacity in terms of beds is increasing at a significant pace.

Tourism is a sector that employs around 260,000 workers in total, which is equivalent to 11% of total employment in the economy. However, the most important attribute of the sector is that much of this employment is in rural areas, where not a lot else tends to happen outside of the peak tourism season.

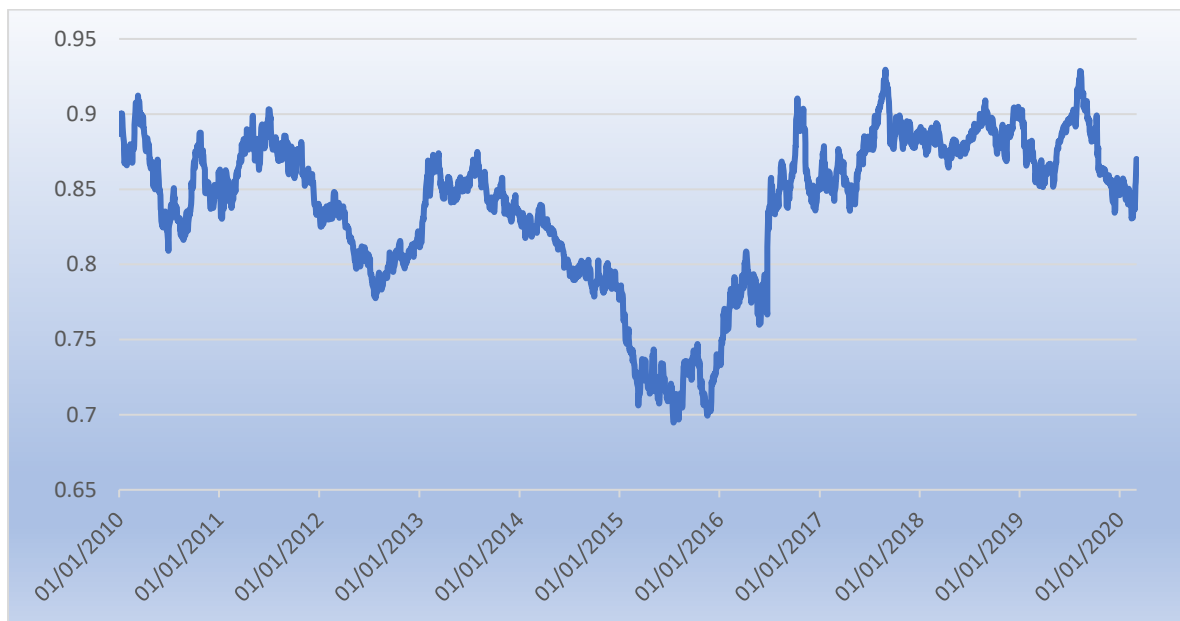
The Irish tourism product is now coming under some pressure due to a combination of factors. Brexit, sterling weakness and the slower UK economy have affected the Great Britain market; the global economy is performing at a subdued pace; air access issues relating to the grounding of the B737MAX; and the cost competitiveness of the Irish tourism product is coming under pressure due to rising prices. In addition, COVID-19 now poses an immense risk to the global economy in general, but to global tourism in particular, given the potential for either mandatory or voluntary travel restrictions.

For a service export like tourism, international competitiveness is absolutely crucial to success. If the tourism product is not competitive, foreign visitors will be diverted to other cheaper markets, and domestic tourists will have a stronger incentive to go overseas. The other key element of competitiveness for visitors from outside the Euro area is the value of the euro.

Sterling weakness is pressurising the UK visitor market. In 2015, the sterling/euro exchange rate averaged 72.6 pence; in 2016 it averaged 81.9 pence; in 2017 it averaged 87.64 pence; in 2018, it averaged 88.49 pence; in 2019 it averaged 87.75 pence; and in the first two months of 2020, it has averaged 84.61 pence. However, in the early days of March, sterling has come under renewed pressure and is currently trading at just over 87 pence (2nd March 2020). This represents a very significant deterioration in what is a very important exchange rate relationship for Ireland.

This currency adjustment represents a serious deterioration in the competitiveness of the Irish tourism product for UK visitors.

Figure 11: Sterling v Euro Exchange Rate



Source: Bloomberg

It is very clear that the competitiveness of Irish tourism is being threatened by exchange rate developments that are outside of Ireland's control. Hence, it is essential that other aspects of the competitiveness of Irish tourism are protected and nurtured.

Increasing the minimum wage excessively will just serve to undermine another aspect of the tourism product and undermine the viability of many businesses in the sector. In the face of adverse exchange rate movements, it is crucial that the cost competitiveness of the sector is preserved to the greatest extent possible.

The restaurant sector is a key element of Ireland's tourism offering. Having a high-quality and affordable restaurant offering is of vital importance to the success of the sector.

Failte Ireland has just launched a strategy^{vii} to reposition Irish food and drink from a pleasant surprise to becoming one of the compelling reasons to visit Ireland. The target included in the strategy is to ensure that food will grow tourism revenue by as much as €400 million over the next 5 years. The restaurant sector will be key to delivering on this strategy, but to do so, it must be of high quality and be competitive.

BREXIT

Brexit remains a source of deep uncertainty for the Irish economy in general and for the businesses that operate within the economy.

The UK left the EU on the 31st of January 2020. In early March, trade negotiations between the EU and the UK got underway in relation to the future trade relationship between the EU and the UK. A transition period now applies, meaning that the UK is no longer a member of the EU, but will continue to enjoy the same access to the EU single market and the customs

union. This transition period ends on 31st December 2020 and the UK has made it very clear that it has no intention of seeking an extension to the transition period.

This does pose a potentially significant problem at the end of 2020. It seems likely that the UK will exit the transition mechanism on 31st December 2020 regardless of what sort of trade deal is done with the EU, if indeed any deal is achieved. The UK's chief Brexit negotiator, David Frost, has outlined the very strong approach to the negotiations that his government will adopt. He has stated that the UK would never agree to EU oversight of its rulemaking in exchange for a post-Brexit trade deal. He stated a government view that the whole purpose of leaving the EU was to become an independent country once again and that acceptance of EU supervision on so-called level playing field issues would defeat the purpose of the whole exercise that was put in motion back in June 2016.

Simultaneously, the French and the Irish governments are exerting pressure on the EU to adopt a more stringent stance with the UK and that it should insist upon the UK adhering to EU food safety standards, and EU environmental, tax and labour-related rules as they are developed over the coming years. The EU approach thus far has been a willingness to accept the rules as they stand at the end of 2020. The differences that these two positions represent are significant, fundamental and potential very problematical.

The news flow from the trade talks will be watched with very keen interest over the coming months. The big question is just how realistic it is to suggest that a deal can be done by the end of the year, thereby ending the transition period. It seems inconceivable that such dramatic progress could be made in just 10 months, with the consequence that the UK could crash out of the transition mechanism at the end of 2020 and WTO trade rules could then apply. This would not be good news for the Irish economy.

There is still no clarity as to how Brexit will unfold, but it represents the most significant and uncertain challenge facing the Irish economy in generations. Every sector of the economy will be potentially affected. For the restaurant sector there are many potential challenges that will need to be managed very carefully.

- Sterling weakness and its consequences will remain a serious threat;
- If a 'Hard Brexit' materialises, indigenous Irish exporters will come under significant pressure. Farming and agri-food businesses are likely to be particularly vulnerable. If rural businesses suffer, the restaurant sector in rural areas will be particularly vulnerable. The Dublin market will be less vulnerable, due to its capital city status; and
- Any slowdown in the UK and Irish economies would be very challenging.

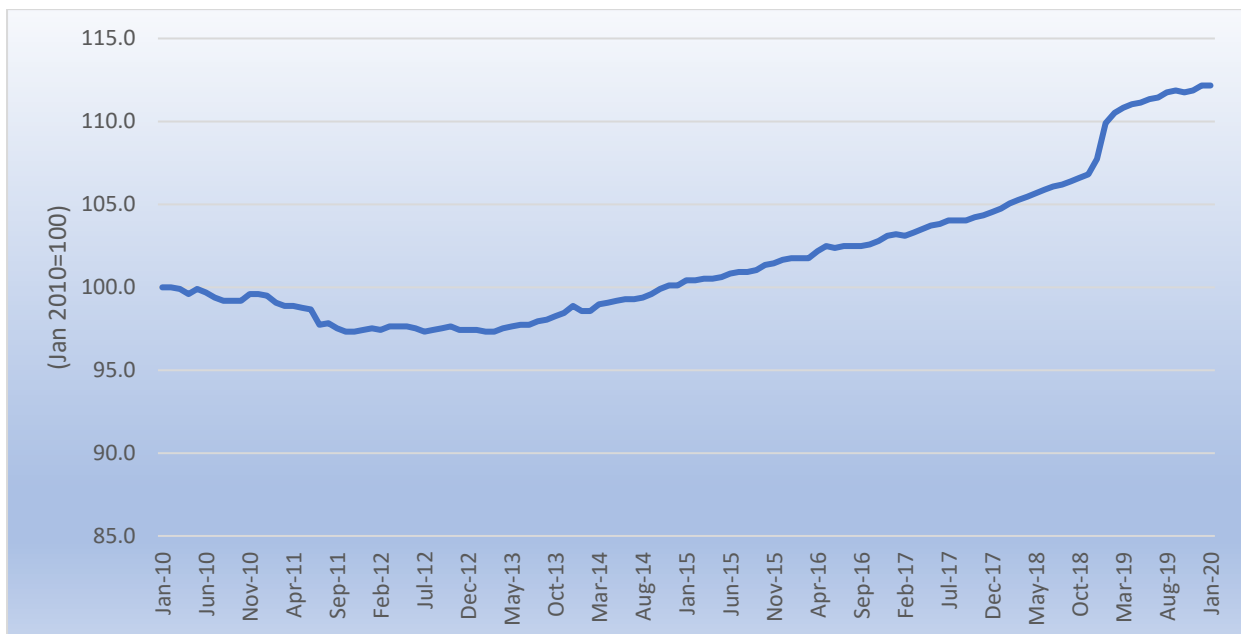
COST PRESSURES FOR RESTAURANTS

In order for the Restaurant sector to continue to provide employment throughout the country, to support local food producers, and play an integral role in the Irish tourism industry, a number of cost challenges must be addressed.

- Average labour costs per hour in Ireland stood at €32.10 in 2018, compared to an EU average of €27.40, a Euro Zone average of €30.60, and a UK average rate of €27.40;^{viii}
- Average labour costs per hour in the services sector in Ireland stood at €30 in 2018, compared to an EU average of €27, a Euro Zone average of €29.60, and a UK average rate of €27.40;^{ix}
- Irish Food & Non-Alcoholic Beverage prices in 2018^x were 20% above the EU average and 27.7% higher than the UK; Alcoholic Beverage prices were 77% above the EU average; and 37.2% above the UK. Ireland was the most expensive country in the EU for Alcoholic Beverages in 2018; and
- Ireland has the highest excise duty on Wine in the EU.

For most restaurants, labour costs account for close to 40% of total operating costs. Hence the sector is very sensitive to increases in the minimum wage, not least because such increases tend to feed into the wages of the majority of staff who earn above the minimum wage. In the year to January 2020, restaurant, café, fast food and takeaway prices increased by 2.1%, well ahead of average inflation in the economy. This reflects rising input costs, including labour. The rate of increase levelled off in the second half of 2020.

Figure 12: Consumer Price for Restaurants, Cafes, Fast Food & Take Away



Source: CSO Statbank.

Insurance

Insurance costs have also been highlighted as a serious issue across the economy in general. Average motor insurance costs increased by 72.2% between January 2010 and July 2016. They have subsequently eased, with a decline of 27.6% between July 2016 and January 2020.

The National Competitiveness Council has expressed concern about the cost that businesses face in accessing insurance. It stated that in the absence of high-quality data, it is aware of 'substantial anecdotal evidence highlighting the serious issue of insurance costs.'^{xi}

THE VAT RATE

In Budget 2019, the Minister for Finance increased the VAT rate for the hospitality sector from 9% to 13.5%, with effect from 1st January 2019. This measure was unhelpful in terms of its timing, its magnitude and the rationale that was used. The timing was particularly damaging, given that Ireland was heading into a year of more difficult global economic circumstances, and of course Brexit was starting to ramp up as a big issue for both the Irish and UK economies. In addition, the tourism sector was moving into an environment of significantly higher costs of doing business and labour market issues. These pressures and others are intensifying as we move towards the end of the first quarter of 2020. The Irish tourism sector is now facing immense changes, and the restaurant sector is particularly exposed.

CONCLUSIONS

The Restaurant sector is very sensitive to wage costs and it is essential that increases in the minimum wage do not impact negatively on employment, hours worked, the price of the product and general wage levels in the sector. Consequently, further increases in the minimum wage would need to be considered very carefully, particularly given the competitiveness challenges now facing the Irish economy in general and the tourism sector in particular from Brexit, the increase in the VAT rate in Budget 2019, COVID-19, the slowing global economy, and the intense pressure on a range of input costs, particularly insurance and commercial rates. The closer businesses are to the border, the worse the impact of an increase in the minimum wage due to sterling weakness and Brexit-related uncertainty.

The Restaurant sector in Dublin should not be taken as a barometer of the sector countrywide. Trading conditions are very different around the country.

It is important that the minimum wage is not used as the main element of reducing inequality. Getting housing costs down, reducing the personal tax burden, and targeted social welfare measures would be more effective from a policy perspective.

As a principle, the National Minimum wage is socially and economically positive and it should increase as economic circumstances improve. However, it is vital that the minimum wage is set at an appropriate level and that it does not undermine employment or damage the competitiveness of the Restaurant sector and the general tourism proposition.

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