

Economic Research Unit



Ireland is the most expensive country in the Euro Area

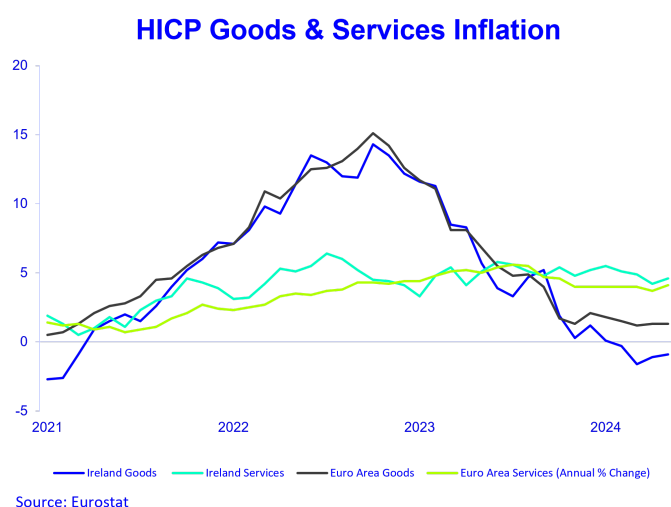
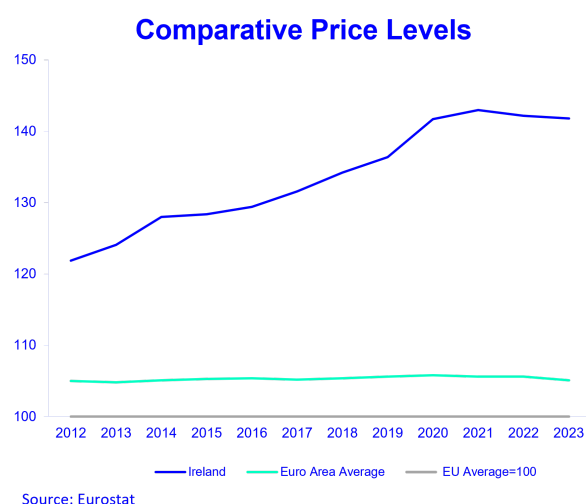
Recent data published by Eurostat showed that Ireland's price level for consumer goods and services had risen to 42% higher than the EU average last year, and was the second most expensive in the entire EU, just behind Denmark (43%) and the highest in the Euro Area. While the most recent data shows that inflation is easing, and in HICP terms, is below the current Euro Area rate, there are areas of concern where inflation is proving sticky and for a small globalised export-orientated economy such as Ireland, further price level increases is a worry for competitiveness. Indeed, while the recent IMD world competitiveness yearbook does place Ireland among the most competitive economies in the world it also highlights concerns about the price level here and also the infrastructure deficit compared to our peers.

Irish price level the highest in the Euro Area, 2nd highest in EU: Eurostat data showed Ireland's comparative price level at 141.8 in 2023 compared to the EU average of 100 and the Euro Area average of 105.1. This shows that prices here have – relative to the rest of Europe - declined very slightly from 2022 (142.2) and 2021 (143.0) but are significantly higher than 10 years ago in 2013 when the level was just under a quarter more (124.1) than the EU. Within the basket of consumer goods, alcohol and tobacco prices (210.6) stood out at more than double the average for the rest of the EU – though this is mainly driven by taxation here. Some key areas where Irish households are paying more than their European peers is energy which is nearly 20% more expensive (118.2) and restaurants and hotels nearly 30% more (128.1), the 2nd highest in the Euro Area. This adds to other Eurostat data which shows that housing costs here (mortgage, rent, gas and electricity) is double (200.6) the EU average.

Price pressures easing but services a concern: The pace of price level increase has slowed here, as it has in the rest of Europe, as rising ECB interest rates have dampened demand. The annual rate of HICP inflation came in at 2.0% in May, in line with the ECB target rate for the Euro Area as a whole. This is up from 1.6% in April but well down from its peak of 9.6% in June/July 2022, and below the current Euro Area average rate of 2.6%. However this is masking the fact that services HICP inflation, while easing, has remained stubbornly high here and is running at an annual rate of 4.6% in May, above the Euro Area average of 4.1% and it's the decline in goods inflation, which in Ireland is currently running at -0.9% in comparison to +1.3% in the Euro Area, that is pushing down our headline rate of HICP inflation. The weakness in goods prices here is partly due to timing effects related to energy but the elevated level of services inflation reflects labour shortages and pay pressures in a tight labour market where unemployment rate is very low (4.0% in May).

Competitiveness concerns: That level of services inflation is mainly focused in domestically traded sectors and should be a worry for competitiveness. The IMD World Competitiveness Yearbook 2024 ranks Ireland as the 4th most competitive economy in the world (out of 67 ranked) down two places from last year but remaining the most competitive in the Euro Area. Ireland's dip this year is largely due to a decline in the ranking for economic performance which in part is due to the drop in GDP last year – even though this was largely due to niche multinational issues while the domestic economy continued to grow – but one of the main detractors continues to be our price level which ranked 46th in the survey. Ireland also scored relatively poorly in infrastructure (17th, though that is up two places from last year) and, in particular, basic infrastructure (water, energy, etc.) where Ireland dropped to 38th from 29th. The National Competitiveness Council, responding to the survey, said that strong growth over the past decade had resulted in capacity constraints here and there remains a need to address long-standing infrastructural deficits and invest further in energy infrastructure (which should help reduce high energy costs) to enhance competitiveness.

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