Benchmarking Ireland’s Competitiveness 2010
Annual competitiveness reports

Volume 1: Benchmarking Ireland’s Performance

Volume 2: Ireland’s Competitiveness Challenge
What is competitiveness?

*Competitiveness encompasses all those factors which impact on the ability of firms in Ireland to compete on international markets in a way which provides our people with the opportunity to improve their quality of life.*
Key findings

► Competitiveness is improving:
  ▪ costs are falling;
  ▪ skills availability has improved;
  ▪ pressures on infrastructure have weakened as demand has fallen and as major projects are completed; and
  ▪ some exporting sectors are performing relatively well.

► However significant challenges remain:
  ▪ high levels of unemployment;
  ▪ high private and public debt levels;
  ▪ a high cost base;
  ▪ weak productivity performance; and
  ▪ limited access to new credit.
1. Ireland’s Competitiveness - where we stand

Sustainable Growth:
- national income,
- quality of life, and
- environmental sustainability
Despite the sharp decline in Irish living standards, national income levels (GNP based) remain close to euro area average.

Levels of GDP per capita in constant prices (US$ PPP)

Source: IMF, World Economic Outlook, April 2010
Strong positive contribution from net exports...but driven by large decline in imports.

Contribution of Net Exports to GDP

Source: Forfás calculations, CSO National Accounts.
Public debt is growing rapidly

General Government Debt (as a % of GDP), 2000-2011F

Source: Eurostat, Economy and Finance; and European Commission, Spring Economic Forecasts May 2010
Very high levels of household debt are moderating but remain a drag on recovery.

Household Borrowing Per Capita, 2010 Q1

Source: European Central Bank, Aggregated Balance Sheet of euro area Monetary Financial Institutions
Ireland has demographic advantages but ageing population will put pressure on public finances.

Gross Public Expenditure on Pensions (as a % of GDP), 2007-2050

Source: European Commission, DG EcoFin, Pension schemes and pension projections in the EU-27 members, October 2009.
Ireland has made real improvements in quality of life over the past decade.

Ranking in the United Nations Human Development Index, 2007

Source: UN Human Development Indices, A Statistical Update, 2009
Ireland’s environmental performance is marginally below the OECD average

Environmental Performance Index 2010, Scale (0-100)

Source: Yale Centre for Environmental Law and Policy
Essential Conditions

Business Performance: Trade and Investment
Private sector investment has collapsed
-from an average of 24.6% of GNP over the 2005-2008 period to 13.4% in 2009

Gross Fixed Capital Formation by the Private sector (as % of GDP)

Source: European Commission, AMECO Database
Irish exports held up well during the crisis...but countries which experienced sharp falls in 2009 are rebounding in 2010.
FDI performance remains strong, but our scores are falling

Rate of Return to US-Owned Companies, 2009

Stock of Inward Direct Investment (as % GDP), 2009

Source: US Bureau of Economic Analysis

Source: Forfás Calculations, UNCTAD World Investment Report, 2009
Essential Conditions

Productivity
Significant room for improvement in Ireland’s productivity performance

Average Annual Growth in Output per hour Worked, 2001 -2009

Source: Groningen Growth & Development Centre, Total Economy Database, January 2010
Essential Conditions

Prices and Costs
Ireland’s cost competitiveness is improving

- Ireland experienced a 7.7% loss in cost competitiveness (real HCI) between January 2005 and April 2008.
- Ireland has regained some of its competitiveness since then because of falls in relative prices and favourable exchange rate movements vis-à-vis key trading partners.
- In May 2010, Ireland’s real HCI was 6.1% below the January 2005 value. However, the real HCI remains 19% above the January 2000 level.

Source: Central Bank,
Labour costs - unit labour costs are falling but performance varies by sector

Annual Change in Unit Labour Costs

Source: OECD, Unit Labour Cost, Quarterly Indicators
Property - still amongst the most expensive despite significant falls in prices

- The cost of renting a prime office fell by 18% in Ireland in 2009 making us cheaper than the US and Italy.

- However, larger price falls in Singapore and Spain in 2009 mean they are now cheaper than Ireland.

Source: Cushman & Wakefield
Energy costs fall significantly but likely to be cyclical

- The price of electricity for large energy users, decreased by more in Ireland (24%) than in any other benchmarked location.

- This downward adjustment is largely due to the steep decline in global fuel prices (gas and coal) and temporary rebates which are to be phased out by the end of 2012.

Source: Eurostat, Environment and Energy
Business services costs decline

Services Price Index, 2006=100

Source: CSO, Services Price Index

Note: This indicator is based on experimental CSO data
Accountancy costs fall significantly but only marginal declines in legal services costs

Accounting and Legal Services Index, 2006=100

Source: CSO, Services Price Index

Note: This indicator is based on experimental CSO data
Essential Conditions

Labour Supply
The steep rise in unemployment is affecting all parts of society...but those with lower educational attainment are more likely to be unemployed.

Unemployment, Standardised Rates
Q1 2010

Unemployment (%) by Educational Attainment
2007 Q1 - 2010 Q1

Source: OECD Stat.Extracts, Labour; CSO QNHS

Source: CSO, Quarterly National Household Survey
Business Environment: Taxation and Finance
Despite stabilisation measures, budget deficit remains highest in the EU in 2010.

Total Government Revenue and Expenditure (as % of GDP) 2010F

Source: European Commission, DG EcoFin, Spring Economic Forecasts, May 2010
Tax wedge on labour has risen over the last three budgets

Fig. 5.06 Married Couple, 2 children
167% of Average Wage (combined)

Fig. 5.07 Single Person on 167% of Average Wage

Source: OECD Taxing Wages 2009
Cost of credit and access to credit remain more challenging than in the euro area average.

Fig. 5.10 Overdraft Interest Rates, 2005-January 2010

Fig. 5.12 Change in Credit Standards for Loans for Enterprise (1-5)

Source: European Central Bank, MFI Interest Rate Statistics

Source: Central Bank, European Central Bank, Euro area Bank Lending Survey
Policy Inputs

Physical Infrastructure
Infrastructure investment remains strong

Government Gross Fixed Capital Formation (as % of GDP), 2009

Source: European Commission, AMECO Database, May 2010
Improving broadband infrastructure is essential to support Irish exporters (particularly services)

Fixed Broadband Lines by Speed, January 2010

Source: European Commission, Digital Competitiveness Report, May 2010
Policy Inputs

Knowledge Infrastructure
Educational attainment of younger people is a key strength...but performance is relatively average.

Population by Age Cohort that has third level education

Scientific, Mathematical and Reading Literacy of 15 Year Olds, 2006

Source: OECD, Education at a Glance, 2009

Source: OECD, PISA Database, 2006
Business R&D has grown significantly. Most business expenditure on R&D is undertaken by foreign owned companies.

Business Sector R&D Expenditure by Firm Type, 1995-2007

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