The National Minimum Wage

Submission to the Low Pay Commission
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A REPORT PREPARED FOR THE RESTAURANTS ASSOCIATION OF IRELAND

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EXECUTIVE SUMMARY

The momentum in the Irish economy going into 2017 is positive, but the domestic and external economic challenges are very real. Domestically, pay pressures are building in the public sector in particular; there is significant pressure to increase expenditure on public services; and the personal sector is still financially pressurised. Brexit and the economic policies of President Trump are the most obvious external challenges.

In the face of the near and longer-term challenges to the Irish economy posed by the posited economic policies of President Trump, and the Brexit process, it will be increasingly important for Ireland to focus on competitiveness, broadly defined.

Ireland cannot allow the cost competitiveness of the economy and the fiscal situation be undermined at a time when the recovery is facing immense challenges, both from external and domestic sources. Careful, prudent control of wage costs and the public finances is essential.

The National Competitiveness Council defines national competitiveness as ‘the ability of enterprises to compete successfully in international markets’. The Council believes that in the face of immense international uncertainty presented by Brexit, US economic policy and the uncertain nature of the political economy of the EU, it is vital that Ireland manages the issues that are within its own control, such as maintaining cost competitiveness and investing in supporting infrastructure and talent.

Since April 2008 there has been a significant improvement in Ireland’s international cost competitiveness, but it is still worse than the levels of the early 2000s. It is essential, particularly in the face of the immense challenges facing the Irish economy, that these gains in competitiveness are maintained and improved up. 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.

It is generally accepted that generating sustainable broad based export-led growth has been key to rebuilding a sustainable Irish economic model since the economic crash. This will have to remain a key priority for policy makers. To achieve and maintain this objective, cost competitiveness is an essential ingredient. A high cost base undermines the attractiveness of FDI and business expansion; it makes firms selling into foreign markets less competitive; and it creates the potential for import substitution.

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 national Minimum Wage was introduced in Ireland under the National Minimum Wage Act 2000. It was initially introduced at an hourly rate of €5.59 per hour. In January 2017, it was increased to €9.25 per hour. Between 2000 and the beginning of 2017, the minimum wage increased by 65.5%. Over the same period, the consumer price index increased by 33.6%.

The monthly minimum wage expressed as a proportion of average monthly earnings shows that in 2015, Ireland stood at 44%, up from 41.8% in 2008. This level is higher than the UK at 41% and the Netherlands at 42.7%.

In January 2017, Ireland's monthly minimum wage increased to €9.25. Only Luxembourg (€11.53), Monaco (€10.15), France (€9.76) and Belgium (€9.30) had higher hourly rates. The UK rate was €8.47 and the German rate was €8.84.

Now that the economy is in recovery, it is essential that control of wage costs remains a key priority. A reduction in the personal tax burden would be the most economically positive way to put money back into the pockets of workers, and for those on low wage, targeted social welfare measures would be most appropriate.

The economy has recovered strongly over the past couple of years and this has benefited the Restaurant sector. However, the sector is now facing a number of fresh challenges that will test its resilience. These challenges include the nature of the economic recovery and the continued pressure on the personal sector; external economic risks, particularly Brexit; upward wage pressures, and increasing pressure on many of the other costs of doing business. Spiralling insurance costs now represent a serious cost pressure for the restaurant sector.

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 wages of the majority of staff who earn above the minimum wage.

A survey of RAI members carried out in January 2017, showed that in response to the 50-cent increase in the minimum wage on January 1st 2017:

- 55% of respondents reduced hours available to staff;
- 35% of respondents reduced the number of staff employed;
- 49% of respondents experienced pay claims from staff earning above the minimum wage of €9.15; and
- 48% increased the price of their product.

The restaurant sector is very sensitive to wage costs and it is clear that increases in the minimum wage actually do impact 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 and other issues.

INTRODUCTION

The Restaurants Association of Ireland (RAI) was formed in 1970 with the aim of forming 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 2,000 members in the Republic of Ireland, including full service restaurants, coffee shops, hotel restaurants, gastropubs, golf clubs and cookery schools. The overarching aim of the association is to develop the restaurant industry in a professional and high quality manner.

The Accommodation and Food Services sector in Ireland, of which the restaurant sector is a key component, employed 153,200 people in the third quarter of 2016.[1] In 2012,[2] the CSO estimated that Ireland had 6,252 Restaurant and Mobile Food Service enterprises. In the first quarter of 2016, there were 92,300 employees working in what is classified as Food and Beverage Service Activities.[3] It is estimated that over 70,000 of these are employed in the Restaurant sector (1 in 4 jobs in the tourism sector). It is estimated that the sector contributes €2 billion per annum to the Irish economy in terms of wages and purchases of inputs.

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. It sources much of its raw materials from Irish food producers. In 2012, Bord Bia estimated that 61% of restaurants source meat used in their own restaurant from within Ireland.[4] The sector has a broad geographical footprint and provides valuable full-time and part-time employment in every county around the country.

The Restaurant 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 unprecedented economic downturn. The sector reacted aggressively 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 times.

This report outlines the current status of the Irish economy; the challenges facing the economy; issues relating to competitiveness; the issues and challenges that are affecting the restaurant sector; and the minimum wage.

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[1] Quarterly National Household Survey,

[2] CSO Annual Services Inquiry, 2012

[3] CSO, Quarterly National Household Survey – Detailed Employment Series, July 27th 2016.

[4] Bord Bia Survey, 16th July 2012.

THE IRISH ECONOMIC CONTEXT

While we do not yet have full data for 2016, the data we do have suggest that Ireland delivered an impressive growth performance. In the first nine months of the year, gross domestic product (GDP) was 4.7% higher than the equivalent period in 2015. Personal consumption expanded by 3.2%; investment expanded by 4.2%; exports of goods & services expanded by 2.1% and imports of goods & services expanded by 2%. Employment topped 2 million for the first time since 2008; the unemployment rate ended the year at 7.2%, down from 8.9% a year earlier; the Exchequer borrowing requirement came in at €1 billion, which is equivalent to an estimated 0.9% of GDP; and total tax revenues were 5% or €2.26 billion ahead of 2015.

For 2016 as a whole, it is estimated that GDP expanded by 4.2%, so all in all it was a year of further solid progress for the Irish economy.

The personal sector made a solid contribution to growth. Retail sales, which capture spending on goods (equivalent to around 40% of total consumer spending) expanded quite strongly, albeit with a couple of important caveats. Car sales made a very strong contribution, and the gap between the value and volume measures has clear implications for consumer-facing businesses.

Firstly, the value of retail sales expanded by 3.8% and the volume of sales expanded by 5.9%. When the motor trade is excluded, the underlying level of activity is less strong. The value of sales expanded by 2.1% and the volume of sales expanded by 4.3%. New car registrations expanded by 17.5% last year. Secondly, the gap between the value and volume metric is still wide suggesting that price compression is still a key feature of the retail landscape, with volume growth significantly ahead of value growth. This suggests that margins for retailers are still tight in the face of a personal sector that is still pressurised by debt and the significant increase in the personal tax burden since 2008.

The reality facing most consumer-facing businesses across the economy is that consumers are still very price sensitive.

Consumer confidence recovered strongly from 2012 onwards as employment started to improve and people became more confident about the future. Over the past 6 months it has levelled off and fallen modestly. This primarily reflects concerns about Brexit, and continued personal financial pressures despite the economic recovery.

Figure 1: Consumer Confidence

Source: ESRI/KBC Bank

THE OUTLOOK FOR 2017.

The external economic environment as we move into 2017 looks reasonably positive. The US economy is doing well; the UK economy is still showing good momentum; China is starting to recover again; and the moribund Euro Zone economy showed some signs of improvement towards the end of 2016. US interest rates will rise further during 2017, but we are not likely to see an increase in ECB rates. However, towards the end of the year it is conceivable that the possibility of a change in the ECB's historically low interest rate stance could be increasingly discussed. Higher ECB rates are most likely to be a story for 2018, rather than 2017.

While there is cause for optimism for the Irish economy in 2017 and beyond, policy makers will need to manage the challenges very carefully.

Brexit and the economic policies of President Trump represent the main external concerns. The key domestic challenges include:

- Growing wage pressures in the public sector;
- The housing crisis;
- Pressure to increase expenditure on public services; and
- Weak domestic political leadership.

Ireland cannot allow the cost competitiveness of the economy and the fiscal situation be undermined at a time when the recovery is facing immense challenges, both from external and domestic sources. Careful, prudent control of wage costs and the public finances is essential. When all of these factors are weighed up, GDP growth of around 3.3% looks realistic for 2017. However, international political developments will need to be monitored very closely.

ECONOMIC POLICIES OF PRESIDENT TRUMP

The key economic concerns for Ireland following the election of President Trump are twofold; US corporation tax policy and the future for free trade.

President Trump has pledged to cut the US corporation tax rate from 35% to 15% in an effort to attract US overseas investment back to the US, and discourage further overseas investment. In 2015, Ireland had 1,254 foreign-owned companies operating in the country, accounting for 187,056 jobs. 707 of those companies were from North America and they accounted for almost 74% of total employment. Any moves to use corporation tax and other policies to curb US multi-national investment overseas could potentially challenge Ireland's FDI model.

If President Trump adopts a protectionist approach to grade, this would damage global trade and consequently global economic growth. For a very small and very open economy such as Ireland, any reduction in global trade would have negative consequences.

BREXIT

Brexit poses a considerable threat to the future wellbeing of the Irish economy. The post-Brexit trading relationship between the UK and the EU, and by implication Ireland, is the obvious longer-term issue. The performance of sterling is the more immediate one. While sterling strengthened somewhat towards the end of 2016, it remains vulnerable to Brexit-induced uncertainty. For Irish exporters to the UK and for UK tourism into Ireland this is an obvious challenge.

On January 17th, Prime Minister May delivered what is arguably her most comprehensive assessment of what the post-Brexit future might look like for the UK. The Prime Minister is quite clear that the UK will leave the EU. She is also quite clear in her desire to create a new and equal partnership between the UK and the EU. She ruled out the possibility of partial membership of the EU or a 'half-in, half-out' situation. She does not want the type of model adopted by other countries, presumably meaning countries such as Norway and Switzerland, who have access to the single European market, but at a price.

She is adamant that the UK will not be part of the Single European market (SEM), but that it will be able to do a trade deal with the EU. The Prime Minister does not envisage that the UK will remain a full member of the Customs Union, as this would mean having to apply the EU's Common External Tariff, and would prevent the UK from being able to independently negotiate a trade deal with non-EU countries.

The Prime Minister intends to have the negotiations concluded by the time the 2-year Article 50 process has ended. At that stage, there would be a phased process of implementation of new arrangements. The aim is to avoid a 'cliff edge' at the end of the 2-year period and give business enough time to plan and prepare for any new arrangements.

The UK leader went out of her way to convince her EU partners that the UK decision to leave the EU is not borne out of a desire to become more distant from the member countries, but rather to maintain close relations with the EU. However, she also wants to build closer relationships with the rest of the world, free from the shackles of the EU.

In contrast to President Trump, who is protectionist in his outlook, her vision is of a Britain that will remain outward looking and whose people will desire to 'travel to, study in, trade with countries not just in Europe but beyond the borders of our continent'.

It is unlikely that EU members will actually take this assertion at face value or that her speech will smooth troubled waters. The instinct in the EU remains one of negativity in relation to the UK decision and this will make the negotiations over the next couple of years very difficult and potentially fractious. Regardless of how important the UK is to the EU; the reality is that a relatively painless exit for the UK is not something that too many EU leaders would be enamoured with.

While the Prime Minister has laid out quite clearly what she wants to achieve, it is important to remember that much of this could well be at odds with what the EU will want to achieve. The period of negotiation will be difficult; compromises will have to be made; but from an Irish perspective it has to be hoped that the Prime Minister will achieve her objective of creating a free trade relationship between the UK and the EU. This will prove extremely difficult.

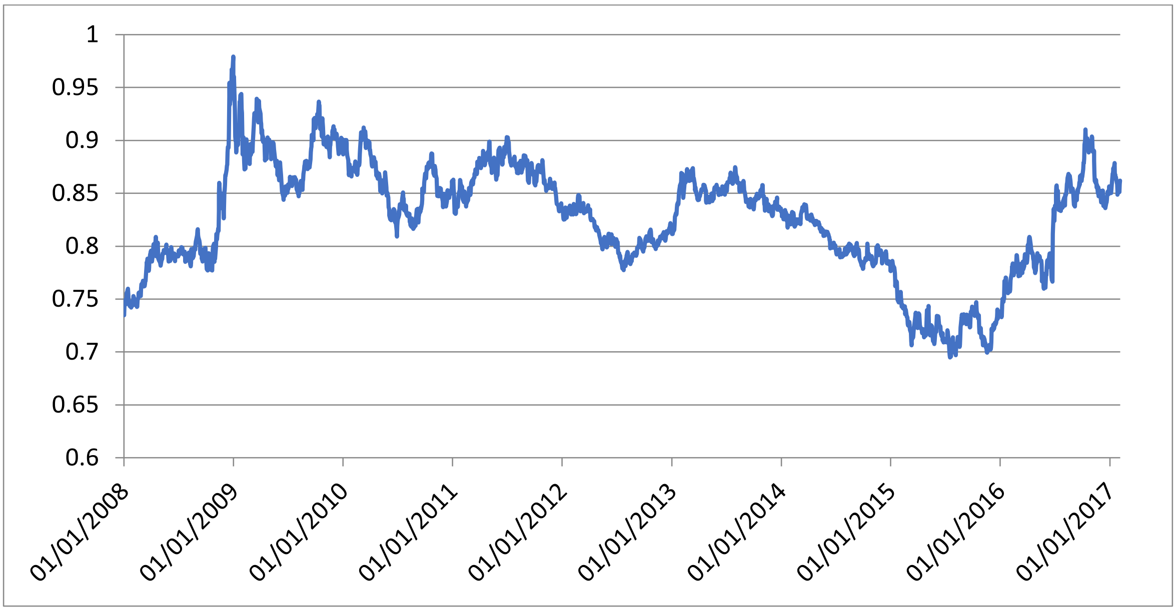
The Prime Minister was also categoric in her suggestion that no deal would be better than a bad deal for the UK, suggesting that if a 'good' deal cannot be agreed, the UK would be willing to rely on World Trade Organisation (WTO) rules. This would not be good news for indigenous Irish industry, but for the Irish agri-food sector in particular. Indigenous Irish industry exports 60% of what it produces and 40% of this goes to the UK. In 2016, 37% of exports from the food & drink sector went to the UK.

In the first 11 months of 2016, Irish merchandise exports were 4.6% stronger than the equivalent period in 2015. However, exports to the UK were 3.1% lower than the equivalent period in 2015. This is primarily due to the weakness of sterling. Figure 2 demonstrates the extent to which sterling has weakened against the euro since November 2015. The weak trend accelerated in the aftermath of the Brexit vote on June 23rd, 2016.

In 2016, Great Britain accounted for just under 41% of overseas visitors to Ireland. As such, Great Britain is the most important source market for visitors to Ireland. However, the average length of stay is less than for markets that are further away, and as a consequence, Great Britain accounted for a lesser 23% of total overseas earnings from tourism. However, for the Irish tourism sector, sterling weakness does represent a competitiveness challenge.

Sterling weakness clearly poses the most immediate challenge to merchandise trade with the UK, but the longer-term implications of barriers to this trade would be much more significant and potentially damaging.

Figure 2: Sterling v Euro Exchange Rate



Source: Bloomberg

Sterling weakness poses the most immediate challenge to this trade, but the longer-term implications of barriers to this trade would be much more significant.

The Prime Minister also suggested that if the UK does not get a good deal from the EU negotiations, the UK could change its economic model, with a sharp cut in the corporation tax rate a distinct possibility in order to attract foreign direct investment (FDI). This would pose a further challenge to Ireland's economic model.

In the face of the near and longer-term challenges to the Irish economy posed by the posited economic policies of President Trump, and the Brexit process, it will be increasingly important for Ireland to focus on competitiveness, broadly defined.

COMPETITIVENESS

The National Competitiveness Council[5] defines national competitiveness as 'the ability of enterprises to compete successfully in international markets'. The Council believes that in the face of immense international uncertainty presented by Brexit, US economic policy and the uncertain nature of the political economy of the EU, it is vital that Ireland manages the issues that are within its own control, such as maintaining cost competitiveness and investing in supporting infrastructure and talent.

Ireland's international competitiveness has improved markedly since 2011. The country has moved from 16th to 7th in the IMD's World Competitiveness Yearbook; from 24th to 23rd in the World Economic Forum's Competitiveness Report; and Ireland is now ranked 18th out of 190 countries in the World Bank's 'Doing Business' report.

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%.

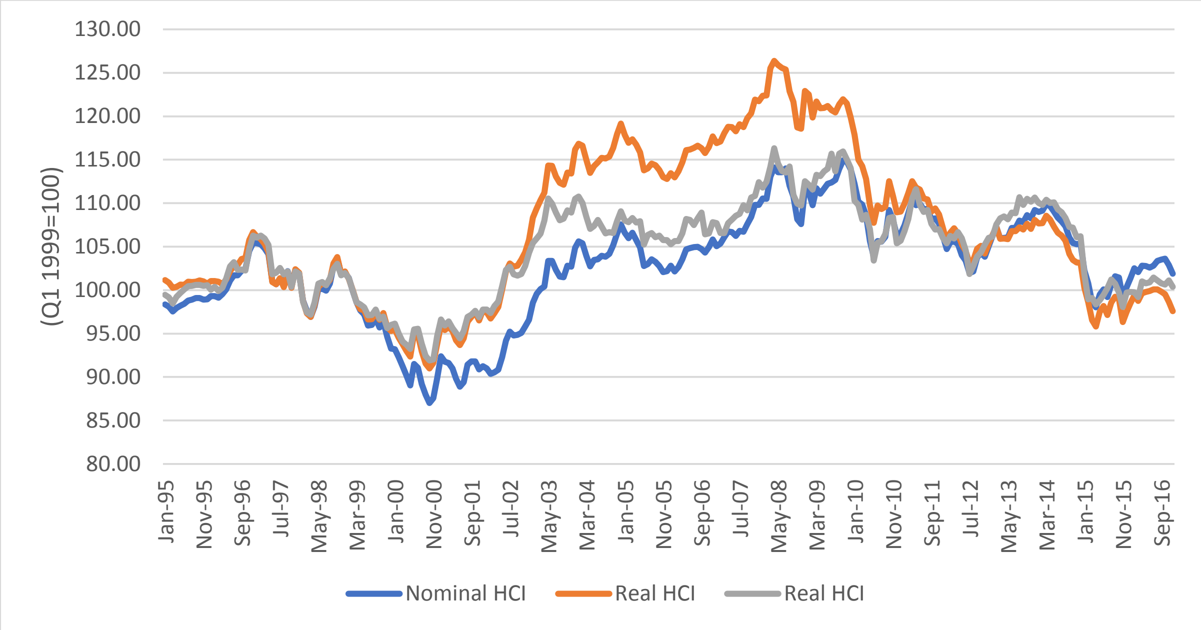
Since April 2008 there has been a significant improvement in competitiveness, but it is still above the levels of the early 2000s. Between April 2008 and December 2016:

- The Nominal HCI has improved by 10.7%;
- The HCI adjusted for Consumer Prices has improved by 22.8%; and
- The HCI adjusted for producer prices has improved appreciated by 13.7%.

It is essential, particularly in the face of the immense challenges facing the Irish economy, that these gains in competitiveness are maintained and improved up. 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.

[5] 'Ireland's Competitiveness Challenge 2016', National Competitiveness Council, December 2016.

Figure 3: Harmonised Competitiveness Indicators



Source: Central Bank of Ireland

The *Costs of Doing Business in Ireland 2016*[6] report does give some cause for concern in relation to the recent trends in business costs. Its key findings include:

- Ireland remains an expensive location in which to do business with a price profile, which can be described as 'high cost, rising slowly';
- In the year to Q3 2015, Irish labour costs grew by 2.1%, compared with growth of 1.9% in the EU-28 and 1.2% in the euro area;
- In 2016, Ireland had the 2nd highest monthly minimum wage and the 5th highest in PPP terms of 18 countries considered;
- Ireland is the 6th most expensive location in the euro area for prime retail rents. Rents increased by 22% in 2015;
- Commercial rate increase as a proportion of total Local Authority revenue from 24% in 2002 to 38% in 2015/ Over the same period, the proportion received from Central Government fell from 46% to 29%;
- Ireland was the 5th most expensive country in Europe for diesel in January 2016;
- Industrial electricity prices for SME energy users are 6% higher in Ireland than the euro area, making Ireland the 6th most expensive location. Between 2010 and 2015, Irish prices for SMEs increased by over 20%;
- Water and waste-water costs for industrial users compare favourably to those in competitor markets; and
- Irish interest rate on business loans have been consistently higher than equivalent euro area rate. In December 2015, the interest rate on loans of up to €0.25 million was 80% higher than the euro area average, and 60% higher for loans of up to €1 million.

[6] 'Costs of Doing Business in Ireland 2016', National Competitiveness Council, April 2016.

Utility costs as well as Local Authority rates are charges that place a significant cost burden on SMEs. Many of these costs have been increasing at a rate above inflation since the recession commenced. The cost of operating a tourism business in Ireland continues to be higher than the EU average across a range of metrics, putting the sector at a disadvantage internationally.

It is generally accepted that generating sustainable broad based export-led growth has been key to rebuilding a sustainable Irish economic model since the economic crash. This will have to remain a key priority for policy makers. To achieve and maintain this objective, cost competitiveness is an essential ingredient. A high cost base undermines the attractiveness of FDI and business expansion; it makes firms selling into foreign markets less competitive; and it creates the potential for import substitution.

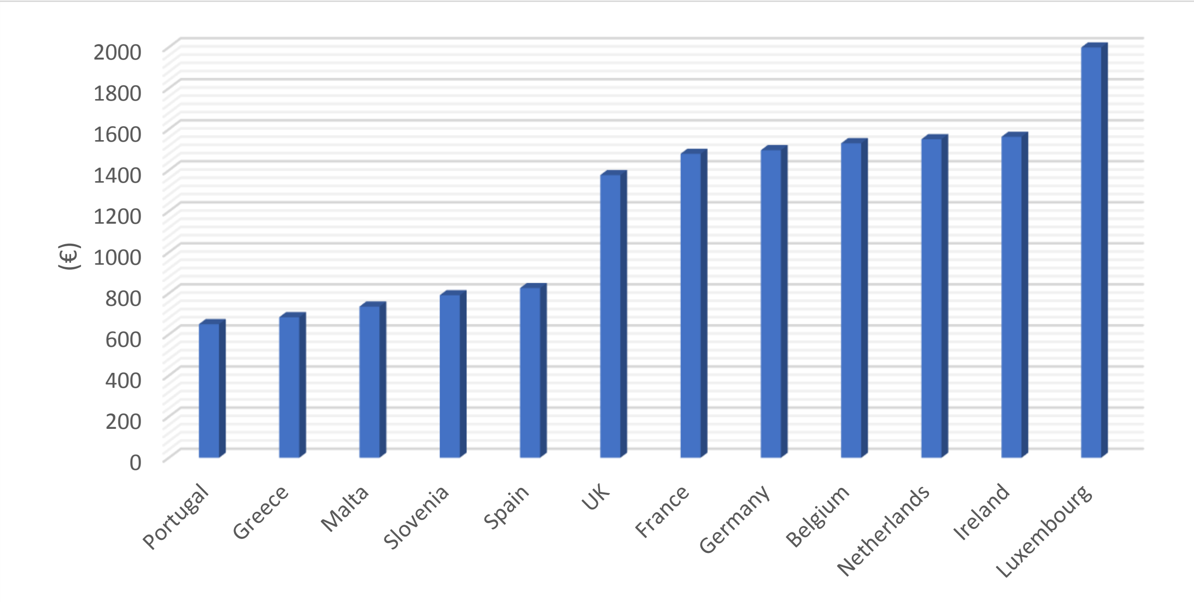
For a service export like tourism, international competitiveness is absolutely crucial to success. If the tourism product is not competitive, foreign visitors will be diverted to other cheaper markets, and domestic tourists will have a stronger incentive to go overseas.

IRELAND’S NATIONAL MINIMUM WAGE

The national Minimum Wage was introduced in Ireland under the National Minimum Wage Act 2000. It was initially introduced at an hourly rate of €5.59 per hour. In January 2017, it was increased to €9.25 per hour. Between 2000 and the beginning of 2017, the minimum wage increased by 65.5%. Over the same period, the consumer price index increased by 33.6%.

In 2016, 22 of the 28 EU Countries had a minimum wage. Denmark, Austria, Cyprus, Italy, Finland and Sweden do not have such legislation. In January 2017, Ireland’s monthly minimum wage increased to €9.25. Only Luxembourg (€11.53), Monaco (€10.15), France (€9.76) and Belgium (€9.30) had higher hourly rates. The UK rate is €8.47 and the German rate is €8.84. Figure 4 shows the monthly minimum wage. Ireland is the second highest of the countries considered.

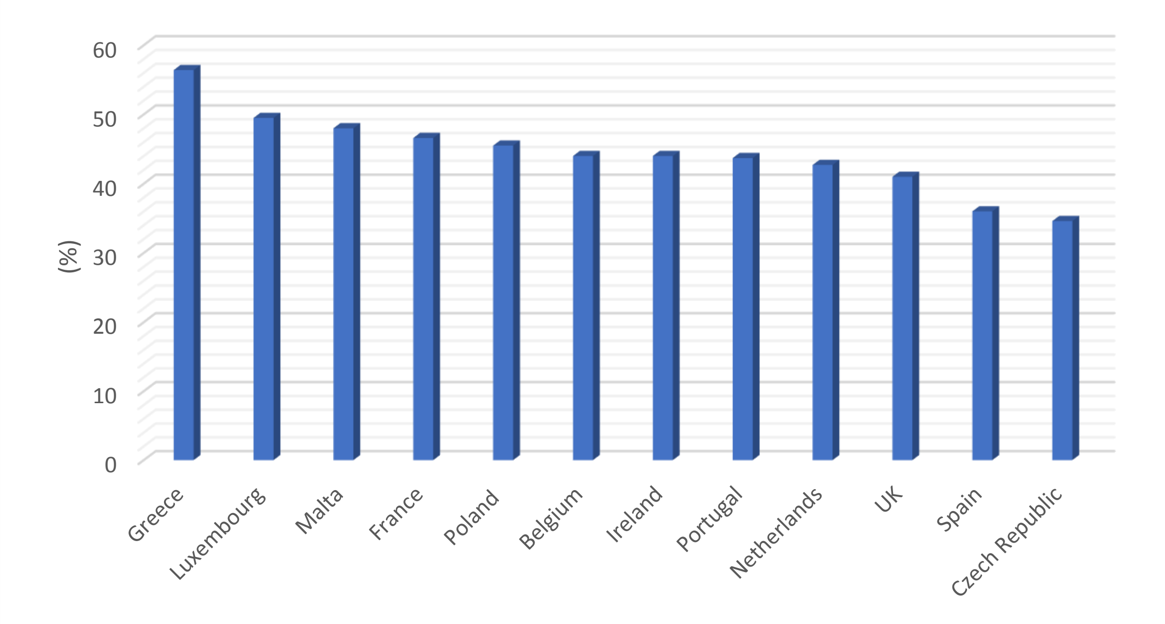
Figure 4: Minimum Wage per MonthEU-27 Comparison (Selected Countries)



Source: EuroStat

Figure 5 shows a comparison of monthly minimum wage as a proportion of average monthly earnings. In 2015, Ireland stood at 44%, up from 41.8% in 2008. This level is higher than the UK at 41% and the Netherlands at 42.7%.

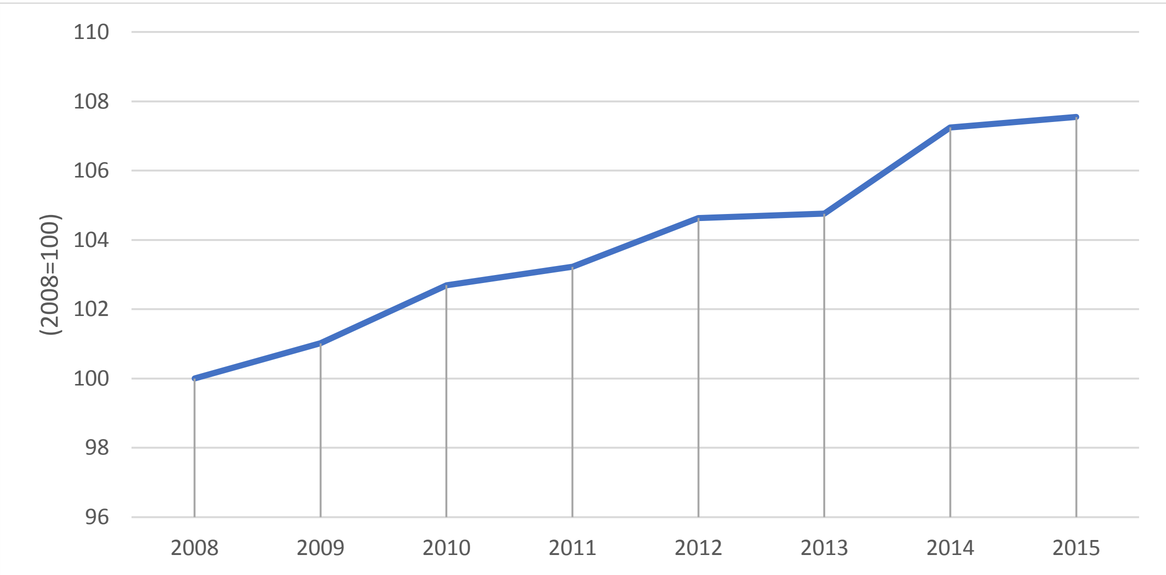
Figure 5: Monthly Minimum Wage as % of Average Monthly Earnings 2015 (NACE 2)



Source: Eurostat, Note: Greece (2011)

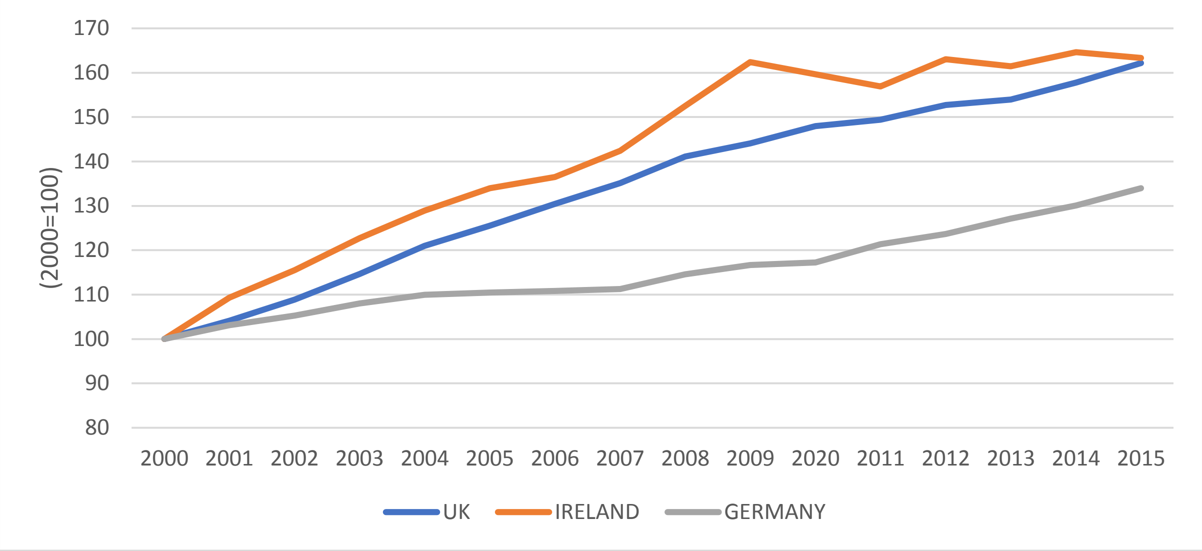
Figure 6 shows the trend in average earnings in manufacturing since 2008. Growth rates have been very modest over the period, which made a significant contribution to the improvement in Ireland's international competitiveness. It is important that this situation is maintained, given the challenges now facing the Irish economy.

Figure 6: Index of Average Earnings in Manufacturing (Full-Time Employees)



Source: CSO

Figure 7: Indicators of Competitiveness – Nominal Unit Labour Costs



Source: Eurostat

Figure 7 shows the trend in unit labour costs in selected countries. Between 2000 and 2015, unit labour costs increased by 63.3% in Ireland, by 62.2% in the UK, and by 33.9% in Germany. 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 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 fuelled the Irish economic bubble and helped undermine the competitiveness of the economy in a totally disastrous manner. This ultimately contributed hugely to the collapse of the economy from 2008 onwards.

Now that the economy is in recovery, it is essential that control of wage costs remains a key priority. A reduction in the personal tax burden would be the most economically positive way to put money back into the pockets of workers, and for those on low wage, targeted social welfare measures would be most appropriate.

An IMF paper[7](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 report 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

[7] 'Cross-Country Report on Minimum Wages', International Monetary Fund, Country Report No. 16/151, June 2016.

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.

THE RESTAURANT SECTOR & THE MINIMUM WAGE

The economy has recovered strongly over the past couple of years and this has benefited the Restaurant sector. However, the sector is now facing a number of fresh challenges that will test its resilience. These challenges include the nature of the economic recovery and the continued pressure on the personal sector; external economic risks, particularly Brexit; upward wage pressures, and increasing pressure on many of the other costs of doing business.

In order for the Restaurant sector to continue to provide employment throughout the country, to support local food producers, and promote the Irish tourism product, a number of challenges must be addressed:

- Labour costs per hour in Ireland stood at €30 per hour in 2015, compared to an EU average of €25, a Euro Zone average of €29.50, and a UK average rate of €25.70.[8] Irish restaurateurs pay the highest catering wage rate in Europe;
- Irish Food & Non-Alcoholic Beverage prices in 2015 were 19% above the EU average and 7.2% higher than the UK; and Alcoholic Beverage prices were 75% above the EU average and 7.4% above the UK; and
- Ireland has the highest excise duty on Wine in the EU.

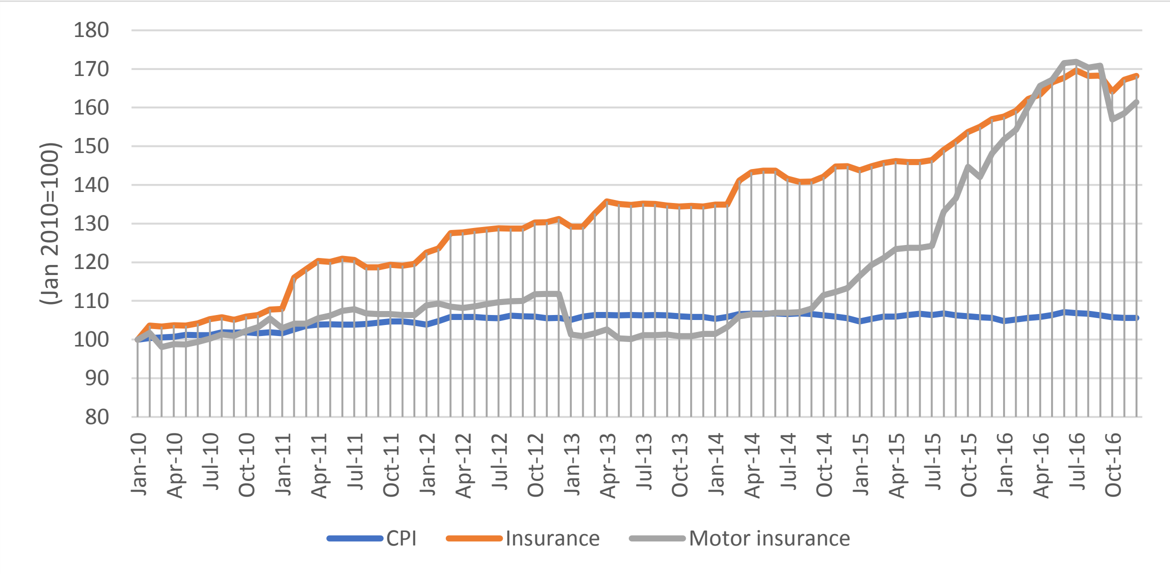
Insurance costs have also been highlighted as a serious issue across the economy in general. Average motor insurance costs in 2016 were 61.5% higher than in 2013. However, all forms

[8] EuroStat, 'Labour Costs Per Hour in €, Whole Economy (excluding agriculture & public administration).

of insurance have increased significantly in recent years. According to the CSO[9] average insurance costs increased by 58% between 2010 and 2016. Figure 8 shows the trend in consumer insurance costs between January 2010 and December 2016. In January 2016, the National Competitiveness Council[10] highlighted commercial motor, property, professional indemnity, employer's liability and public liability insurance costs as significant issues for all business in the economy. It cited the reasons given by the insurance sector as previous under-pricing and under-reserving; Solvency 11 requirements; a reduction in investment income; fraud; increasing award levels as a result of the change in the jurisdictions of the courts; increases in the volume of claims; periodic payment orders and increases in the cost of settling claims.

For the restaurant sector, insurance has become an issue of particular concern over the past couple of years and has added significantly to the cost base. In an environment where margins are already very tight. In an October 2016 survey of RAI members, 86% of responded said that insurance premiums had increased over the previous year, with 32% citing increases in excess of 10%. Anecdotal evidence so far in 2017 suggests that the situation is getting considerably worse as some insurance companies are increasing premiums as footfall in restaurants increases and as claims rise.

Figure 8: Insurance Costs



Source: CSO Statbank

The Restaurant sector is a key part of Ireland's tourism product and has been an important contributor to the improvement in Ireland's tourism performance over the past couple of years.

[9] Consumer Price Index, CSO, Jan 19th 2017.

[10] National Competitiveness Council Bulletin, Insurance Costs, Competitiveness Bulletin 16-2, January 2016.

The latest Failte Ireland intelligence[11] shows that in 2015, expenditure by tourists visiting Ireland (including receipts paid to Irish carriers by foreign visitors) was estimated to be worth €6 billion, which was 16% ahead of 2014. If spending by Irish residents taking trips at home is included, total tourism expenditure in 2015 is estimated at €7.5 billion. Overseas tourist visits to Ireland in 2015 increased by 13.1% to reach 8 million. Britain accounted for 41% of those visits; Mainland Europe accounted for 35.8%; and North America accounted for 16.1%.

The strong growth continued in 2016.[12] In 2016, the number of overseas visitors to Ireland reached 9.58 million, which is 10.9% ahead of 2015. Great Britain accounted for 41% and was 10.6% ahead of 2015; the Rest of Europe accounted for 34.5% and was 8.5% ahead of the previous year; and North America accounted for 18.9% and was 19.4% ahead of 2015.

Other CSO data[13] show that in the first 9 months of 2016, Irish residents took 7.3 million domestic trips, generating €1.39 billion in revenue.

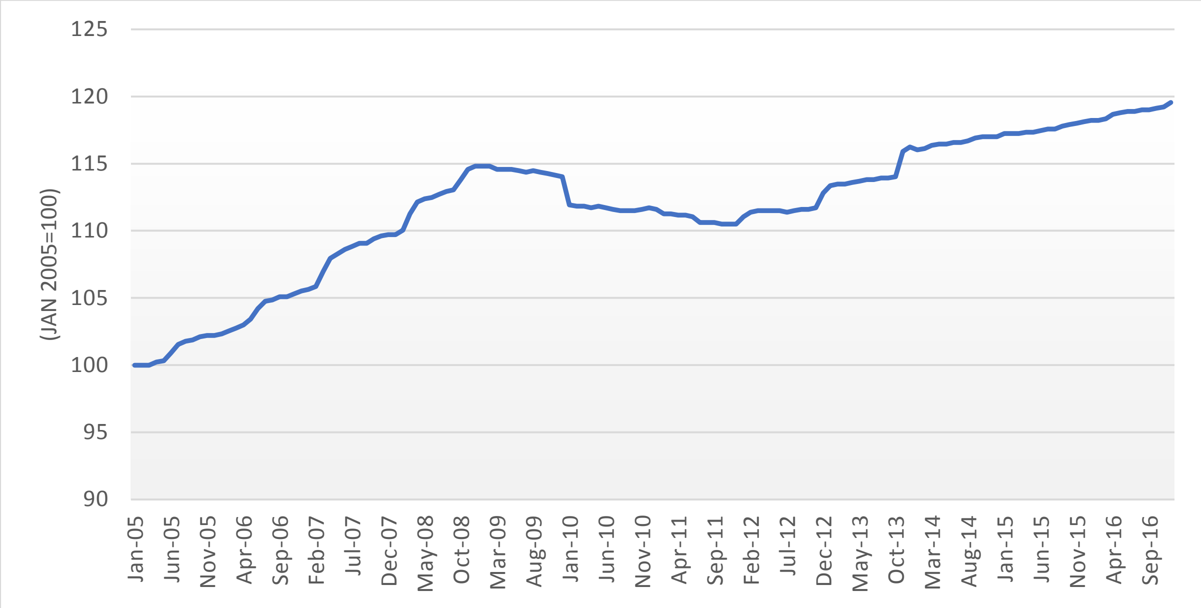
Tourism has been placed at the centre of the economic strategy of the new Government and this is very much reflected in the tourism strategy of Failte Ireland.[14] Two key elements of the Failte Ireland strategy are to '*increase the economic contribution of tourism across local communities within Ireland*' and to '*ensure that the contribution of tourism to economic growth and regional development is fully recognised and understood*'.

The Restaurant sector is a key element of Ireland's tourism product and it is essential that the policy environment for the sector is conducive to survival, growth and the maintenance of a high quality, competitive offering. The Restaurant sector has a wide geographical spread and supports rural as well as urban economic activity and employment.

Figure 9 shows the trend in consumer prices for *Restaurants, Cafes, & the Like* since 2005. Prices fell sharply in line with the economy after 2008. However, prices are now starting to trend upwards again in a modest fashion. Average prices in December 2016 were still just 8.2% above the levels of December 2011. The sector remains very competitive, but margins for most operators remain tight in the face of higher commercial rates, utility costs, various licensing fees and labour costs.

[11] Failte Ireland, Tourism Facts 2015, Preliminary, July 2016.
[12] CSO, Overseas Travel, January 27th 2017.
[13] CSO, Household Travel Survey, December 16th 2016.
[14] 'Failte Ireland Statement of Strategy to 2018, 'Driving Tourism Sustaining Communities.

Figure 9: Restaurant, Cafes & the Like Consumer Prices



Source: CSO Statbank.

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 wages of the majority of staff who earn above the minimum wage.

A survey of RAI members carried out in January 2017, showed that in response to the 50-cent increase in the minimum wage on January 1st 2017:

- 55% of respondents reduced hours available to staff;
- 35% of respondents reduced the number of staff employed;
- 49% of respondents experienced pay claims from staff earning above the minimum wage of €9.15; and
- 48% increased the price of their product.

This survey supports anecdotal evidence that the restaurant sector is very sensitive to wage costs and that increases in the minimum wage actually do impact 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 and other issues. The closer businesses are to the border, the worse the impact increases in the minimum wage will have due to sterling weakness.