

1. In *'The Cost of Doing Business in Ireland'*, the National Competitiveness Council claims that labour costs were growing faster than European averages:

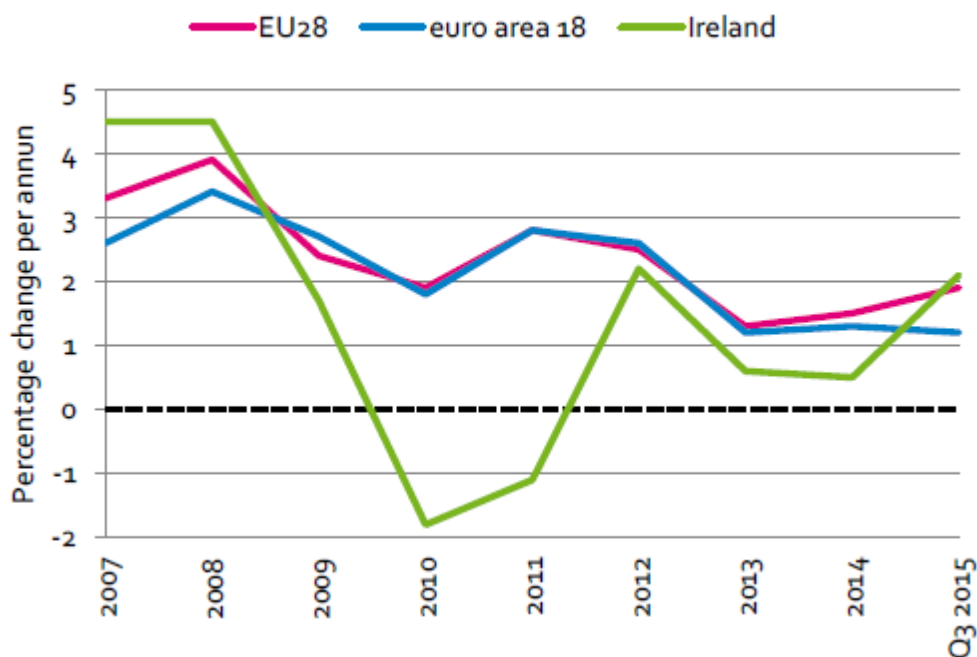
'While labour cost growth has remained modest in recent quarters, it has grown by more in Ireland (2.1%) than on average across the EU-28 (1.9%) and euro area (1.2%).'

'Labour costs in Ireland have been growing marginally more quickly than in the euro area since 2014 and the wider EU-28 since the latter part of 2015.'

'... in the year to Q3 2015, Irish labour costs grew by 2.1%, compared with growth of 1.9% and 1.2% respectively in the EU28 and the euro area.'

Further, the NCC produced a graph – Figure 4 – which gives the visual impression that growth in Irish 'labour costs' has increased faster than European averages since 2010. We reproduce that graph below.

Figure 4: Growth in labour costs, 2007-Q3 2015



2. These statements and the graph are based on incomplete measurements. This has led to misinterpretations of the data which have unnecessarily confused the public debate. The factual situation is much different.

The NCC statements are based on Eurostat's Quarterly Labour Cost Index.¹ In this dataset, there are a number of measurements. The NCC chose to use one measurement: *'percentage change compared to same period in previous year – calendar adjusted data, not seasonally adjusted data'*. This measurement isolates two data points in a long-term series. It does not shed light on the trend growth in 'labour costs' – either short-term or medium-term.

Therefore, the measurement is totally reliant on variations of these two points. We examine the specific measurement between 2014 Q3 and 2015 Q3.

'Labour costs' in 2014 Q3 were low by reference to the other quarters in 2014. Using the index measurement ('Index: 2012 = 100'), the first two quarters, wages were 103.3 and 100.3 respectively. In quarter 4, the index was 103.1. In the NCC's isolated data point, the index was 97.8. 'Labour costs' in that quarter were not only the lowest in 2014; they were the lowest in the previous three years. Therefore, by isolating 2014 Q3, the NCC was isolating something akin to an outlier data point. It was wholly predictable that 2015 Q3 would experience an increase, bouncing from this low point.

This can also lead to curious and even contradictory results. The NCC stated that wages grew faster than the European averages in 2015 Q3. However, Eurostat shows – using the 'percentage change over previous period' measurement – that Irish 'labour costs' actually fell in that quarter, by 2 percent. So we have a quarter where it can be argued that labour costs rose but also fell. This is the problem when isolating particular data points in a series.

In a further twist in these curious and contradictory findings, if the NCC had used the 2015 Q4 results (Eurostat posted these results on March 18th – over a month before the publication of *'Costs of Doing Business in Ireland 2016'*), the same measurement that the NCC used would have shown Irish labour costs rising by 0.1 percent, compared to the EU-28 and Euro-18 results of 1.9 and 1.2 percent respectively. This would have told a different story.

Figure 4 has further confused the picture. As stated previously, this Figure gives the initial visual impression that Irish labour costs have been growing faster than European averages since 2010. However, this is not the case. The problem is that using 'percentage change compared to same period in previous year' can produce confused results. For instance:

- If labour costs fall by 1 per cent in a particular quarter, and then fall by 0.5 percent in the same quarter the following year, it would be common sense to conclude, all things being equal, that labour costs are continuing to fall – and should be represented by a downward trajectory on the graph. However, in the NCC's graph, there would be an upward trajectory in labour costs – only because they fell by a lesser amount.
- Conversely, if labour costs increased by 1 percent and then increases by 0.5 percent in the same quarter the following year, it would be common sense to conclude, all things being equal, that labour costs are continuing to rise – and should be represented by an upward trajectory on the graph. However, in the NCC's graph, there would be a downward trajectory in labour costs – only because they rose by a lesser amount.

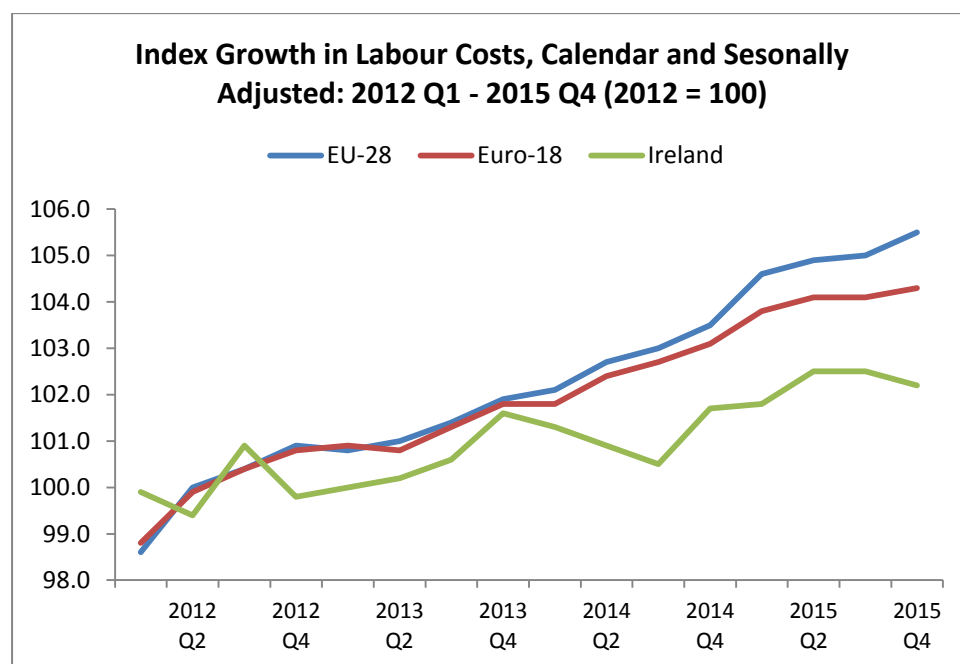
¹ Eurostat: Labour cost index, nominal value - quarterly data <http://appsso.eurostat.ec.europa.eu/nui/show.do>

This is unnecessarily confusing and is likely to distort the public debate.

3. Tracking the movement in labour costs is a relatively straightforward matter. And it is straight-forward matter to compare average labour costs in the business economy in the EU-15 countries.

(a) *Growth in Labour Costs*

It is far preferable to track the series. This can best be done by using the measurement 'Index: 2012 – 100, seasonally and calendar adjusted'. We graph this from 2012 Q4.



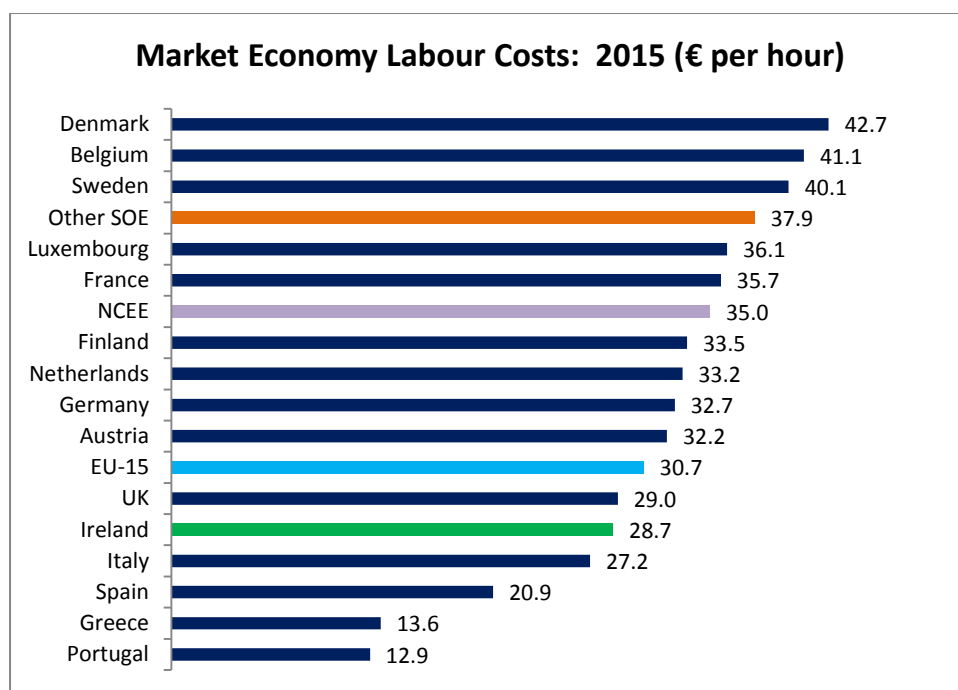
Using this more consistent and coherent measurement we find that Irish labour cost growth has lagged over the medium-term and continues to lag. In tabular form we find:

Growth in Labour Costs: Calendar and Seasonally Adjusted (%)*			
	EU-28	Euro-18	Ireland
3 Years: 2012 (Q1) – 2015 (Q4)	7.0	5.6	2.3
1 Year: 2014 (Q4) – 2015 (Q4)	1.9	1.2	0.5
½ Year: 2015 (Q2) – 2015 (Q4)	0.6	0.2	(-0.3)
* Based on the Index: 2012 = 100 measurement			

The only reasonable conclusion is that Irish labour growth has been, and continues to be, subdued compared to the European benchmarks used by the NCC, and that Irish wages are falling even further behind.

(b) *Labour Costs in Comparison*

Eurostat provides an estimate of labour costs in the business economy and the NACE components.² Regarding the total market economy:



In 2015, Ireland ranked 11th in the EU-15, only ahead of the Mediterranean countries. Using mean averages (this dataset does not provide weighted averages) the table shows that Ireland lies behind the EU-15 average – 6.5 percent below.

However, when compared to our peer groups, Irish labour costs fall even further behind. The NCEE category measures the average of Northern and Central European economies (the non-Mediterranean countries): Irish labour costs fall 18 percent below this average. The Other SOE category measures Ireland's peer group – other small open economies (Austria, Belgium, Denmark, Finland and Sweden³): Irish labour costs are 24.2 percent below the average of Other SOE.

4. Conclusion

It is argued in this Note that the NCC presentation of labour cost data distorts the actual position. Irish labour costs are well below comparable EU countries and their growth trend falls behind as well – thus widening the gap.

It is proposed that in the future the NCC use measurements that reflect the actual condition in terms of total labour costs and their growth. It is only on this basis that the public debate can be accurately informed.

End.

² Eurostat: Labour cost levels <http://appsso.eurostat.ec.europa.eu/nui/show.do>

³ The IMF defines small open economy as one with a GDP of between €100 and €500 billion, and exports greater than 50 percent of GDP. IMF Ireland Country Report Selected Issues Summer 2012 <http://www.imf.org/external/pubs/ft/scr/2012/cr12265.pdf>