



Press Release

19th October 2006

Productivity must be the key driver of future economic growth

The National Competitiveness Council (NCC) today (Thursday, 19th October) released a report entitled *Overview of Ireland's Productivity Performance 1980-2005*. This report discusses in more detail the issue of productivity highlighted in *Benchmarking Ireland's Performance*, Volume One of the NCC's Annual Competitiveness Report (ACR), which was released last week. The report outlines Ireland's productivity performance over the last 25 years relative to a range of countries including the EU-15 and the USA. It assesses Ireland's performance at national and sectoral level.

The report notes that Ireland's productivity growth over the period 1980-2005 was strong, particularly between 1990 and 2003. Ireland's productivity growth between 1990 and 2003 was driven by a continued strong productivity performance in modern manufacturing (i.e. chemicals, electronics and printing/publishing) and an improvement in the productivity performance of the construction and tradable services (i.e. communications, software, and financial services) sectors. Mirroring international trends, productivity growth rates in Ireland have been highest in technology intensive manufacturing and services sectors.

Launching the report, the Chair of the NCC, Dr. Don Thornhill said, "Productivity is about working smarter, not harder. High productivity levels are the only way to ensure both high incomes and national competitiveness. Productivity growth, while strong in the past, has fallen in Ireland in recent years. This may in part reflect cyclical trends, given that strong growth in employment is often associated with weaker productivity growth. It may also reflect structural factors, as more people are now working in relatively low productivity growth sectors. Continued efforts are required to promote productivity growth".

Key Findings

- Ireland's strong economic growth has been driven by both increases in employment and productivity. Other OECD countries' growth has been driven mainly by productivity increases, which must be the key driver of future growth in Ireland;
- Ireland's annual productivity growth is estimated to have averaged 3.3% between 1990 and 2003. This was a strong performance. Productivity levels in Ireland's remain marginally below US levels, which are among the highest in the world;

- Productivity growth between 1990 and 2003 was driven by the strong performance of modern manufacturing sectors and an improvement in the performance of construction and tradable services sectors; and
- Between 2000 and 2005, Irish productivity growth slowed very significantly, and in 2004 and 2005, it fell to a growth rate of 1.4% per annum.

Sectoral Performance

Despite overall convergence to US levels, Ireland's productivity levels lag EU and US levels in several sectors, particularly in some traditional manufacturing sectors and utilities:

- In **manufacturing**, output is dominated by chemicals, electronics, and printing/publishing, which are mostly foreign-owned. Productivity levels in these sectors match or exceed the highest levels internationally. In traditional manufacturing, although productivity as a whole grew faster than the EU and US averages, growth has slowed since 1999 and average productivity levels lag the US by 13%;
- In **tradable services**, productivity in communications, software, and financial services has improved in line with international trends. As in other countries, productivity levels and growth rates are relatively low in tourism; and
- In **non-tradable services**, a significant productivity gap exists between utilities in Ireland and other economies. Wholesale and retail trades and transport services have experienced limited productivity growth since 1990. While productivity levels in public services are difficult to measure, some available measures suggest that Ireland performs well relative to public sectors in other countries.

Next week, in a further follow-up to the ACR, the NCC will publish its *Statement on the Costs of Doing Business in Ireland*. Volume Two of the ACR, *Ireland's Competitiveness Challenge*, to be published later this year, will discuss in more detail the policy requirements for promoting productivity growth in Ireland.

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