

24<sup>th</sup> August 2023

## **PRESS RELEASE: NCPC Bulletin on Understanding Recent Inflationary Dynamics in Ireland**

Today (24<sup>th</sup> August), Dr. Frances Ruane, the Chair of the National Competitiveness and Productivity Council (NCPC), issued the Council's bulletin on Understanding Recent Inflationary Dynamics in Ireland ([here](#)).

Ireland's low inflation rate over the past decade had contributed to reducing Ireland's relative price level, which has been historically high. However, since 2021, as inflation has risen to record levels in most countries, Ireland can no longer rely on this lower inflation rate to bring down its relative price levels.

While still elevated, the rate of inflation has fallen by one third from a peak of 9.2% in October 2022. The available data would suggest that inflationary pressures have begun to ease, both in Ireland and internationally. This change reflects a variety of factors, including a feed-through from falling prices on global markets and the impact of domestic competition (as sellers strive to maintain, or grow, market share). The latter is reflected in the recent, and well-publicised, move to reduce grocery prices in the Irish retail sector.

Given the current high and sustained level of upward price pressures, and what these price pressures mean for consumers, enterprises, and Government, this NCPC Bulletin endeavours to explore movements in both the CPI and the Producer Price Index (PPI) over recent years. It explores recent inflationary trends in the PPI and the CPI to look at how both businesses and consumers are affected, and it looks at the relationship between these measures.

The Bulletin compares PPIs across a range of economies to explore differences in trends in recent years, paying particular attention to the PPI facing the food manufacturing sector. In the case of the CPI, the Bulletin identifies the drivers of change and then analyses the change in the category weights to identify those items that have recently acquired greater importance in the index.

In relation to the outlook for inflation, the NCPC Bulletin notes that while current forecasts signal a continued easing of inflation rates in Ireland, several factors could come to sustain higher rates of consumer price inflation over the next year or so. These include: 'heatflation', (increased food prices and smaller harvests due to an increasing number of heatwaves and associated droughts across Europe); the short-term economic impact of recent environmental and geopolitical events; developments in the housing market; rising labour costs and the scheduled increases in the enterprise cost-base.

The Bulletin also highlights that there are still measures that can be taken to address high costs for domestically-produced goods and services, such as in the banking, legal and insurance sectors where the promotion of greater competition can serve to reduce prices for

end-users. The NCPC bulletin also notes that it is important to bear in mind that inflation is a change variable, and as such, any easing in the rate of inflation over the next year or so would reflect a slowdown in the rate of price increases, rather than prices overall falling from current levels.

*Dr Ruane said: "In the past decade Ireland has been able to rely on a lower inflation rate to bring down its relative price levels. However, rising inflation since 2021 has meant that this is no longer the case. Recent inflation dynamics has injected uncertainty into the realm of competitiveness, where businesses and consumers have had to navigate rising costs in an ever-evolving global market."*

*Dr. Ruane also said "It is important to continue to direct our attention towards measures aimed at tackling inappropriately high domestic costs, in order to strengthen competitiveness and productivity in the Irish economy."*