Bank of Ireland

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Bank of Ireland economic pulse

October 2016

Pulse Insights
Competitiveness

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"Against the background of a weak and volatile pound, an eye to the cost base will be important in the period ahead."

Dr Loretta O'Sullivan,
Group Chief Economist, Bank of Ireland

Competitiveness is a tricky concept to pin down. Definitions abound and a plethora of measures mean the issue can get complicated quickly.

A clear description is provided by the National Competitiveness Council which defines competitiveness as "the ability of firms to compete in markets" and national competitiveness as "the ability of the enterprise base in Ireland to compete in international markets".

Various Measures

To get a handle on competitiveness, the economics profession has traditionally looked at indicators such as prices and unit labour costs which relate wages to productivity. In recent years, policy inputs including education and training, infrastructure and the regulatory framework have gained traction and now typically feature in global competitiveness scorecards prepared by the likes of the IMD. New research has also thrown up some interesting aspects and suggests that non-price factors such as investment in research and development (R&D) and quality improvements are important too.

The Business Pulse adopts a straightforward approach to the measurement issue. Each quarter, firms in the industry and services sectors are asked a question about their competitive position at home, and abroad if they export, and how this has developed over the past three months.

The results point to a general softening in competitiveness over the course of 2016, particularly for businesses selling into EU markets. For these markets, the balance between positive and negative responses (i.e. the difference between those reporting an improvement in their competitive position and those reporting a loss) has declined noticeably and in the case of industry, turned negative in the second half of the year.

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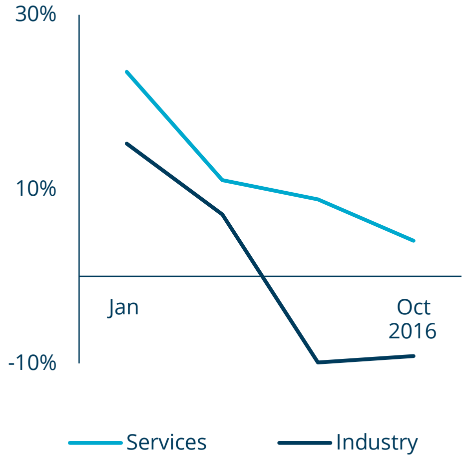
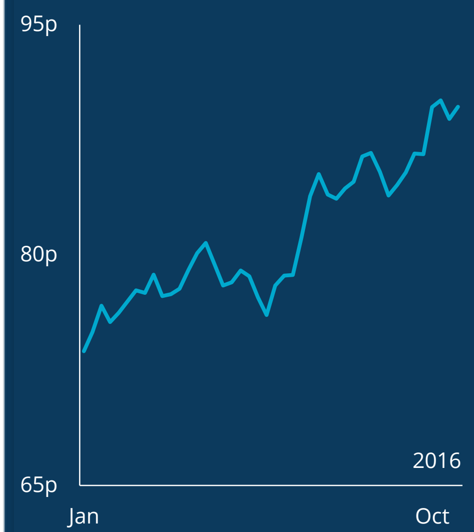
Competitive Position on EU Markets

Balance, Past 3 Months



€/£ Exchange Rate



What's behind this?

A key factor is the depreciation of sterling against the euro. Having fallen in advance of the UK's referendum on EU membership in late June, the pound lost more ground following the Brexit vote and after the Bank of England eased monetary policy in August (it cut interest rates and reactivated its quantitative easing programme). Market fears that the UK government might pursue a "hard" exit saw sterling decline further to a near 7-year low of 91.5p earlier this month, before recovering to around 90p. As the UK economy has held up better than expected so far, the BoE may hold back on another rate cut for the time being. This, and the possibility that the European Central Bank may extend its quantitative easing programme beyond next March, could lend some support to the pound in the short term. However, it is likely to come under pressure again in the run up to the triggering of Article 50 and remain volatile as the withdrawal negotiations proceed. Overall, we see sterling trading in a range centred on 90p over the coming months.

As a small open economy, Ireland is vulnerable to adverse movements in exchange rates and it is clear that the weak pound is starting to bite. Against this background, an eye to the cost base and a focus on non-price factors impacting competitiveness could help mitigate some of the pain.

Background

"The Economic Pulse provides a timely, comprehensive and robust picture of the economic environment and consumer and business confidence in Ireland."

Dr Loretta O'Sullivan,
Group Chief Economist, Bank of Ireland

THE ECONOMIC PULSE

The Economic Pulse is a new indicator for Ireland based on a series of surveys. Each month households and firms are asked for their views on a wide range of topics including the economy, their financial situation, spending plans, house price expectations, business activity and hiring intentions. Key business sectors such as industry, services, retail and construction are covered, as well as regions. The information gathered is combined into high level indices, with responses to individual questions also provided along with analysis and insights.

METHODOLOGY

Ipsos MRBI are undertaking the fieldwork for the surveys on behalf of Bank of Ireland. A best practice approach to data collection and methodology has been adopted within a harmonised EU framework.

1000 households, 800 firms in industry, 800 services firms, 250 retailers and 250 construction firms participate in the surveys each month.

USING THE INFORMATION

Business and consumer surveys provide essential information for economic surveillance, short-term forecasting and research.

They are also useful for policymakers, as well as helping firms with business planning.

Survey data are a key complement to official statistics, with high frequency and timeliness among their main qualities.

THE EU DIMENSION

Bank of Ireland is partnering with the European Commission on the surveys. The data collected will feed into the Joint Harmonised EU Programme of Business and Consumer Surveys. This is a Europe-wide sentiment study which has been running since the 1960s. The data generated within this framework are particularly useful for monitoring economic developments at EU and Euro area level and also allow the situation in Ireland to be compared with that of other Member States.

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Note: Balances are calculated as the difference between positive and negative responses (using weighted averages for questions with multiple options).