
For Oral Answer on : 29/06/2023
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Department: Enterprise, Trade and Employment
Asked by: Louise O'Reilly T.D.

QUESTION

To ask the Minister for Enterprise; Trade and Employment his views on European Central Bank data that corporate profiteering is contributing more to inflation than wages, and similar data from the Central Bank of Ireland's quarterly report that profits have contributed more to domestic inflation than wages; and if he believes that profit restraint will have a key role in reducing inflation.

REPLY

In my view, profit restraint on the part of firms has an important role to play in reducing headline inflation in the coming years. Recent analysis from the Central Bank of Ireland suggests that profits have contributed significantly to 'Gross Value Added inflation' – which is an alternative measure of inflation - in both 2021 and 2022, compared to a lower average contribution from profits to inflation over the longer period from 2001 to 2020. I also note that since the onset of the pandemic in 2020, the contribution of labour costs to this measure of inflation has been relatively flat.

The analysis from the Central Bank of Ireland would suggest substantial pass-through of increased input costs to consumers, in the form of higher prices. With the Central Bank of Ireland forecasting a slowing in the pace of inflation, the price increases passed on to customers to date should provide a buffer for firms to absorb wage increases without the need to further increase output prices. The Central Bank also forecast real wage growth of 0.7 per cent in 2023 and 2.4 per cent in 2024. Alongside the prevailing tight labour market conditions in Ireland currently, this will mean that for Ireland to see lower levels of inflation in the coming years then profit restraint will need to be a part of this.

In a separate analysis, the Central Bank finds that Gross Value Added inflation has a significant, but not dominant, role in determining headline consumer inflation in Ireland. However, looking ahead, their view is that the pace of growth in headline consumer inflation will likely be dominated by developments in externally-determined energy prices.

Government has supported enterprise through a period of excessive energy cost inflation, in order to minimise the impact on firms and ultimately minimise the impact on consumers. While I acknowledge that the impact of energy price increases varies significantly by sector, and that firms in increasing their prices, may be acting in a precautionary way in order to offset future cost increase, I believe it is important that firms act sensibly in their pricing to reduce risks of a wage-price spiral which would have lasting effects on inflation.

Ireland was recently ranked the second most competitive economy in the world in the IMD World Competitiveness Rankings. Despite this high ranking, we performed poorly in the area of prices. In order to maintain our international competitiveness in future, it is important to make progress on price levels in order to improve our cost competitiveness. Profit restraint can contribute to this.