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## Grocery Prices in Ireland after Brexit

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The evidence we examine suggests that Irish consumers have typically experienced relatively high grocery prices over time. This is likely the result of a number of structural features of Ireland and its groceries market. In addition to short-term inflationary effects, a hard Brexit could exacerbate a number of these structural issues with potentially adverse consequences for consumers.

At different times, Ireland has experienced inflation differentials vis-à-vis the euro area average during its 20 years as a member of the single currency.<sup>2</sup> In the first decade of the euro, Ireland had consistently higher inflation than the rest of the euro area, particularly during the early 2000s (Figure 1). The reverse occurred in the following decade, with Irish inflation averaging about 1 per cent lower than the euro area average.

Despite fluctuations in relative inflation, the price level of groceries in Ireland, as proxied here by food and non-alcoholic beverage prices has remained persistently high. Ireland's food and non-alcoholic beverage prices were already above the euro area average when the currency was introduced in 1999. They then increased relatively rapidly during the first decade of the euro, and have declined somewhat in the crisis and post-crisis period (Figure 2). Yet, when one takes into account the level of expenditure per capita, food and non-alcoholic beverage prices appear to have been consistently high throughout the period relative to other Member States. There are a number of structural features of Ireland, and

<sup>1</sup> Irish Economic Analysis Division and International Relations Division.

<sup>2</sup> See for example: Honohan, P & Lane, P.R. (2003) "[Divergent inflation rates in EMU](#)," *Economic Policy*. CEPR:CES:MSH, vol. 18(37), pages 357-394, October.

Honohan, P. & Lane P.R., (2004) "[Exchange Rates and Inflation Under EMU: An Update](#)," CEPR Discussion Papers 4583, C.E.P.R. Discussion Papers.



the grocery market in particular, which may help to account for this pattern and which could be exacerbated by a hard Brexit.<sup>3</sup>

Figure 1: 20 Years of Inflation: Ireland and the Euro Area

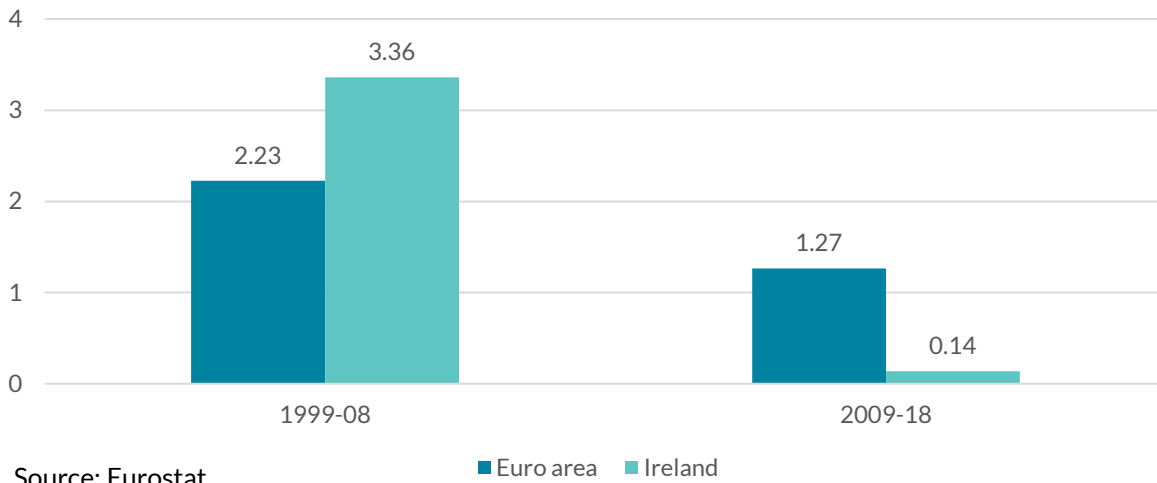
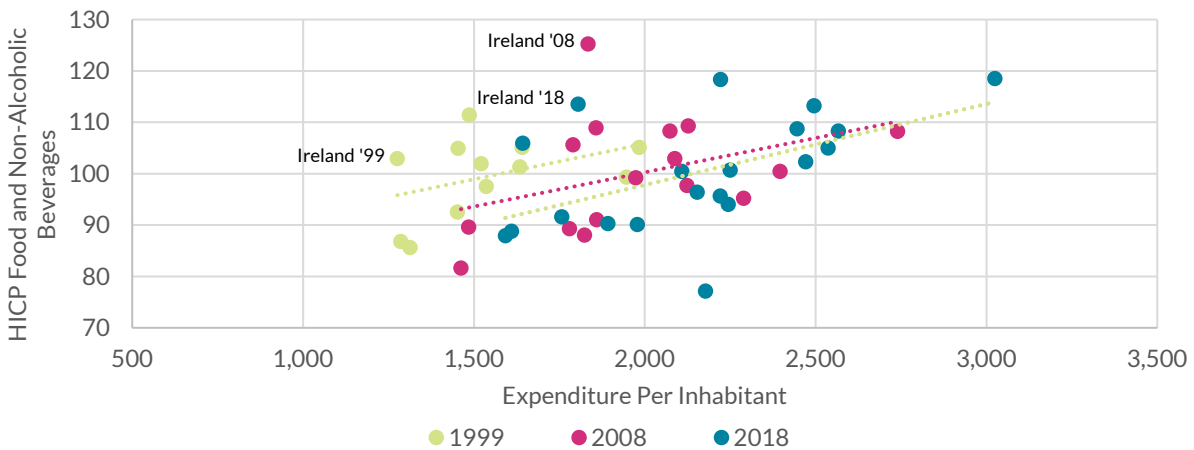


Figure 2: Groceries price level and expenditure: 1999, 2008, 2018<sup>4</sup>



Source: Eurostat  
Note: 2015=100

<sup>3</sup> See for example: ECB (2011) "[Structural Features of Distributive Trade and their Impact on Prices in the Euro Area](#)." Occasional Paper Series, No. 128.

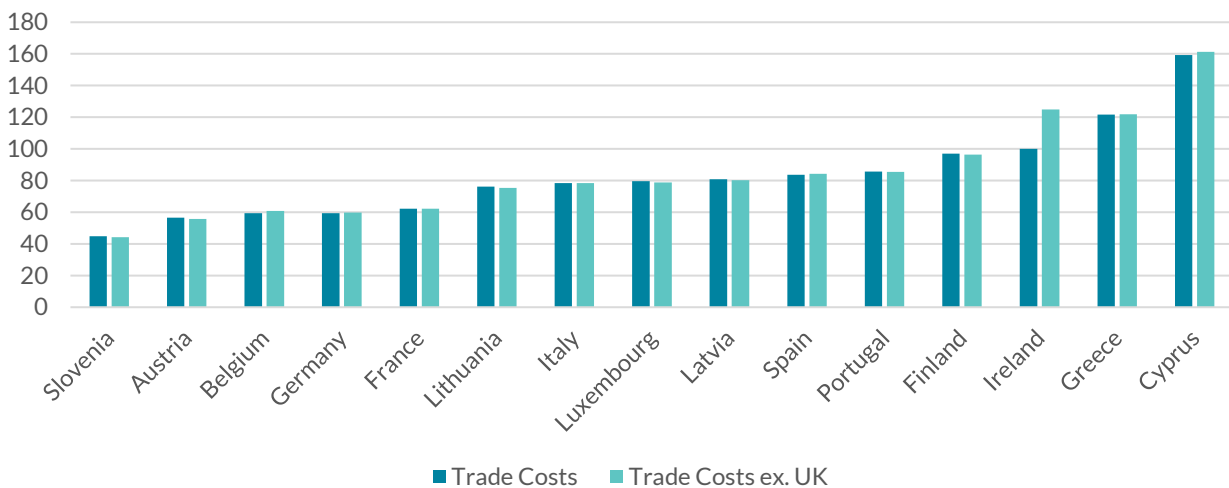
ECB (2015) "[Grocery Prices in the Euro Area: findings from the analysis of a disaggregated price dataset](#)." European Central Bank Economic Bulletin 2015, No. 1.

<sup>4</sup> X-axis shows nominal expenditure per inhabitant (in euro) on food and non-alcoholic beverages. Y-axis displays an index of the price level of food and non-alcoholic beverages, where the EU15=100 for each year.



As Ireland is a geographically remote country, Irish importers must pay relatively high transport costs compared to some other EU Member States. Figure 3 illustrates the average of trade costs estimated using a gravity model, and therefore reflect not only transport costs associated with distance, but also costs associated with linguistic, cultural or institutional barriers.<sup>5</sup> These data suggest that Ireland has relatively high trade costs, in common with other remote euro area Member States like Cyprus, Greece and Finland. A hard-Brexit may involve a change in the pattern of trade and transport to and from Ireland. The pink bars show the average estimated non-tariff shipping and trade costs, excluding goods imported from the UK, Ireland's closest trading partner. Having to import goods from more distant countries would lead to additional shipping costs for Ireland, while a diversion of trade via the UK would have a far more limited consequence for import costs in other Member States. However, trade costs are not the only potential factor contributing to Ireland's high grocery prices.

Figure 3: Trade/Shipping Costs



Source: Estimates based on ESCAP-World Bank Trade Cost Database, IMF direction of trade statistics and Central Bank of Ireland staff calculations.

Note: Index of trade costs where Ireland=100

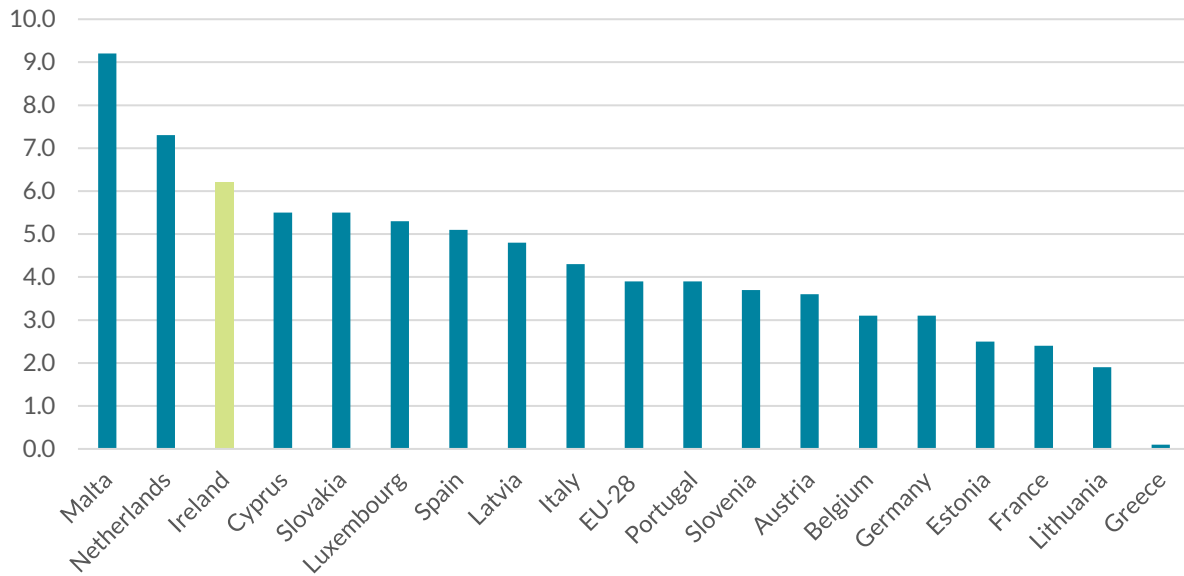
Proxy indicators suggest that grocery retail profits may be relatively high in Ireland. Of the countries for which data are available, only Malta and the Netherlands exhibit higher profitability in the groceries sector (Figure 4). Figure 5 suggests that this relatively high profitability compared to some other euro area Member States, such as Germany, has been a consistent feature for most of the past 20 years, with the exception of the period of the global financial crisis. While it is possible that this

<sup>5</sup> Novy, Dennis (2013) "[Gravity Redux: measuring international trade costs with panel data](#)" Economic Inquiry, Vol 51(1).



reflects higher mark-ups in Ireland, this indicator should be treated with caution as it could also be interpreted as showing a lack of efficiency in the German retail sector relative to Ireland.

Figure 4: Profitability in Grocery Retail in the Euro Area (2016)<sup>6</sup>

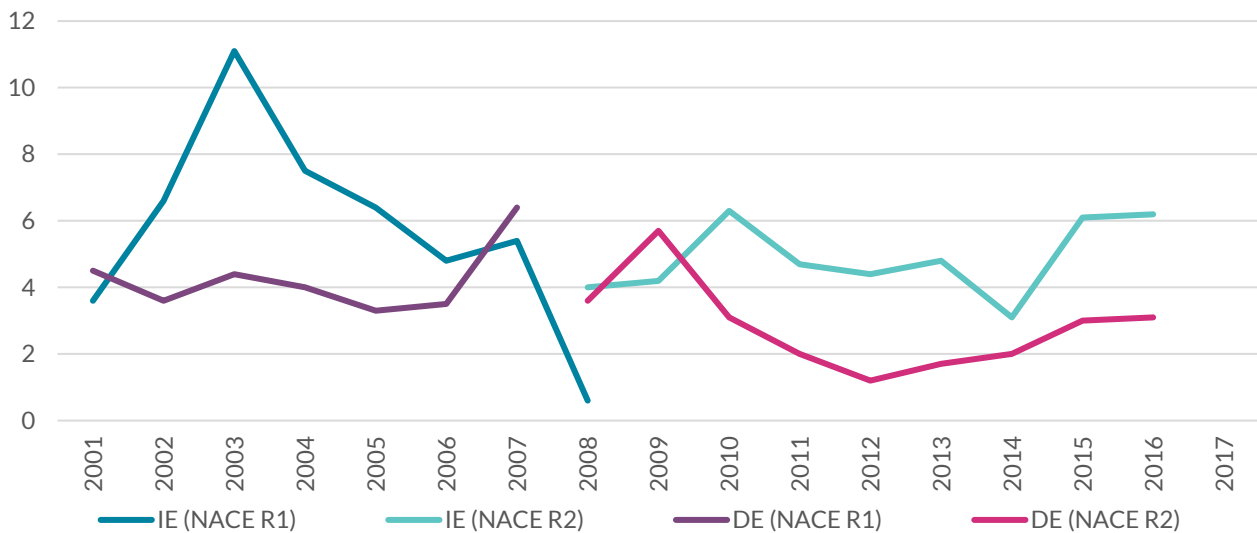


Source: Eurostat

<sup>6</sup> Chart displays gross operating surplus/turnover in per cent for the category of retail sale in non-specialised stores with food, beverages or tobacco predominating.



Figure 5: Profitability in Grocery Retail: Ireland vs. Germany 2001-2016<sup>7</sup>



Source: Eurostat Structural Business Statistics

Note: Series report gross operating surplus/turnover in per cent for the category retail sale in non-specialised stores with food, beverages or tobacco predominating. Series discontinuity between NACE Revision 1 (R1), which ends in 2008, and NACE Revision 2 (R2) which begins in 2008.

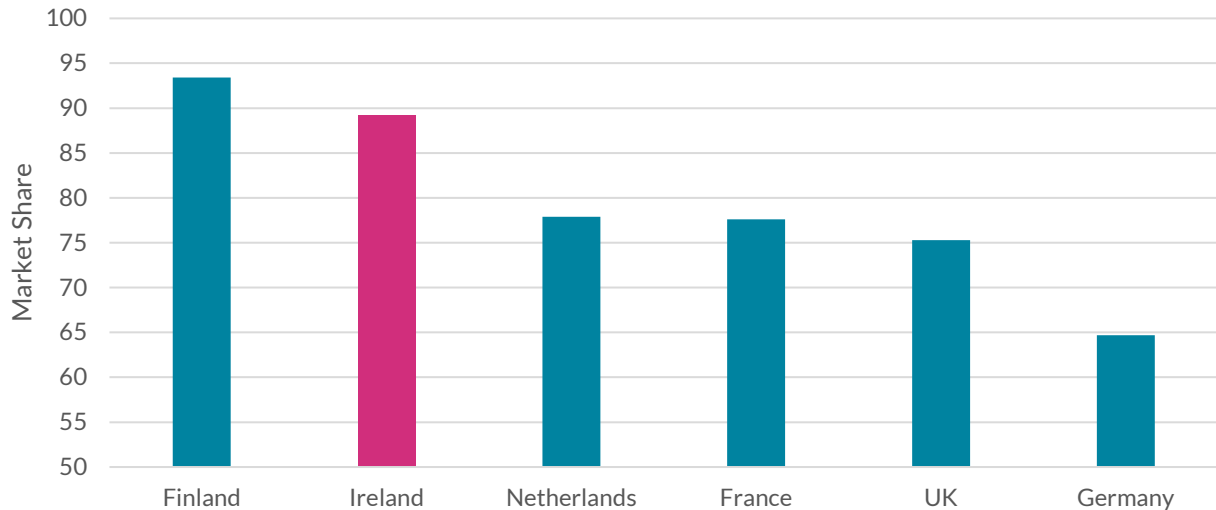
The top 5 grocery retailers in Ireland account for almost 90 per cent of the groceries market (Figure 6). In general, a higher degree of market concentration is expected to have a dampening effect on market competition, facilitating higher mark-ups and firm profitability. The concentration ratio in the Irish groceries market has increased since 2011, as a result of mergers in the sector.<sup>8</sup> For comparison, the equivalent concentration ratio is 75.3 per cent in the UK, 77.6 per cent in France, 77.9 per cent in the Netherlands. In contrast, at 93.4 per cent, the concentration ratio in Finland is even higher than in Ireland. It should also be noted that the distribution of market share among the top five retailers in Ireland is now more even compared to 2011, when the top two firms accounted for over half of the market. What is also notable is the increasing share of discount retailers, which rose from 9.1 per cent to 23.6 per cent over the period since 2011, and which may have contributed to competition and downward price pressures.

<sup>7</sup> Chart displays gross operating surplus/turnover in per cent for the category of retail sale in non-specialised stores with food, beverages or tobacco predominating. Series discontinuity between NACE Revision 1 (R1), which ends in 2008, and NACE Revision 2 (R2) beginning in 2008.

<sup>8</sup> Forfas (2011) "[Review of the economic impact of the retail cap](#)," Report prepared for the Departments of Enterprise, Jobs and Innovation and Environment, Community and Local Government, April 2011.



Figure 6: Grocery Market concentration in selected EU countries<sup>9</sup>



Source: Statistica, Kantar Worldpanel, Finnish Grocery Trade Association, Lebensmittelzeitung.

UK grocery retailers maintain a significant presence in Ireland. In the context of Brexit, it is notable that a UK retailer had the third highest market share in July 2019, while other UK-based grocery retailers also maintain a significant presence in the Irish market.<sup>10</sup> Research has shown that anti-dumping tariffs on imports can lead to higher prices being charged by domestic firms, as reduced competition leads to greater market power for domestic firms.<sup>11,12</sup> However, the high profitability of the grocery retail sector may mitigate the likelihood of UK-based retailers leaving the Irish market, and thereby further increasing market concentration.

Increased tariffs and trade costs may be passed on to consumers. The market structure in the groceries market, if characterised as having low levels of competition and relatively high mark-ups, could imply that some of the increased trade costs associated with Brexit may be passed on to consumers, while the price of domestic substitute goods could also increase in the event of tariffs. Cole and Eckel (2018) demonstrate that traditional substitution effects – where consumers respond to higher prices on imports by substituting towards cheaper alternatives – can be dominated by retailers absorbing the additional costs of tariffs on imports through increasing their mark-ups on other more efficient, low cost products, where mark-ups tend to be highest.<sup>13</sup> Alternatively, high

<sup>9</sup> Market share of top five grocery stores

<sup>10</sup> Source: <https://www.statista.com/statistics/534106/grocery-market-share-ireland/>

<sup>11</sup> An anti-dumping tariff is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below market value.

<sup>12</sup> Konings J. and Vandebussche H. (2005) "[Antidumping protection and markups of domestic firms](#)", *Journal of International Economics*, Vol.65(1) p. 151-165.

<sup>13</sup> Cole, M.T. & Eckel, C. (2018) "[Tariffs and markups in retailing](#)," *Journal of International Economics*, vol. 113(C), p. 139-153.



profitability could potentially allow retailers to absorb higher costs, lowering pass through to consumer prices. However, if retailers are forced to absorb Brexit related costs, they could respond by withdrawing less profitable products, leading to a reduction in variety with associated utility losses for consumers.<sup>14</sup> Overall, however, the relationship between UK and Irish producers, retailers and consumers is complex.

Imports from the UK are a substantial portion of the Irish groceries consumption basket. Figure 7 shows that agri-food products are the most exposed to high tariffs in a hard-Brexit scenario. Products in the milling industry, dairy products and meat products rely on imports from the UK, while the tariffs that would be applied to these goods, in the event of a no-deal scenario, are sizeable. Lawless and Morgenroth (2018) examine the contribution of UK imports to overall household expenditure in Ireland and estimate their exposure to tariffs and other non-tariff related cost increases from possible restrictions on trade.<sup>15</sup> The authors note that these are upper bound estimates of the potential price effects of a no-deal Brexit as their study does not take account of possible exchange rate or substitution effects, and assumes full price pass through to consumers. Caveats aside, their estimates indicated that the sectors most exposed are bread and cereals, as 59 per cent of these products are imported from the UK. The dairy sector is found to have the highest potential sector-level price effect.

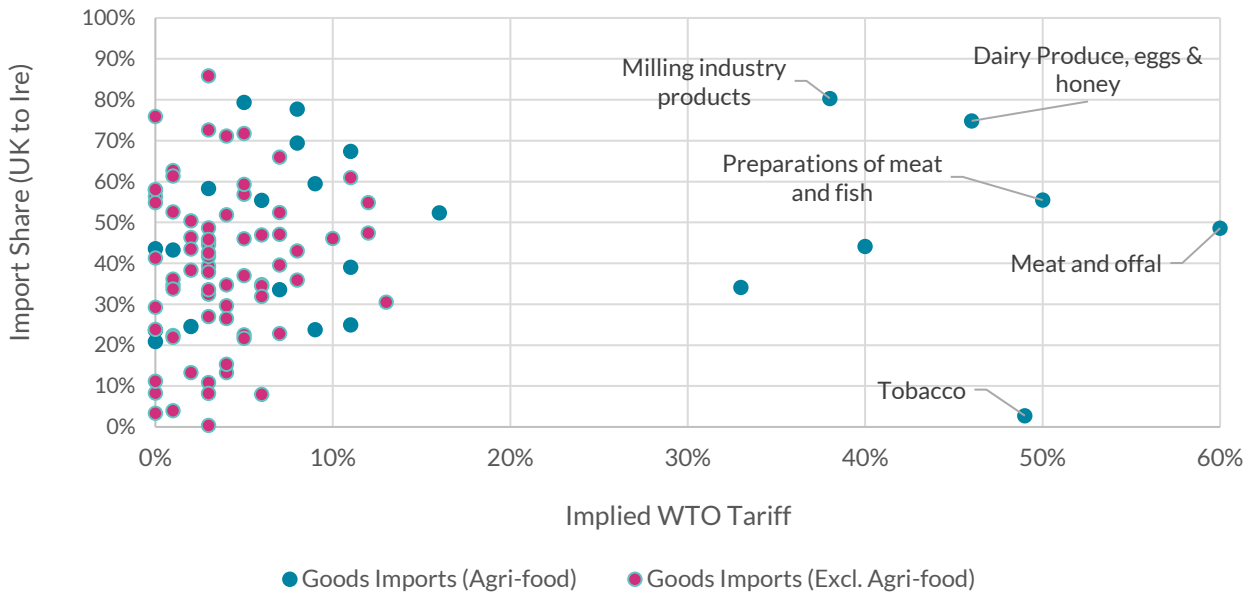
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<sup>14</sup> Cole, M.T. & Davies, R.B. (2014) "[Royale with Cheese: Globalization, Tourism, and the Variety of Goods](#)," *Review of Development Economics*, Wiley Blackwell, vol. 18(2), pages 386-400, May.

<sup>15</sup> Lawless, M. & Morgenroth, E. (2018) "[Brexit and Irish Consumers](#)," Quarterly Economic Commentary: Special Articles, Economic and Social Research Institute (ESRI).

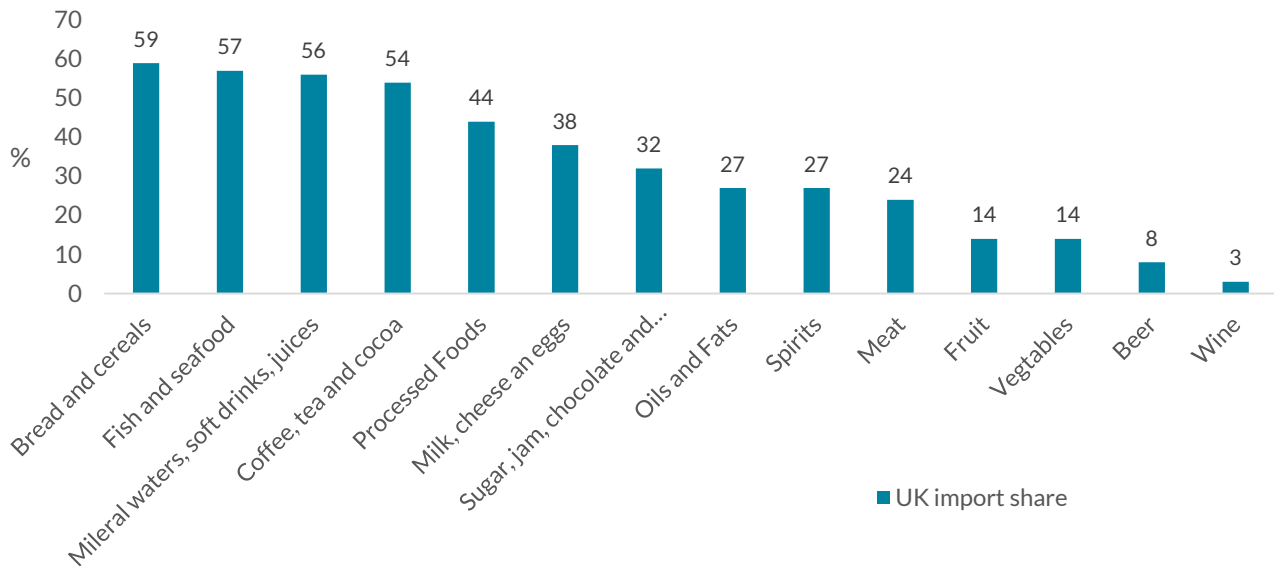


Figure 7: Concentration of Irish Imports from the UK and Implied WTO Tariffs<sup>16</sup>



Source: Lawless and Morgenroth (2018), Eurostat and authors' calculations.

Figure 8: UK Food Imports as a Share of Total Food Imports



Source: Lawless and Morgenroth (2018), Kee et al (2009)<sup>17</sup>

<sup>16</sup> Indicative values of average ad valorem equivalent tariffs estimated on the basis of the minimum tariffs weighted using EU imports from the UK at the HS 6-digit product level.

<sup>17</sup> Looi Kee, H., Nicita, A., & Olarreaga, M. (2008). *Estimating trade restrictiveness indices*. The Economic Journal, 119(534), 172-199.





A hard-Brexit could lead to some temporary increases in grocery inflation. Assuming no change in the exchange rate, full pass through of the tariffs and non-tariff barrier effects, and that consumers do not substitute away from UK products, the food price increases assumed by Lawless and Morgenroth (2018) would lead to an overall increase in the average basket of consumer goods. The *Processed Foods* and *Milk, Cheese and Eggs* categories make the largest contribution to the increases. In reality, these price increases are unlikely to fully materialise as consumers are likely to switch products, while producers may withdraw less profitable products from the Irish market. Moreover, weakening domestic demand and a sterling depreciation would exert downward pressure on Irish grocery prices. Nevertheless, some hard-Brexit related increase in the price level of groceries relative to other euro area Member States could prove to be persistent because of the potential adverse structural consequences described above.

**Table 1. WTO and NTB Tariff Estimates**

	WTO tariff rate %	Non-Tariff Barrier tariff equivalent estimates %	UK import share %
Bread and cereals	16	36	59
Fish and seafood	10	20	57
Mineral waters, soft drinks, juices	13	27	56
Coffee, tea and cocoa	7	29	54
Processed Foods	8	27	44
Milk, cheese and eggs	43	79	38
Sugar, jam, chocolate and confectionery	29	55	32
Oils and Fats	23	46	27
Spirits	7	9	27
Meat	38	62	24
Fruit	9	25	14
Vegetables	9	27	14
Beer	0	6	8
Wine	8	14	3

Source: Lawless and Morgenroth (2018), Kee et al (2009)