Price Trends in the Irish Retail Grocery Sector: A Description of the Evolution of Retail Grocery Prices between 2001 and 2007

Grocery Monitor: Report No. 2

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The Competition Authority
An tÚdarás Iomaíochta

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EXECUTIVE SUMMARY

Introduction

The Competition Authority has undertaken the *Grocery Monitor* Project at the request of the Minister for Enterprise, Trade and Employment to monitor the grocery sector for the foreseeable future in light of the changes in the legislative and regulatory environment. The request was made following the repeal of the Restrictive Practices (Groceries) Order, 1987 (the 'Groceries Order') on March 20th 2006 and the insertion of sections 15A, 15B and 15C in the Competition Act, 2002 which addresses certain business practices in the grocery sector.

The Competition Authority decided, given available resources, to prepare an initial set of three reports that together provide a comprehensive description of the evolution of the grocery sector with respect to the market structure and competition at the wholesale and retail levels, retail pricing trends and application of the planning system to expansion and entry at the retail level.

This *Report* (Report No. 2) describes the retail pricing trends in the grocery sector from 2001 to 2007. Another report (Report No. 1), which is being published at the same time as this report, examines the market structure and competition at the wholesale and retail levels of the grocery sector from 2001 to 2006. The third report (Report No. 3), which will be published later in the Spring, considers the planning system as applied to expansion and entry of retailers in the grocery sector from 2001 to 2006.

Overview

The Groceries Order prohibited retailers from selling items that it covered below cost, where the cost benchmark was the net invoice price. This limited the extent to which retailers could use price enticements to compete. Grocery items not covered by the Groceries Order were typically fresh produce and retailers retained the ability to price more freely on this set of products.

The purpose of this *Report* is to consider the impact of the removal of the Groceries Order by an examination of the evolution of aggregate retail grocery price trends since 2001. It does not consider retail price trends disaggregated to the level of individual retailers. The pricing policies of the major retailers are explored in some detail in Report No. 1 which examines the market structure and competition at the wholesale and retail levels of the grocery sector.

The analysis undertaken in this Report is based on two types of price data published by the Central Statistics Office (CSO):

- Monthly price index information for the period December 2001 to November 2007; and
- Bi-annual average price information for the period May 2004 to November 2007.

For the purposes of this *Report*, the principal monthly index is the Consumer Price Index (CPI). The CPI measures the changes in average level of prices paid for consumer goods and services in the State. It expresses the cost of purchasing a fixed basket of goods as a percentage of the cost of purchasing the same basket in the base year. The index is a weighted index reflecting the importance of each item to households. The structure of the index is revised every five years to reflect changes in consumer tastes and purchasing patterns. As a result, new items are introduced while other items are removed from the index. As a consequence, the weights assigned to each item are revised.

Three subindices that track price trends for grocery items covered by the Groceries Order, price trends of grocery items not covered by the Order and overall price trends for grocery items are also used.

Overall and product category price trends in Dublin and Outside Dublin are also examined based on the biannual comparisons of price levels published by the CSO.

Definition

For the purposes of Report No. 1, 'grocery goods' were defined as "*food and drink sold for human consumption and household necessaries*". As explained in that report, the definition corresponds most closely with what households consider as groceries. The definition of 'grocery goods' contained in the Competition (Amendment) Act 2006 was not used because it also included intermediate goods that are used in the production of grocery goods for retail to consumers.

The CPI covers 616 consumer goods and services of which 150 are grocery items previously covered by the Groceries Order ('Groceries Order items') and 71 are grocery items not covered by the Order (Non Groceries Order items').

Aggregate Price Trends

For the period from April 2006 to November 2007,

- The price of Groceries Order items increased by 3.8%;
- The price of Non Groceries Order items increased by 4.0%;
- The price of all grocery items (Groceries Order and Non Groceries Order items) increased by 3.6%; and
- The CPI, covering prices of all consumer goods and services, increased by 7.6%.

The price trends for Groceries Order items and Non Groceries Order items appear to behave differently prior to the removal of the Groceries Order. Specifically, when grocery prices were rising, the price of Groceries Order items tended to rise more rapidly than Non Groceries Order items and when the prices of grocery items were falling, the prices of Non Groceries Order items tended to fall more rapidly. During the nine month period following the removal of the Groceries Order, the price trends for Groceries Order items and Non Groceries Order items appear to behave very differently. The price trends move in opposite directions, with the price of Groceries Order items falling and the price of Non Groceries Order items rising. Since the beginning of 2007 the price trends for Groceries Order items and Non Groceries Order items appear once again to behave similarly with both trends rising. Toward the end of 2007, the rise in the price of Groceries Order items is steeper and this has been attributed to the rise in world commodity prices of certain agricultural products such as wheat.

Price Trends by Product Categories

The price trends for Groceries Order and Non Groceries Order items can be further analysed by examining the price trends of various product categories.

Prior to the removal of the Groceries Order, the principal drivers of the price trend for Groceries Order items where price increases were observed, appear to have been ‘Sugar, Jam, Honey, Chocolate and Confectionery’, ‘Bread and Cereals’ and alcoholic products. Price changes in these product categories tended to increase the price of Groceries Order items. The principal driver of the price trend for Non Groceries Order items prior to the removal of the Groceries Order appears to have been ‘Vegetables (NGO)’, i.e. fresh vegetables.

In the initial period following the removal of the Groceries Order, the principal drivers of the downward price trend for Groceries Order items appear to have been alcoholic products, 'Bread and Cereals' and 'Sugar, Jam, Honey, Chocolate and Confectionery'. For Non Groceries Order items, 'Meat (NGO)' and 'Vegetables (NGO)' tended to be the principal drivers of the upward price trend.

One effect of the Groceries Order was to limit the extent to which retailers could use price enticements to compete, in particular on Groceries Order items. Given the ability of retailers to price more freely on Non Groceries Order items, typically fresh produce, the price trend for Non Groceries Order items, prior to the removal of the Groceries Order, rose less rapidly and fell more rapidly than Groceries Order items.

After the removal of the Groceries Order, retailers once again were free to compete on the basis of price on the full set of grocery products. The period immediately following the removal of the Groceries Order therefore saw a period of price adjustment by retailers across their range of grocery products.

Since the beginning of 2007, the prices of both Groceries Order items and Non Groceries Order items have tended to rise in a similar way until the end of 2007 when stark increases in the price of 'Bread and Cereals' and 'Milk, Cheese and Eggs' pushed the price of Grocery Order items up more rapidly.

Price Trends by Region

Prices in the Dublin region are on average higher. When 'Drinks Out' is excluded from the comparison, the price differential is less than 1.5% on average.

The percentage of products that are more expensive in the Dublin region was typically between approximately 55% and 70% over the period November 2004 to November 2007. However, when groceries only are considered (and 'Drinks Out' are excluded), the number of items more expensive in the Dublin region falls to between approximately 45% and 60%. The number of grocery items that were more expensive in Dublin was less than 50% for four of the seven observations.

Compared to services, the price difference between grocery items for the two regions is more moderate. Meat, fish, and fresh fruit and vegetables tend to be more expensive in Dublin, while other food categories and alcoholic drinks (not for consumption on licensed premises) tend to be less expensive in the Dublin region. Finally, within regions, price variation tends to be less pronounced in the Dublin region.

1. INTRODUCTION AND BACKGROUND

Introduction

1.1 Following the removal of the Restrictive Practices (Groceries) Order, 1987 ('the 1987 Order') on March 20th 2006, the Competition Authority was asked by the Minister for Enterprise, Trade and Employment ('the Minister') to monitor the grocery sector. In response to this request, the Competition Authority undertook the *Grocery Monitor* Project ('the Project').

1.2 This *Report* is the second in an initial set of three reports arising from the Project and describes aggregate retail grocery price trends between 2001 and 2007.

The *Grocery Monitor* Project

Background

1.3 The *Grocery Monitor* Project was undertaken by the Competition Authority following a Government decision to abolish the 1987 Order by means of the Competition (Amendment) Act 2006 ('the Amendment Act'), which entered into force on March 20th 2006.

1.4 In addition to abolishing the 1987 Order, the Amendment Act introduced a number of enforcement provisions to the Competition Act, 2002, which relate specifically to the grocery sector.

1.5 With the coming into force of the Amendment Act, the Minister asked the Competition Authority, in cooperation with the Director of Consumer Affairs:

> *"to review and monitor the structure and operation of the grocery trade for the foreseeable future to see how it responds to the new legislative environment".*

1.6 The request was further elaborated in the Government's Social Partnership Framework Agreement, *Towards 2016*, published in June 2006.[1] The Competition Authority was:

> "*asked to assess, over time, the impact of the new regulatory environment in the context of abuse of a dominant position including both excessive and predatory pricing. As part of this*

[1] See Towards 2016: Ten Year Framework Social Partnership Agreement 2006-2015, available at: http://www.taoiseach.gov.ie/attached_files/Pdf%20files/Towards2016PartnershipAgreement.pdf

process the Authority will be asked to report to Government periodically and to make any recommendations it considers appropriate having regard to its findings".[2]

Objectives

1.7 Given the broad terms of the Minister's request, the Competition Authority initially sought to define the scope of the Project. Consideration was given to the context in which the request had been made, the mandate of the Competition Authority under the Competition Act, 2002, and the available resources of the Competition Authority.

1.8 An investigation of possible breaches of any part of the Competition Act or of EU competition law does not come within the scope of this report. Any such investigation would fall to be carried out by the appropriate enforcement division of the Competition Authority.

1.9 The Competition Authority decided to initially focus on three aspects of the grocery sector.

1.10 Firstly, in light of the direct impact on consumers, the Competition Authority is of the view that an analysis of aggregate trends in retail grocery prices is valuable. It is expected that additional aspects of pricing in the grocery sector will be the subject of a future report.

1.11 Secondly, the Competition Authority was of the view that any assessment of the impact of the new regulatory environment on the structure and operation of the grocery sector would require an understanding of the grocery supply chain and how it, and the various constituent operators, have evolved over time. The Competition Authority recognised that there is a paucity of publicly available information about the grocery sector. The Competition Authority concluded in the early stages of the Project that it would be preferable to devote its resources to compiling a comprehensive description of the grocery sector. In order to facilitate the manageability of the Project, the Competition Authority decided to focus on the retail and wholesale levels of the grocery sector and to consider the period from 2001 to 2006. It is expected that the supply level of the grocery sector will be the subject of a future report.

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[2] *Ibid*, p. 21.

1.12 Finally, the Competition Authority is of the view that a preliminary examination of the retail planning process and how it affects grocery retailing in particular is warranted. From a consumer perspective, markets typically underperform when entry is restricted. The Competition Authority recognises that the retail planning system may have the effect of restricting entry to various retail sectors. It is expected that the preliminary examination of the retail planning system, as applied to the grocery sector, will inform the future work of the Competition Authority.

1.13 Accordingly, the Competition Authority is publishing a set of three reports addressing three aspects of grocery sector:

- *A Description of the Structure and Operation of Grocery Retailing and Wholesaling in Ireland: 2001 to 2006* (Report No. 1);
- *Price Trends in the Irish Retail Grocery Sector: A Description of the Evolution of Retail Grocery Prices: 2001 to 2007* (this *Report*, Report No. 2); and
- *The Retail Planning System as Applied to the Retail Grocery Sector: 2001 to 2006* (Report No. 3).

1.14 Reports No. 1 and 2 are being released together. Report No. 3 will be published in Spring 2008.

Methodology

1.15 During the initial phases of the Project, the Competition Authority met with representatives of the Central Statistics Office (CSO), the National Consumer Agency (NCA) and a number of market research firms to explore what price information (data or research) was available.

1.16 These meetings highlighted the difficulties and expense associated with acquiring reliable price data for the grocery sector. Potentially, a complete examination of pricing issues would involve the collection of data on a wide range of grocery goods, from a variety of operators at multiple stages of the supply chain and from a diversity of geographic locations. The Competition Authority decided that as a first step toward an examination of pricing in the grocery sector it would look at aggregate price trends at the retail level. This approach has the advantage that the CSO collects and publishes price data which is generally regarded as being the best available measure of retail grocery price movements. The Competition Authority is grateful for the continued assistance provided by the CSO.

1.17 The CSO publishes a variety of relevant price indices. These include an overall Consumer Price Index (CPI) with subindices for grocery items previously covered by the Groceries Order and grocery items not previously covered by the Groceries Order. The CSO also publishes subindices for a variety of grocery subcategories, thereby allowing for a limited degree of disaggregation at the level of product categories. The Competition Authority decided that these trends would be examined for the period since the removal of the Groceries Order and, to allow a longer term perspective, since December 2001.

1.18 The CSO also publishes analyses comparing prices in Dublin and the rest of the State. This allows a limited degree of price disaggregation based on geography. The Competition Authority decided that the information contained in these analyses could usefully be included in an analysis of aggregate price trends.

Boundaries of this *Report*

1.19 The purpose of this *Report* is to provide insight into the evolution of aggregate retail grocery price trends since 2001. Accordingly, the *Report* does not consider retail grocery prices disaggregated to the level of individual retailers. The pricing policies of the major retailers are explored in some detail in Report No. 1. In that report, pricing behaviour is considered in terms of the competitive strategies of the main retailers. It is envisaged that additional work on the pricing behaviour of retailers will be undertaken at a later stage.

1.20 As previously indicated, pricing issues arising at levels of the grocery supply chain above the retail level are not addressed in this *Report*. Again, it is envisaged that pricing behaviour at the wholesale and retail levels will be the subject of future work.

Structure of this *Report*

1.21 The remainder of the *Report* is structured as follows:

- Section 2 describes the retail grocery price data that the CSO collects;
- Section 3 examines aggregate price trends;
- Section 4 and Section 5 each provide a closer look at the drivers of aggregate price trends. Section 4 looks at grocery retail prices disaggregated by product subcategories while Section 5 looks at grocery retail prices disaggregated by geography; and
- Section 6 draws together the findings of this *Report*.

2. RETAIL GROCERY PRICE DATA

Introduction

2.1 This *Report* relies on two types of price data published by the CSO. These are:

- Monthly price index information for the period December 2001 to November 2007; and,

- Bi-annual average price information for the period May 2004 to November 2007.

2.2 The following subsections provide a short description of the purpose and methodology for collecting this data.

The Consumer Price Index

2.3 For the purposes of this *Report*, the principal monthly price index published by the CSO is the Consumer Price Index. According to the CSO, the CPI is:

> "*designed to measure, in index form, the change in the average level of prices paid for consumer goods and services by all private households in the country and by foreign tourists while on holiday within Ireland. It is the most widely used measure of consumer inflation."* [3]

2.4 With respect to geographical coverage, the CPI covers:

> "*the whole of the Republic of Ireland. Pricing takes place in 84 locations (cities and towns) throughout the country. These sampling points are located in Dublin city and county, the four regional cities of Cork, Limerick, Galway and Waterford, approx. 80% of towns with a population of 10,000 and over, approx. 70% of towns between 5,000 and 9,999 and a smaller proportion below this threshold. The results are weighted to represent the distribution of the population and its related consumer expenditure.*"[4]

2.5 The index includes all goods and services bought by the reference population for the purposes of consumption. Expenditure on capital assets and investments, gambling and certain other activities are

[3] See the section related to methodology: http://www.cso.ie/surveysandmethodologies/surveys/prices/cons_price_index.htm.
[4] See the section 'Background Notes – Consumer Price Index' of the CSO 'Consumer Price Index' press release of 22 February 2007.

however excluded. The index covers over 1,000 different varieties of goods and services which are then aggregated into 616 item headings.

2.6 The CPI is a weighted average index, that is, each item in the basket is weighted to reflect the importance of the amount of money spent on each item. 'Expenditure weights' are used for this purpose; they reflect the average expenditure by all households on various categories of goods and services.

2.7 Of the 616 CPI items, 150 are grocery items that were previously covered by the 1987 Order, while 71 are grocery items which were not covered by the 1987 Order. In terms of expenditure weights, items previously covered by the 1987 Order represented 14.29% of the value of all goods and services covered by the CPI as of December 2001 while items that were not covered by the 1987 Order had a weight of 5.11%.

2.8 To ensure that the index continues, to be representative of changing consumer tastes and purchasing patterns over time, new items are introduced or removed every five years. The last update was in December 2006. Therefore, the monthly figures released by the CSO express the current cost of purchasing a fixed basket of consumer goods and services as a percentage of the cost of purchasing the same identical basket at the base period, i.e. December 2006. This process is referred to as 'rebasing'. When the CPI is rebased, expenditure weights are revised. Items that would previously have been covered by the 1987 Order now represent 11.64% of the value of all goods and services covered by the CPI while items that would not have been covered by the Order have a weight of 4.92%. The reduction in the weights of the two categories of groceries reflects the fact that the share of consumer expenditure attributable to groceries is falling relative to other categories of consumer expenditure.

Average Price Analysis: Dublin and Outside Dublin

2.9 In contrast to the CPI, which measures *changes* in the average level of prices of certain good and services, the CSO also publishes information on *average price levels* for the Dublin and Outside Dublin regions.[5]

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[5] Outside Dublin is defined as regional cities and towns with a population less than 20,000.

2.10 The *Consumer Prices Bi-annual Average Price Analysis: Dublin and Outside Dublin* measures the *average level* of prices of certain comparable varieties of goods and services.[6] For example, the publication contains an average price for a pint of stout or 20 cigarettes for the Dublin region and the Outside Dublin region. This publication, issued in May and November each year, began in May 2004 and is based on price data collected for the CPI. The CSO constructs comparable average prices for 79 goods and services from CPI data for the Dublin and the Outside Dublin regions. The goods and services covered account for approximately 21% of the total value of the CPI basket.

2.11 When alcohol for consumption on licensed premises, tobacco, services and motor fuels are excluded from the bi-annual analysis, 60 grocery items remain. Together, the 60 items account for approximately 7% of the total value of the CPI basket. 27 of the 60 grocery items in the bi-annual analysis are grocery items that were covered by the Groceries Order. The 27 items have account for approximately 5% of the total value of the CPI basket. The remaining 33 grocery items were not covered by the Groceries Order, and together account for approximately 2% of the total value of the CPI basket.

2.12 Based on average prices calculated for each of the items covered in the analysis, the CSO also present an overall average for the Dublin and the Outside Dublin regions. This is a weighted average across all items contained in the analysis. The weights used are the CPI weights. In addition to an overall average, an average excluding 'Drinks Out' is calculated.

2.13 In addition to regional average prices (i.e. average prices for the Dublin and Outside Dublin regions), the CSO bi-annual analysis also includes an analysis of price ranges. The CSO computes the average of the five lowest price observations, the average of the five highest price observations and the percentage difference between the highest price observations and the lowest price observations for each region (i.e. the Dublin and Outside Dublin regions). Based on this the overall average of the difference between the highest price observations and the lowest price observations for each region is calculated. This is a simple

[6] The CSO *Bi-annual Average Price Analysis* publications are available at: http://www.cso.ie/releasespublications/pr_prices.htm

average (i.e. not a weighted average) of the difference calculated for each of the items included in the analysis. The bi-annual publication is therefore useful in comparing not only average prices, but also price dispersion.

2.14 Finally, each publication of the bi-annual analysis contains a comparison of the current analysis with the previous analysis and the percentage change between the two periods. The information presented in the bi-annual survey can therefore provide useful information on movements in national average prices but it is less reliable than the corresponding CPI subindices as it is based on a smaller sample.

Definition of Grocery Goods

2.15 For the purposes of Report No. 1, 'grocery goods' were defined as *"food and drink sold for human consumption and household necessaries"*. In that report, the definition of grocery goods used in the 1987 Order was not used because it did not include fresh produce such as fruit, vegetables, meat and fish. While the exclusion of these items is understandable in the context of the 1987 Order, their exclusion from the definition of 'grocery goods' from Report No. 1 would have made that report less meaningful.

2.16 The definition of 'grocery goods' contained in the Competition (Amendment) Act 2006 ('the Amendment Act') was not used either. The Amendment Act defines 'grocery goods' as "*food and drink sold for human consumption that is intended to be sold as groceries*". This definition excludes household necessaries (such as toothbrushes, shampoo and washing-up liquid) which are normally considered to be grocery goods by final consumers. The definition in the Amendment Act includes intermediate goods that are used in the production of grocery goods for retail to consumers.[7] The inclusion of intermediate goods in the definition of 'grocery goods' in Report No. 1 would also make that report less meaningful.

2.17 As previously noted the CSO collects price information on 150 grocery items that were previously covered by the Groceries Order and 71 grocery items that were not covered by the Groceries Order. In this

[7] See section 15A of the Competition Act, 2002.

Report, these goods are referred to as Groceries Order items and Non Groceries Order items respectively. This sample of 221 grocery items falls within the definition of grocery goods used in Report No. 1.

Comment

2.18 The analysis in sections 3 and 4 is based on the monthly price index information published by the CSO. In addition to the CPI, a number of subindices are used. For example, section 3 uses a subindex of the CPI that tracks price movements of a basket of grocery goods that were covered by the Groceries Order and a subindex of the CPI that tracks price movements of a basket of grocery goods that were not covered by the Groceries Order. Section 4 uses subindices that track price movements of categories of grocery goods (e.g., bread and cereals and alcoholic beverages). As all these indices are based on information collected by the CSO for the purposes of constructing the CPI, the description of the purpose of, and methodology for, the CPI is instructive.

3. AGGREGATE PRICE TRENDS

Introduction

3.1 This section examines aggregate price trends. First, the evolution of overall consumer prices and grocery prices since April 2006 (i.e. the month following the removal of the Groceries Order) is considered. Second, the evolution of overall consumer prices and grocery prices for the period leading up to the removal of the Groceries Order, i.e. December 2001 to April 2006 is analysed. Finally, based on the analysis of these two periods, five subperiods where the price series appear to behave differently are distinguished.

Since the Removal of the Groceries Order

3.2 Table 1 below presents price index data on four price indices compiled by the CSO for the period April 2006 to December 2007. The data is also illustrated in Figure 1. The price series are:

- The Consumer Price Index (CPI);
- A subindex of the CPI that tracks price trends of grocery items formerly covered by the Groceries Order ('Groceries Order items');
- A subindex of the CPI that tracks price trends of grocery goods that were not covered by the Groceries Order ('Non Groceries Order items'); and
- A subindex that tracks the overall price trend in grocery items, that is, prices of Groceries Order items as well as Non Groceries Order item together.

3.3 A number of points are worth noting about the period from April 2006 to November 2007. Firstly, the price of Groceries Order items has increased by 3.8%. Secondly, the price of Non Groceries Order items has increased by 4.0%. Thirdly, the price of all grocery goods captured by the CPI has increased by 3.6%. Finally, overall consumer prices, as measured by the CPI, have increased by 7.6%.

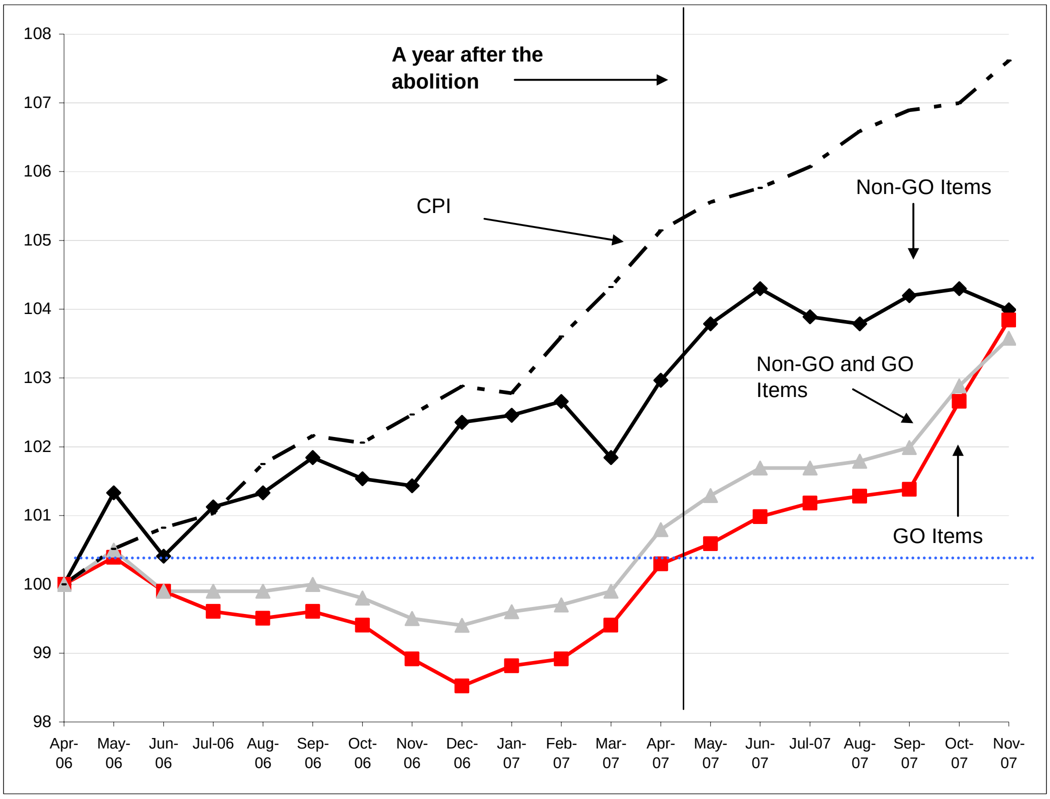
Table 1: Price Indices of Groceries Order and Non Groceries Order Items (Apr. 2006 to Nov. 2007)

	CPI	Groceries Order Items	Non Groceries Order Items	Groceries Order and Non Groceries Order Items
Apr. 2006*	100.0	100.0	100.0	100.0
May 2006	100.5	100.4	101.3	100.5
Jun. 2006	100.8	99.9	101.4	99.9
Jul. 2006	101.0	99.6	101.1	99.9
Aug. 2006	101.7	99.5	101.3	99.9
Sep. 2006	102.2	99.6	101.8	100.0
Oct. 2006	102.1	99.4	101.5	99.8
Nov. 2006	102.5	98.9	101.4	99.5
Dec. 2006	102.9	98.5	102.4	99.4
Jan. 2007	102.8	98.8	102.5	99.6
Feb. 2007	103.6	98.9	102.7	99.7
Mar. 2007	104.3	98.4	101.8	99.9
Apr. 2007	105.1	100.3	103.0	100.8
May 2007	105.6	100.6	103.8	101.3
Jun. 2007	105.8	101.0	104.3	101.7
Jul. 2007	106.1	101.2	103.9	101.7
Aug. 2007	106.6	101.3	103.8	101.8
Sep. 2007	106.9	101.4	104.2	102.0
Oct. 2007	107.0	102.7	104.3	102.9
Nov. 2007	107.6	103.8	104.0	103.6

* All series use April 2006 as the base period.

Source: CSO.

Figure 1: Price Trends for Groceries Order and Non Groceries Order Items after April 2006 (April 2006 = 100)



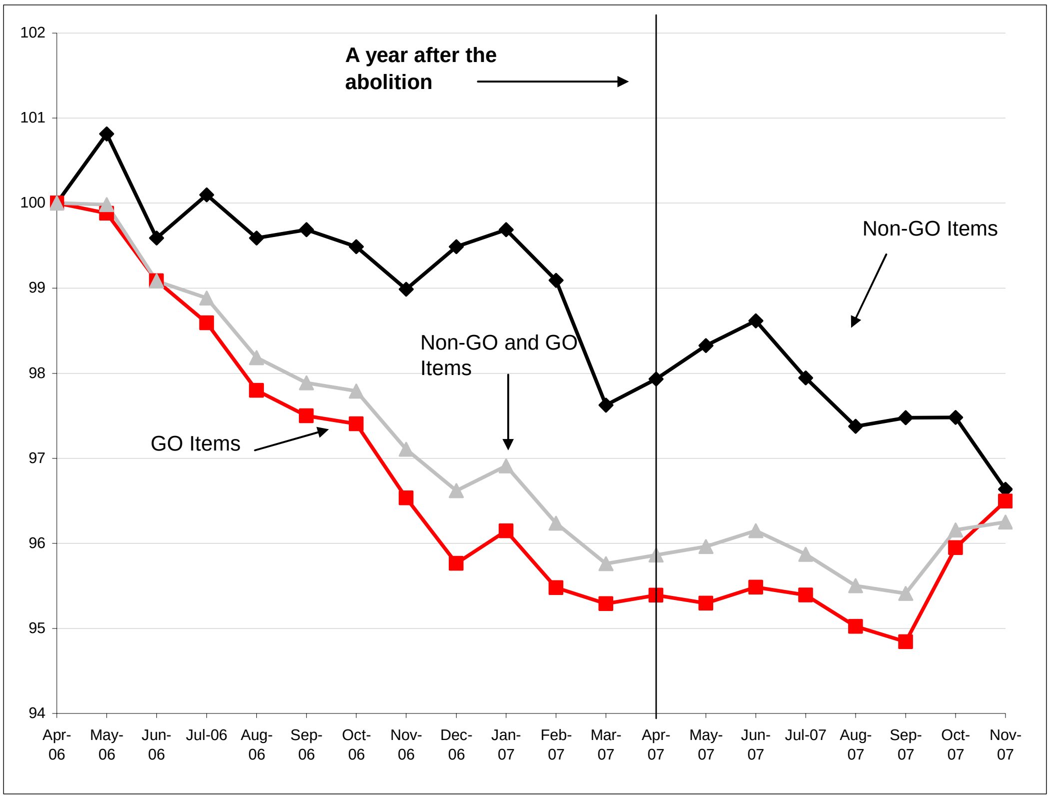
3.4 A closer look at the data shows that after an initial increase in May 2006, the price trend for Groceries Order items and the other price trends begin to diverge. By December 2006, the price of Groceries Order items had decreased by 1.5%, while the price of Non Groceries Order items increased by 2.4%. At the same time, general consumer prices, as captured by the CPI, increased by 2.9%.

3.5 By April 2007, when a full year had passed since the removal of the Groceries Order, the price of Groceries Order items increased by 0.3%, less than the CPI which increased by 5.1% and less than the price of Non Groceries Order items which increased by 3%. After April 2007, each of the four price trends shows an increase. In October and November 2007, the price trend for Groceries Order items increases dramatically.

3.6 Another way of comparing the movements in these price trends is to adjust the series to show *real* price movements, that is, price movements relative to the CPI. Figure 2 below illustrates the real movement in the prices for Groceries Order items and Non Groceries Order items between April 2006 and November 2007.

3.7 Since April 2006, the price of Groceries Order items have fallen by 3.5% in real terms, while the price of Non Groceries Order items have by fallen 3.4%. The real price of Groceries Order items show sharp increases in October and November 2007. Over the period since the removal of the Groceries Order, this is the first time that consecutive real prices increases occur. Indeed, over the period, a real price increase only registers on one other occasion for Groceries Order items, in January 2007.

Figure 2: Real Price Trends for Groceries Order and Non Groceries Order Items after April 2006 (April 2006 = 100)

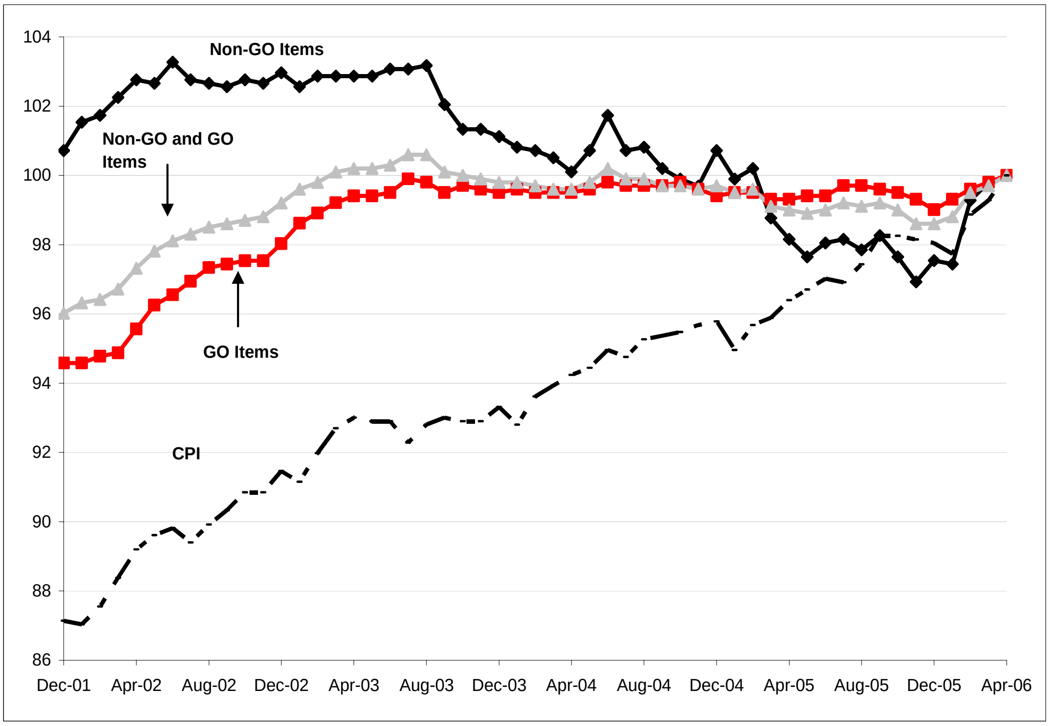


Prior to the Removal of the Groceries Order

3.8 In order to gain a longer-term perspective it is necessary to look at the period leading up to the removal of the Groceries Order. Figure 3 below illustrates the same price trends as Figure 1 above (i.e. the evolution of the CPI, the price of Groceries Order items and Non Groceries Order items, and the combined trend for Groceries Order and

Non Groceries Order items) for the period December 2001 to April 2006.

Figure 3: Price Trends for Groceries Order and Non Groceries Order Items before April 2006 (April 2006 = 100)



3.9 Interpretation of Figure 3 highlights a number of important points about the period from December 2001 to April 2006, that is, the period leading up to the removal of the Groceries Order. Firstly, the price of Groceries Order items increased by 5.7%. Secondly, the price of Non Groceries Order items increased by 0.7%. Thirdly, the price of all grocery goods captured by the CPI increased by 4.1%. Finally, consumer prices, as measured by the CPI, increased by 14.8%.

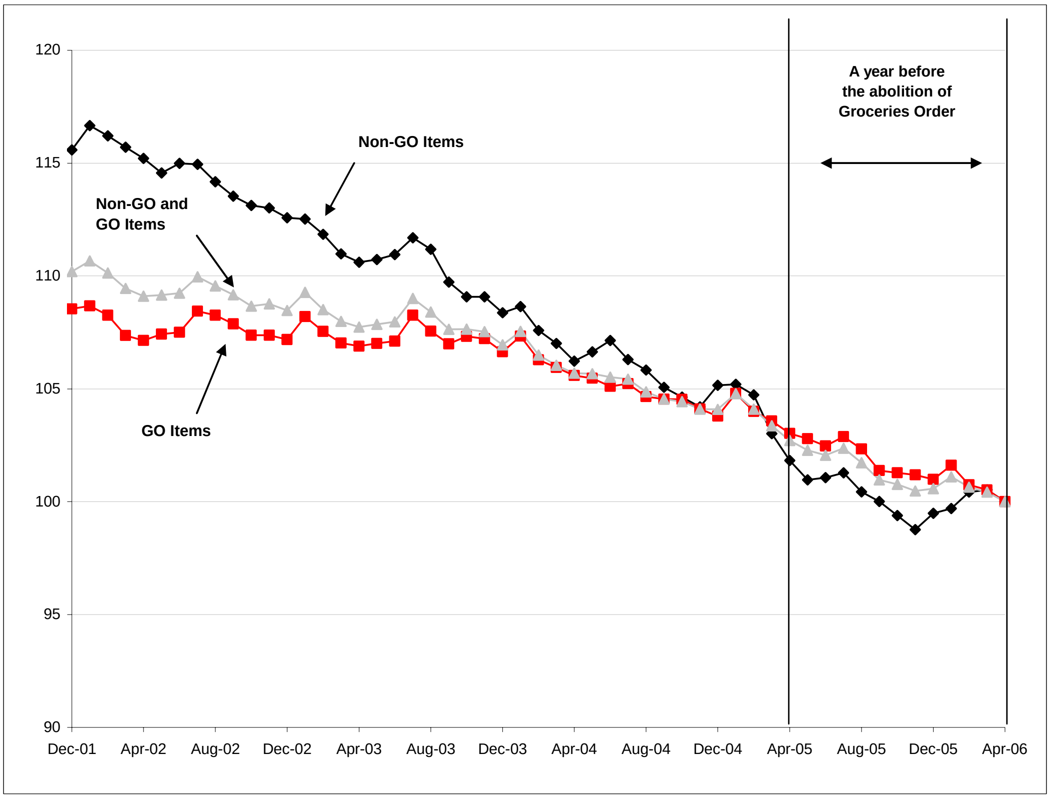
3.10 For the period leading up to the removal of the Groceries Order, the price trend for Non Groceries Order items appears to have followed a different trend to Groceries Order items. After a 2.5% increase in the first half of 2002, the price trend for Non Groceries Order items remained relatively stable until August 2003. There then appears to be a declining trend which seems to reverse in November 2005. In contrast, between December 2001 and August 2003 the price trend for Groceries Order items steadily increased by 5.5% (compared to a 2.4% increase in the price of Non Groceries Order items) and then remained relatively constant up until the removal of the Groceries Order.

3.11 The year leading up to the removal of the Groceries Order saw an increase in the combined price trend for Groceries Order and Non Groceries Order items, but this upward trend halted following the change in legislation. The six month period prior to the removal of the Groceries Order (November 2005 - April 2006) saw a rise of 0.7% in the price of Groceries Order items, compared to a 3.2% increase in the price of Non Groceries Order items. This upward trend reversed following the removal of the Groceries Order.

3.12 As before, it is possible to compare the series by looking at real price movements. Figure 4 below shows the price movements for Groceries Order items and Non Groceries Order items in real terms, as well as real price movements for the combined trends, between December 2001 and April 2006.

3.13 Real grocery prices have shown a downward trend since December 2001, which appears to be more pronounced for Non Groceries Order items.

Figure 4: Real Price Trends for Groceries Order and Non Groceries Order Items from December 2001 to April 2006 (April 2006 = 100)



Comment

3.14 Based on the above analysis, five periods can be distinguished where the price trends appear to behave differently, as Figure 5 below shows.

3.15 The five periods are:

- *Period 1* (December 2001 – July 2003): The price trend for Groceries Order items increased by 5.6%, while the price trend for Non Groceries Order items initially increased and then remained relatively stable, increasing by 2.3% over the period but only by 0.3% between April 2002 and July 2003;

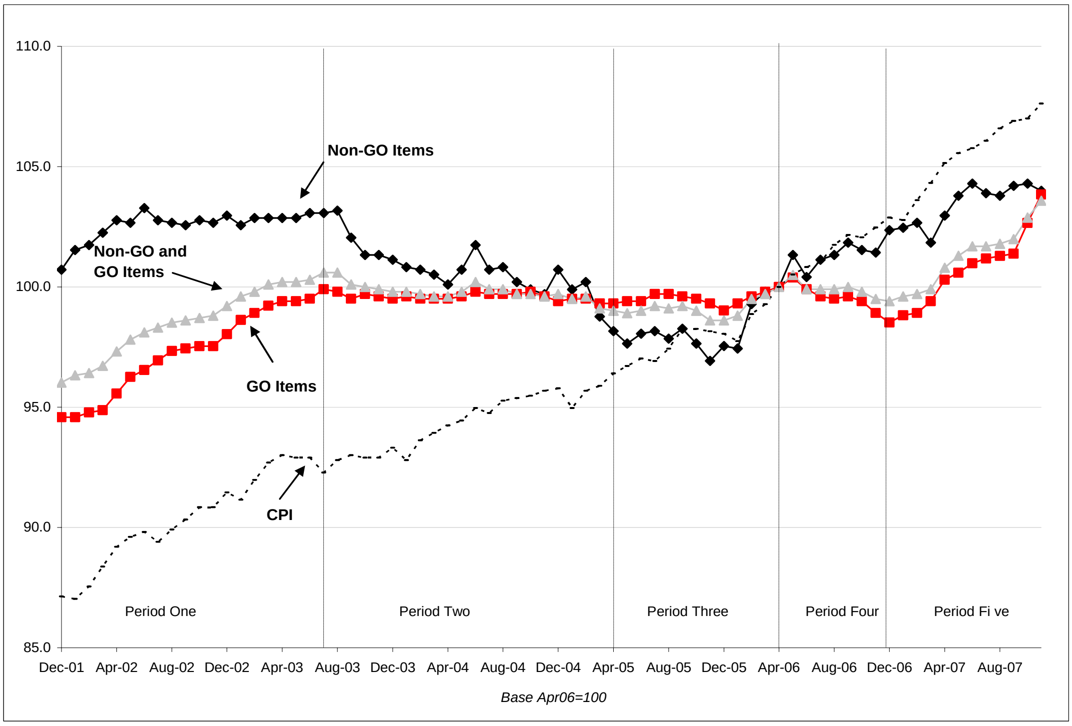
- *Period 2* (July 2003 - April 2005): The price trend for Groceries Order items decreased by 0.6% while the price trend for Non Groceries Order items decreased by 4.8%;

- *Period 3* (April 2005 – April 2006): The price trend for Groceries Order items and the price trend for Non Groceries Order items behave similarly, as both trends decreased and then subsequently increased, though the effect was more pronounced for Non Groceries Order items. Over the period, the price trend for Groceries Order items increased by 0.7% while the price trend for Non Groceries Order items increased by 1.9%;

- *Period 4* (April 2006 – December 2006): Following the removal of the Groceries Order, the price trend for Groceries Order items decreased by 1.5% whereas the price trend for Non Groceries Order items increased by 2.4%; and
- *Period 5* (December 2006 – November 2007): Since the beginning of 2007 the price trends for Groceries Order items and Non Groceries Order items increased by 5.37% and 1.57% respectively.

3.16 Section 4 examines price trends for product subcategories for each of the five periods identified in this section.

Figure 5: Price Trends for Groceries Order and Non Groceries Order Items from December 2001 to November 2007 (April 2006 = 100)



4. DISAGGREGATED PRICE TRENDS BY PRODUCT CATEGORY

Introduction

4.1 To better understand the drivers behind each of the price trends, over each of the five periods identified in section 3, the price trends for product categories (identified in section 2) need to be assessed. Each of the five periods is addressed in sequence.

4.2 The grocery product subcategories are shown in Table 2 below. There are fifteen grocery product categories that were covered by the Groceries Order and five grocery product categories that were not covered. Four of the grocery subcategories compiled by the CSO contain grocery items that fell into both of the product categories above. The reason is that the Groceries Order did not cover fresh goods. For example, the product category ‘Meat’ appears in each of the columns of Table 2. In the second column ‘Meat’ appears as ‘Meat (NGO)’. ‘Meat’ covers meat products that have been processed in some fashion while ‘Meat (NGO)’ covers fresh meat products.

4.3 The price trends for each of the grocery subcategories, for each of the five periods, are illustrated in the Appendix.

4.4 In considering the pricing behaviour of goods falling into each of the grocery subcategories above, price changes and their contribution to the change in the price trends for both Groceries Order items and Non Groceries Order are assessed. Because products have different weightings, a price increase in a particular category of goods may only register as a small increase in the relevant price trend and *vice versa*.

Table 2: Grocery Product Categories (both covered and not covered by the Groceries Order)

Grocery Product Categories

Groceries Order items	**Non Groceries Order items**
Bread and Cereals	
Meat	Meat (NGO)
Fish and Seafood	Fish and Seafood (NGO)
Milk, Cheese and Eggs	
Oils and Fats	
Fruit	Fruit (NGO)
Vegetables	Vegetables (NGO)
Sugar, Jam, Honey, Chocolate and Confectionery	
Food Products N.E.C*	
Coffee, Tea and Cocoa	
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	
Spirits	
Wine	
Beer	
Non-durable Household Goods	Other Appliances, Articles and Products for Personal Care

* Food Products Not Elsewhere Covered.

Source: CSO

Period One (December 2001 – July 2003)

4.5 Between December 2001 and July 2003, the price of Groceries Order items increased steadily. The cumulative increase over the period was 5.6%, as Table 3 shows. While all product categories showed price increases, the main driver of the price trend for Groceries Order items was ‘Spirits’. The price of spirits rose by almost 26% over Period 1 and contributed 1.51% of the 5.6% increase in the trend (i.e. more than one quarter). The increase in government levied excise duties payable on products falling into the Spirits category in December 2002 is largely responsible for the significant increase in the price of spirits.

4.6 The second, third and fourth most important drivers of the rise in the price of Groceries Order items for Period 1 were ‘Sugar, Jam, Honey, Chocolate and Confectionery’, ‘Bread and Cereals’ and ‘Wine’, contributing 0.78%, 0.77% and 0.69% respectively. While the contributions were of similar magnitude, the price increases for sugar, jam, honey, chocolate, confectionery and wine were relatively more significant. The next most important drivers were milk, cheese and eggs with 0.48%, and mineral waters, soft drinks, fruit and vegetable juices’ with 0.46%.

Table 3: Period 1 Price Trend for Groceries Order Items (December 2001 – July 2003)

Overall Increase in CPI: +5.9%

Category	% Increase	Contribution	Rank*
Bread and Cereals	4.5	0.77	**3**
Meat	1.6	0.21	**7**
Fish and Seafood	3.1	0.03	**14**
Milk, Cheese and Eggs	3.8	0.48	**5**
Oils and Fats	4.0	0.1	**10**
Fruit	6.0	0.04	**13**
Vegetables	1.5	0.07	**12**
Sugar, Jam, Honey, Chocolate and Confectionery	8.6	0.78	**2**
Food Products N.E.C.**	5.8	0.15	**9**
Coffee, Tea and Cocoa	0.7	0.02	**15**
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	6.5	0.46	**6**
Spirits	25.6	1.51	**1**
Wine	7.2	0.69	**4**
Beer	3.1	0.19	**8**
Non-durable Household Goods	1.9	0.1	**10**
Total GO Items* **		**5.6**	

* The ranking is based on the absolute magnitude of contributions.
** Food Products Not Elsewhere Covered.
*** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

4.7 Table 4 below repeats the analysis above for Non Groceries Order items. The price of Non Groceries Order items initially increased and then remained relatively stable. While the cumulative increase over the period was 2.3% (compared 5.6% for items that were covered by the Groceries Order), the majority of the increase, 2%, had occurred by

April 2002, and the remainder of the increase, 0.3%, occurred between April 2002 and July 2003. All product categories, excluding 'Meat (NGO)', showed price increases. The principal driver of the price trend for Non Groceries Order items appears to have been 'Vegetables (NGO)' which contributed 1.48% to the 2.3% increase.

Table 4: Period 1 Price Trend for Non Groceries Order items (December 2001 – July 2003)

Overall Increase in CPI: +5.9%

Category	% Change	Contribution	Rank*
Meat (NGO)	-1.3	-0.47	**3**
Fish and Seafood(NGO)	8.6	0.36	**4**
Fruit (NGO)	1.6	0.18	**5**
Vegetables (NGO)	7.8	1.48	**1**
Other Appliances, Articles and Products for Personal Care	2.8	0.76	**2**
Total NGO Items**		**2.31**	

* The ranking is based on the absolute magnitude of contributions.
** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

Period Two (July 2003 - April 2005)

4.8 Between July 2003 and April 2005, Period 2, the price of Groceries Order items was relatively stable, showing a decrease of just 0.6%. Eight of the fifteen product categories showed price decreases while the remaining seven showed increases. The magnitude of price increases was overall much lower when compared to Period 1 for example, and reinforces the idea that the price of Groceries Order items remained relatively stable during Period 2.

Table 5: Period 2 Price Trend for Groceries Order items (July 2003 - April 2005)

Overall Increase in CPI: +4.5%

Category	% Change	Contribution	Rank*
Bread and Cereals	-0.3	-0.05	**7**
Meat	-2.4	-0.1	**3**
Fish and Seafood	-5.0	-0.05	**7**
Milk, Cheese and Eggs	0.5	0.06	**6**
Oils and Fats	-1.0	-0.02	**11**
Fruit	11.1	0.07	**4**
Vegetables	-1.2	-0.05	**7**
Sugar, Jam, Honey, Chocolate and Confectionery	-0.8	-0.07	**4**
Food Products N.E.C.**	1.9	0.05	**7**
Coffee, Tea and Cocoa	0.7	0.02	**11**
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	-2.1	-0.15	**2**
Spirits	0.3	0.02	**11**
Wine	0.2	0.02	**11**
Beer	-0.2	-0.01	**15**
Non-durable Household Goods	-5.3	-0.29	**1**
Total GO Items* **		**-0.55**	

* The ranking is based on the absolute magnitude of contributions.
** Food Products Not Elsewhere Covered.
*** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

4.9 The price of Non Groceries Order items decreased by 4.8% during Period 2. All product categories showed price decreases. The product category ‘Vegetables (NGO)’ showed the most pronounced decrease at 13.4% and contributed 2.66% to the overall 4.8% decrease in the price trend, that is, over half.

Table 6: Period 2 Price Trend for Non Groceries Order items (July 2003 - April 2005)

Overall Increase in CPI: +4.5%

Category	% Change	Contribution	Rank*
Meat (NGO)	-2.4	-0.89	**2**
Fish and Seafood(NGO)	-5.5	-0.24	**5**
Fruit (NGO)	-2.6	-0.29	**4**
Vegetables (NGO)	-13.4	-2.66	**1**
Other Appliances, Articles and Products for Personal Care	-2.4	-0.67	**3**
Total NGO Items**		**-4.75**	

* The ranking is based on the absolute magnitude of contributions.

** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

Period Three (April 2005 – April 2006)

4.10 Period 3 covers the final year leading up to the removal of the Groceries Order. Over this period, the price of Groceries Order items increased by 0.7%. Three of the fifteen product categories showed price decreases while the remaining twelve showed increases. Price changes for each of the product categories were moderate, indicating a relatively stable period for items that were covered by the Groceries Order.

Table 7: Period 3 Price Trend for Groceries Order items (April 2005 – April 2006)

Overall Increase in CPI: +3.7%

Category	% Change	Contribution	Rank*
Bread and Cereals	1.7	0.28	**2**
Meat	-0.8	-0.09	**6**
Fish and Seafood	1.9	0.02	**11**
Milk, Cheese and Eggs	2.7	0.34	**1**
Oils and Fats	1.4	0.04	**10**
Fruit	1.1	0.01	**12**
Vegetables	1.9	0.09	**6**
Sugar, Jam, Honey, Chocolate and Confectionery	1.8	0.17	**3**
Food Products N.E.C**	0.3	0.01	**12**
Coffee, Tea and Cocoa	0.4	0.01	**12**
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	1.7	0.12	**4**
Spirits	-1.2	-0.09	**6**
Wine	0.1	0.01	**12**
Beer	-1.1	-0.07	**9**
Non-durable Household Goods	-2.3	-0.12	**4**
Total GO Items* **		**+0.73**	

* The ranking is based on the absolute magnitude of contributions.
** Food Products Not Elsewhere Covered.
*** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

4.11 Over Period 3, the price of Non Groceries Order items increased by 1.9%. Like the price trend for Groceries Order items, the series for items not covered by the Groceries Order shows an initial decrease followed by an increase, though the effect is more pronounced for the series covering items that were not covered by the Groceries Order.

4.12 Table 8 shows that each product category, excluding ‘Other Appliances, Articles and Products for Personal Care’, showed a price increase. The product category ‘Vegetables (NGO)’ is again the main driver behind the trend, showing a 7.3% increase and making a contribution of 1.33% to the 1.93% overall increase in the series.

Table 8: Period 3 Price Trend for Non Groceries Order items (April 2005 – April 2006)

Overall Increase in CPI: +3.7%

Category	% Change	Contribution	Rank*
Meat (NGO)	1.6	0.6	**2**
Fish and Seafood(NGO)	6.7	0.3	**4**
Fruit (NGO)	0.2	0.02	**5**
Vegetables (NGO)	7.3	1.33	**1**
Other Appliances, Articles and Products for Personal Care	-1.2	-0.32	**3**
Total NGO Items**		**1.93**	

* The ranking is based on the absolute magnitude of contributions.
** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

Period Four (April 2006 – December 2006)

4.13 Period 4 covers the first nine months following the removal of the Groceries Order. The price trend for Groceries Order items and the price trend for Non Groceries Order items move in opposite directions, with the former showing a decrease and the latter showing an increase over the period. This is the only time the series behave in this manner over the entire five periods.

4.14 Over the period, the price of Groceries Order items fell by 1.5%. Eleven of the fifteen product categories showed prices decreases while the remaining four product categories showed increases.

4.15 The main drivers of the downward movement of the series were ‘Spirits’ and ‘Wine’ which contributed 0.4% and 0.31% respectively to the fall in the series. Price decreases for products falling in the ‘Bread and Cereals’ and ‘Sugar, Jam, Honey, Chocolate and Confectionery’ categories also made substantial contributions to the decrease in the series with 0.23% and 0.19% respectively.

4.16 The four product categories that showed price increases made only very modest contributions to the series, having a combined positive contribution of just 0.1%.

Table 9: Period 4 Price Trend for Groceries Order items (April 2006 – December 2006)

Overall Increase in CPI: +2.9%

Category	% Change	Contribution	Rank*
Bread and Cereals	-1.4	-0.23	**3**
Meat	0.5	0.06	**9**
Fish and Seafood	-1.3	-0.01	**12**
Milk, Cheese and Eggs	0.3	0.03	**10**
Oils and Fats	-2.7	-0.07	**7**
Fruit	0.2	0	**14**
Vegetables	-1.8	-0.08	**6**
Sugar, Jam, Honey, Chocolate and Confectionery	-2.3	-0.22	**4**
Food Products N.E.C.**	-1.3	-0.03	**10**
Coffee, Tea and Cocoa	-0.1	0	**14**
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	-2.6	-0.19	**5**
Spirits	-5.7	-0.4	**1**
Wine	-3.2	-0.31	**2**
Beer	-1.2	-0.07	**7**
Non-durable Household Goods	0.1	0.01	**12**
Total GO Items**		**-1.51**	

* The ranking is based on the absolute magnitude of contributions.
** Food Products Not Elsewhere Covered.
*** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

4.17 During the nine months following the removal of the Groceries Order, the price of Non Groceries Order items increased by 2.4%. All product categories, excluding 'Other Appliances, Articles and Products for Personal Care' showed price increases. Price increases for 'Meat (NGO)' and 'Vegetables (NGO)' made similar contributions to the change in the series with 1.79% and 1.74% respectively, though the actual price increase for the 'Meat (NGO)' category was greater.

Table 10: Period 4 Price Trend for Non Groceries Order items (April 2006 – December 2006)

Overall Increase in CPI: +2.9

Category	% Change	Contribution	Rank*
Meat (NGO)	3.1	1.17	**1**
Fish and Seafood(NGO)	5.0	0.23	**3**
Fruit (NGO)	6.2	0.7	**5**
Vegetables (NGO)	2.1	0.41	**2**
Other Appliances, Articles and Products for Personal Care	-0.7	-0.19	**4**
Total NGO Items**		**2.32**	

* The ranking is based on the absolute magnitude of contributions.

** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

Period Five (December 2006 – November 2007)

4.18 Period 5 is from December 2006 to November 2007. Over this period, the price of Groceries Order items increased by 5.37%. All product categories showed price increases. The two main drivers of the increases were 'Bread and Cereals' and 'Milk, Cheese and Eggs'.

4.19 'Bread and Cereals' increased by 10.1% over the period and contributed 1.76% to the overall increase in the series. 'Milk, Cheese and Eggs' increased by 13.9% over the period and contributed 1.57% to the overall increase in the series. Both of these product categories showed by far the greatest increase in price toward the end of 2007. In fact, the overall increase in the price of Groceries Order items is the greatest over the entire period considered, i.e. since December 2001. The price increases of items falling into both of these product categories has been attributed to increasing world commodity prices for certain agricultural inputs such as grains. World commodity prices are determined on worldwide markets and their influence on Irish price trends can therefore be regarded as an exogenous influence.

4.20 ‘Sugar, Jam, Honey, Chocolate and Confectionery’, ‘Spirits’ and ‘Oils and Fats’ were the next most significant product categories. Together, these product categories contributed 1.18% to the overall increase in the series.

4.21 Price increases for products falling into the other product categories were much more moderate, both in terms of price increases and their contribution to the trend. In fact the other ten product categories together contributed just 0.86% to the overall increase in the price of Groceries Order items.

Table 11: Period 5 Price Trend for Groceries Order items (December 2006 – November 2006)

Overall Increase in CPI: +4.6%

Category	% Change	Contribution	Rank*
Bread and Cereals	10.1	1.76	**1**
Meat	1.6	0.14	**8**
Fish and Seafood	3.2	0.03	**13**
Milk, Cheese and Eggs	13.9	1.57	**2**
Oils and Fats	10.1	0.24	**5**
Fruit	1.6	0.01	**14**
Vegetables	1.9	0.11	**10**
Sugar, Jam, Honey, Chocolate and Confectionery	8.7	0.67	**3**
Food Products N.E.C.***	2.1	0.15	**7**
Coffee, Tea and Cocoa	2.8	0.06	**11**
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	2.3	0.14	**8**
Spirits	5.4	0.27	**4**
Wine	0.4	0.05	**12**
Beer	0.0	0	**15**
Non-durable Household Goods	3.0	0.17	**6**
Total GO Items**		**5.37**	

* The ranking is based on the absolute magnitude of contributions.

** Food Products Not Elsewhere Covered.

*** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

4.22 Over Period 5, the price of Non Groceries Order items increased by 1.57%. All product categories, excluding ‘Fruit (NGO)’, showed price increases. ‘Vegetables (NGO)’ was the product category that contributed most to the movement in the price trend and accounted for approximately half of the increase.

Table 12: Period 5 Price Trend for Non Groceries Order items (December 2006 – November 2007)

Overall Increase in CPI: +4.6%

Category	% Change	Contribution	Rank*
Meat (NGO)	1.8	0.61	**2**
Fish and Seafood (NGO)	1.4	0.07	**4**
Fruit (NGO)	-0.5	-0.07	**4**
Vegetables (NGO)	4.6	0.87	**1**
Other Appliances, Articles and Products for Personal Care	0.4	0.09	**3**
Total NGO Items**		**1.57**	

* The ranking is based on the absolute magnitude of contributions.
** Total may not equal the sum of the categories due to rounding differences.

Source: CSO.

Comment

4.23 This section looked at the price movements of grocery subcategories for the entire period examined from December 2001 to November 2007. From section 3, five subperiods were identified in which the price trends for Groceries Order items and Non Groceries Order items appear to have behaved differently. Each of the periods was considered in sequence.

4.24 Prior to the removal of the Groceries Order, the principal drivers of the price trend for Groceries Order items where price increases were observed, appear to have been ‘Sugar, Jam, Honey, Chocolate and Confectionery’, ‘Bread and Cereals’ and alcoholic products. Price changes in these product categories tended to increase the price of Groceries Order items. The principal driver of the price trend for Non Groceries Order items prior to the removal of the Groceries Order appears to have been ‘Vegetables (NGO)’, i.e. fresh vegetables.

4.25 In the initial period following the removal of the Groceries Order, the principal drivers of the downward price trend for Groceries Order items appear to have been alcoholic products, ‘Bread and Cereals’ and ‘Sugar, Jam, Honey, Chocolate and Confectionery’. For Non Groceries Order items, ‘Meat (NGO)’ and ‘Vegetables (NGO)’ tended to be the principal drivers of the upward price trend.

4.26 One effect of the Groceries Order was to limit the extent to which retailers could use price enticements to compete, in particular on Groceries Order items. Retailers retained the ability to price more freely on Non Groceries Order items, typically fresh produce. This is why, prior to the removal of the Groceries Order, the price trend for Non Groceries Order items rose less rapidly and fell more rapidly than Groceries Order items. Once the Groceries Order was removed, retailers once again were free to compete on the basis of price on the full set of grocery products. The period immediately following the removal of the Groceries Order therefore saw a period of price adjustment by retailers across their range of grocery products.

4.27 Since the beginning of 2007, the prices of both Groceries Order items and Non Groceries Order items have tended to rise. The price trend followed by the two groups of groceries was very similar up until the end of 2007 when stark increases in the price of ‘Bread and Cereals’ and ‘Milk, Cheese and Eggs’ pushed the price of Grocery Order items up more rapidly.

5. DISAGGREGATED PRICE TRENDS BY REGION

Introduction

5.1 As discussed in section 2, in addition to the CPI data, the CSO also publishes biannual comparisons of price levels between the Dublin and Outside Dublin regions. The analysis in this section is based on a series of eight biannual analyses that the CSO has published – from May 2004 to November 2007.[8] Firstly, price differentials between the Dublin and Outside Dublin regions are considered. Secondly, the product categories that are the biggest contributors to the price differentials are examined. Finally, price variations (i.e. the spread of price observations) within the regions of Dublin and Outside Dublin are examined.

Price Differentials between the Dublin and Outside Dublin Regions

5.2 Figure 6 below illustrates the difference in average prices between the Dublin and Outside Dublin regions for:

- All items covered in the biannual analysis;
- All items covered in the biannual analysis minus 'Drinks Out'; and
- Grocery items covered in the biannual analysis.

5.3 As the figure shows, on average prices are higher in Dublin. In May 2004 overall prices were 3.2% higher in Dublin. In the most recent survey from November 2007, prices in Dublin were 4.3% higher than outside Dublin. The differential between prices in the Dublin region and the Outside Dublin region was relatively stable in the intervening period.

5.4 When 'Drinks Out' is excluded the overall average the price differential between the two regions decreases. The explanation for the narrowing of the price difference between the two regions when 'Drinks Out' is excluded is twofold. Firstly, across the entire time series 'Drinks Out' are more expensive in Dublin. Secondly, alcoholic drinks have a relatively high weighting. At the beginning of the three year period of

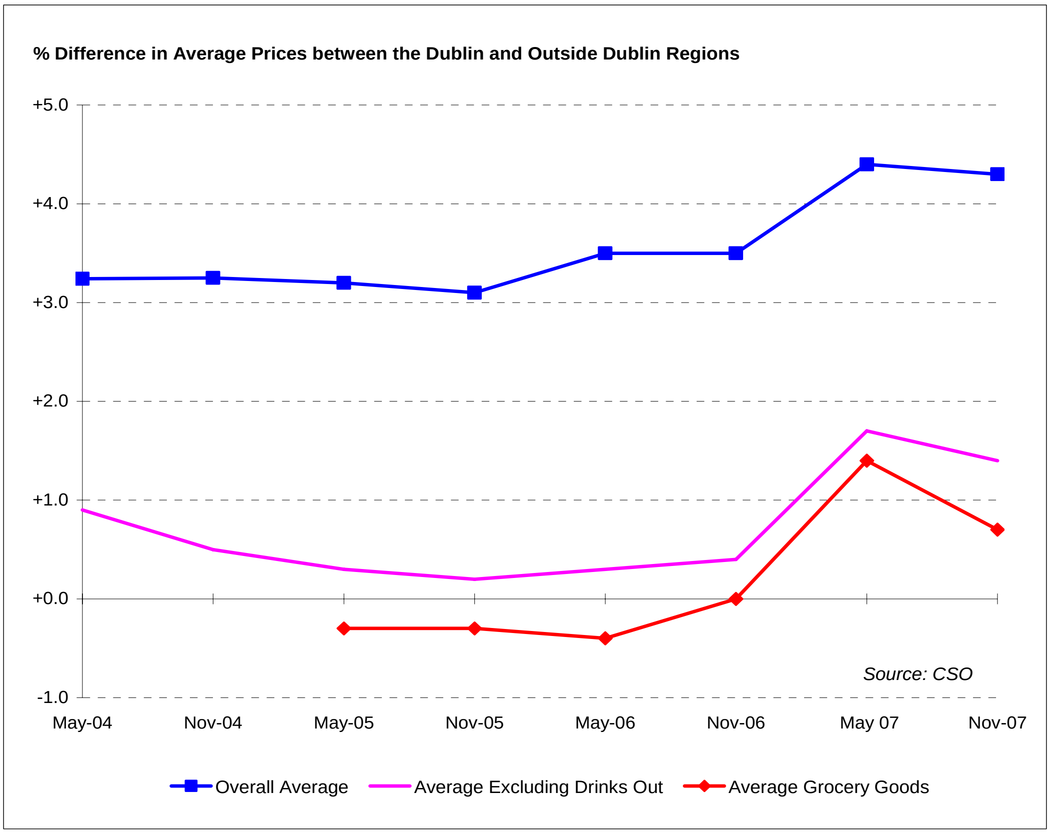
[8] Because the CSO expanded the scope of the analyses contained in the biannual publication, not all eight observations are available for some of the discussion contained in this section.

analysis (May 2004) prices in Dublin, excluding 'Drinks Out', were 0.9% higher. November 2005 saw the narrowest margin in average prices between the Dublin and Outside Dublin regions, with prices in Dublin on average being 0.2% higher. In the period November 2005 to November 2007 the differential increased with average prices in Dublin, excluding 'Drinks Out', being 1.4% higher than the Outside Dublin region.

5.5 Figure 6 also shows the price differential between Dublin and Outside Dublin regions when 'Drinks Out', tobacco, services and motor fuels are all excluded from the analysis so that only grocery items remain. At the beginning of the analysis, (May 2005), prices were -0.3% lower in Dublin. This margin remained relatively constant up until November 2006 when the margin narrowed and prices equalised. The price differential peaked in May 2007 at 1.4%. However this differential fell slightly again in November 2007, to 0.7%.

5.6 A change in the items measured by the survey partly contributed to the increase in the difference in average prices between the Dublin and Outside Dublin regions between November 2006 and November 2007. Comparable data is no longer available for three items due to changes made during the update of the CPI basket. The three items removed were fillet/half leg of pork (1kg), plain flour (2kg) and fine quality wine, take home (75cl). Eight new items were introduced into the analyses. The new goods and services for which comparable data can be provided are: medium uncooked chicken (1600g); tinned tomatoes (400g); lager, tray, take home (12 x 330ml); draught cider, in a licensed premises (1 pint); flavoured alcoholic drinks (alcopops), bottle in a licensed premises (275ml); wine, small bottle in a licensed premises (187ml); gents' dry haircut and gents' wash, cut and blow dry. The majority of the new items introduced have higher prices in Dublin and this is reflected in the higher overall average, both including and excluding 'Drinks Out'.

Figure 6: Price Differential between the Dublin and Outside Dublin Regions



Price Differences by Percentage of Products more Expensive

5.7 Table 13 below shows a price comparison for goods and services between the Dublin and Outside Dublin regions, from November 2004 to November 2007. 79 goods and services from CPI data were compared in 2007, but previous to this the comparison was based on 73 goods and services. When 'Drinks Out' is excluded the comparison is based on 67 goods and services in 2007 and 64 previous to this. The price comparisons show, separately for all goods and services, and for grocery items only, the:

- The percentage of items more expensive in Dublin for all categories;
- The percentage of items more expensive in Dublin (excl. 'Drinks Out');
- The number of items more than 3% more expensive in Dublin;

- The number of items more than 3% less expensive in Dublin; and

- The number of items falling within a 3% range.

Table 13: Percentage of Goods and Services (incl. and excl. Groceries) more/less Expensive in Dublin (November 2004 - November 2007)

	Nov 04	May 05	Nov 05	May 06	Nov 06	May 07	Nov 07
Percentage of Goods and Services more/less expensive in the Dublin Region							
% of products more expensive in Dublin	67	60	55	55	53	63	71
% of products more expensive in Dublin (excl. drinks out)	63	55	48	48	47	53	63
No. of all products more than 3% higher in Dublin	32	30	28	30	29	40	31
No. of all products more than 3% lower in Dublin	18	17	17	19	18	12	14
No. of all products Dublin v Outside within 3% range	23	26	28	24	26	27	34
Percentage of Grocery items more expensive in the Dublin Region							
% of grocery products more expensive in Dublin	61	54	47	47	46	47	55
No. of grocery products more than 3% higher in Dublin	22	20	18	20	19	24	15
No. of grocery products more than 3% lower in Dublin	18	17	17	19	18	12	14
No. of grocery products Dublin v Outside within 3% range	19	22	24	20	22	24	31

Source: CSO

5.8 Figure 7 below illustrates the information from Table 13 for all goods and services while Figure 8 shows the same information for groceries only. Groceries alone are arrived at by removing services, motor fuel and tobacco from the analysis.

5.9 Not all goods and services are more expensive in Dublin. On average between November 2004 and November 2007, 61% of all goods and services included in the analysis were more expensive in Dublin. For the same period the percentage of goods and services more expensive in Dublin, excluding ‘Drinks Out’, was 54% on average; over the period, the number of items more expensive in Dublin ranged from 63% in November 2004 to 47% in 2006 and back to 63% in November 2007.

5.10 From November 2004 to November 2005 there was a downward trend in the price comparison, with the gap between Dublin and Outside Dublin decreasing. This was in large part due to the reduction in the difference in the price of meat and fish between the two regions.[9] The percentage of goods and services that were more expensive in Dublin fell from 67% in November 2004, to 55% in November 2005. After November 2005, price differences between the Dublin and Outside Dublin regions remained relatively constant, but the gap increased again towards the end of 2006, with 71% of goods and services being more expensive in Dublin by November 2007. This increase was largely due to the increase in the price of services in Dublin such as cinema tickets and ladies hairdressing.

5.11 When ‘Drinks Out’, tobacco, services and motor fuels are all excluded from the analysis only grocery items remain. The analysis is then based on 59 goods prior to May 2007 and 60 goods thereafter. Figure 8 shows that from November 2004 to November 2006, the percentage of grocery goods more expensive in Dublin fell from 61% to 46%. In fact, over the whole period examined, November 2004 to November 2007, the percentage of grocery goods more expensive in Dublin fell from 61% to 55%. The price comparison also showed that in all cases ‘Drinks Out’, was more expensive in the Dublin region.

[9] The next subsection will look in more detail at the main contributors to the price differential.

Figure 7: Percentage of Goods and Services more Expensive in Dublin (November 2004 - November 2007)

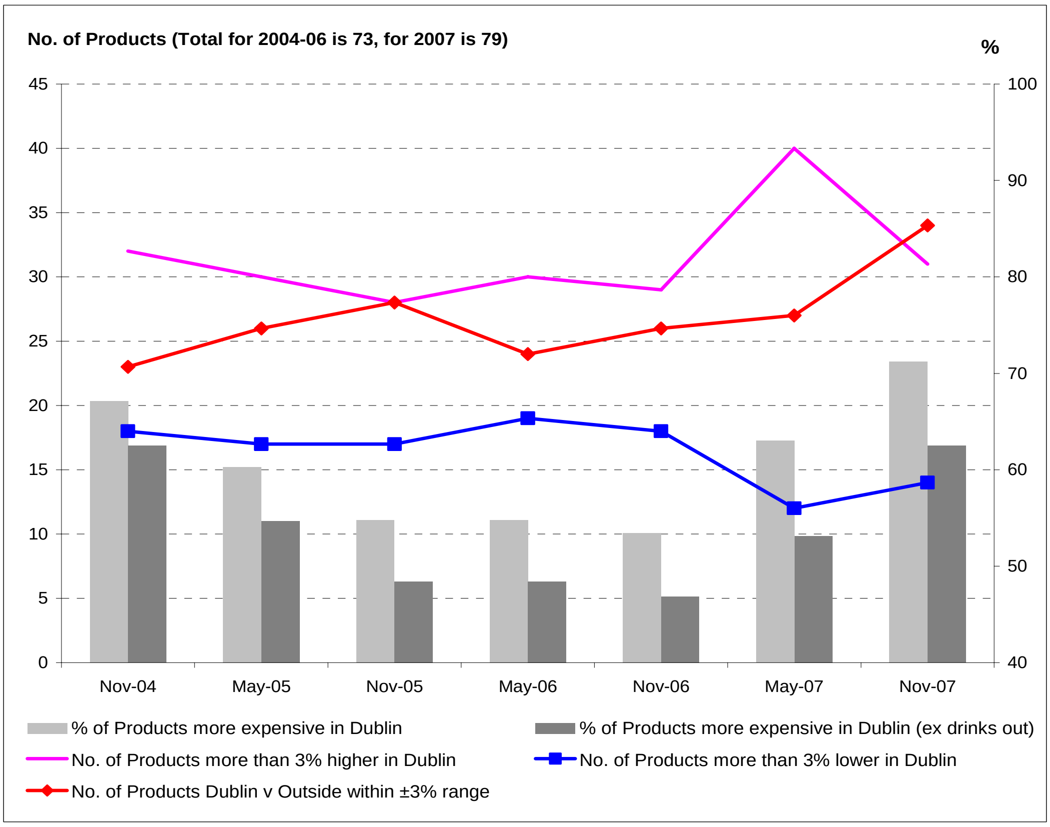
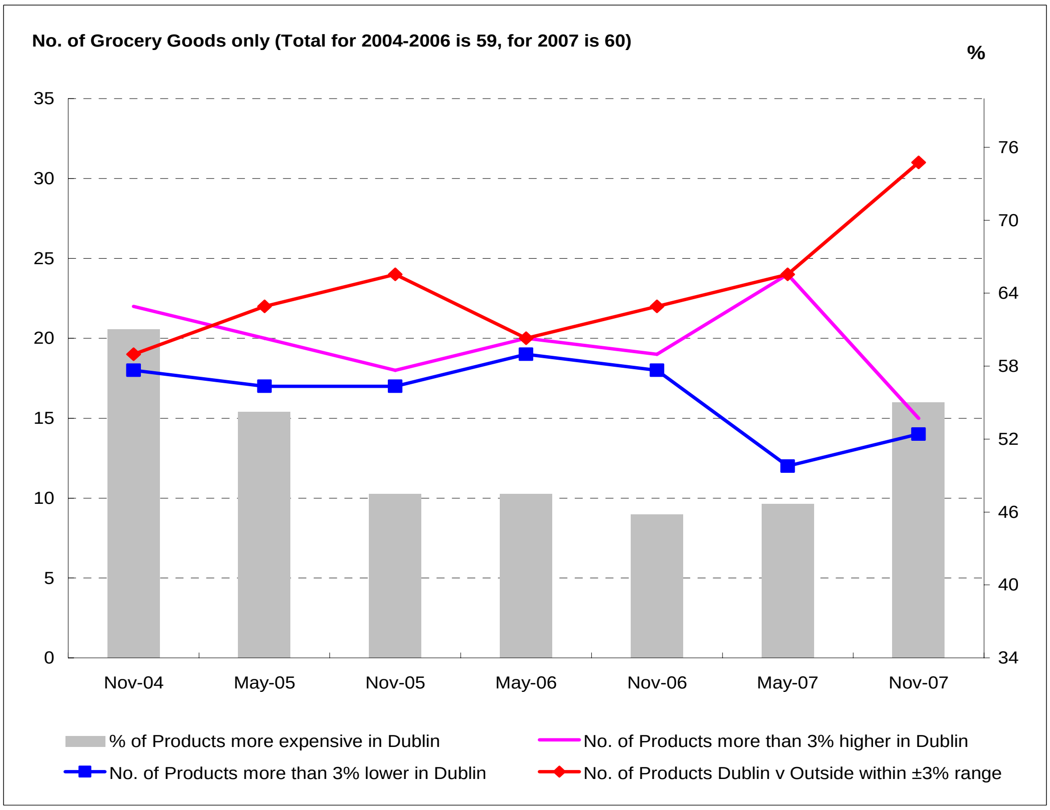


Figure 8 : Percentage Grocery Items more Expensive in Dublin (November 2004 - November 2007)



Price Differences by Product Categories

5.12 All items used in the biannual analysis were grouped into relevant product categories namely 'Fish', 'Meat', 'Fresh Fruit and Vegetables', 'Take Home Drinks', 'Other Foods and Non-Alcoholic Beverages' and finally 'Tobacco, Services and Motor Fuels'. Within these product categories price differentials over the specified period were examined, and aggregated into the appropriate product category. Table 14 below shows, by product category, the percentage of goods and services that are more expensive in Dublin (Figure 9 illustrates the information).

5.13 Based on the items used in the biannual analysis the majority of products falling into the categories 'Fresh Fruit and Vegetables', 'Fish' (excluding one observation) and 'Meat' (with the exception of two observations) were more expensive in Dublin over the period examined. 'Tobacco, Services and Motor Fuels' were also more expensive on average in Dublin, but there was a narrowing of this differential from November 2004 to November 2006. The differential increased again in November 2007, when 100% of these goods were more expensive in the Dublin region.

5.14 Products falling into the categories 'Take Home Drink' (with the exception of one observation), and 'Other Food & Non-alcoholic Beverages' have tended to be more expensive outside Dublin. In November 2005, 60% of items in the 'Take Home Drink' category were more expensive in Dublin, but this fell significantly and as of May 2007, 30% were more expensive (but rising again to 44% by November 2007). In other words, in the Dublin region more products falling into the 'Take Home Drink' category were less expensive. In May 2004, 18% of products falling into the 'Other Food & Non-alcoholic Beverages' category were more expensive in Dublin. This level has remained relatively constant over the period but began to rise after November 2006, reaching 31% in May 2007 and 44% in November 2007.

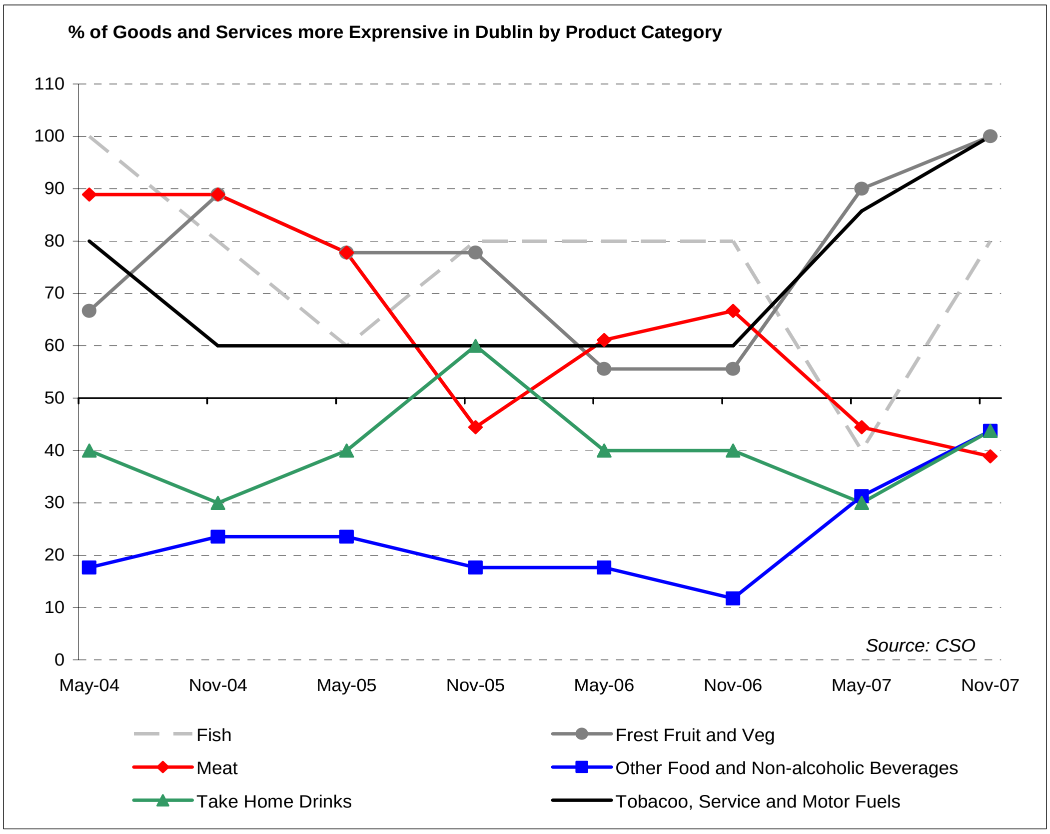
Table 14: Percentage of Goods and Services more Expensive in Dublin by Product Category (May 2004 - November 2007)

Percentage of Goods and Services more Expensive in Dublin relative to Outside Dublin by Product Category

	May 04	Nov 04	May 05	Nov 05	May 06	Nov 06	May 07	Nov 07
Meat	89	89	78	44	61	67	44	39
Fish	100	80	60	80	80	80	40	80
Fresh Fruit and Vegetables	67	89	78	78	56	56	90	100
Other Food and Non-alcoholic Beverages	18	24	24	18	18	12	31	44
Take Home Drinks	40	30	40	60	40	40	30	44
Tobacco, Services and Motor Fuels	80	60	60	60	60	60	86	100

Source: CSO

Figure 9: Percentage of Goods and Services more Expensive in Dublin by Product Category (May 2004 - November 2007)

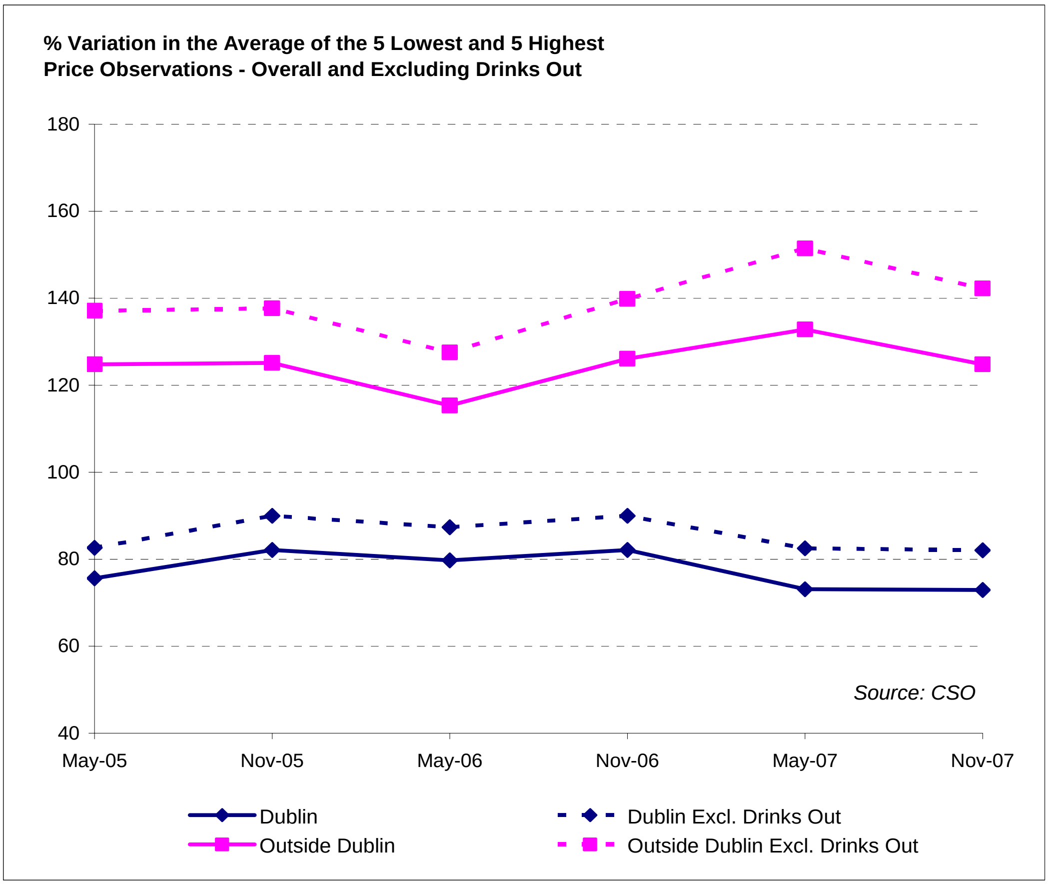


Price Variation by Region

5.15 Figure 10 below shows the variation in the average of the 5 lowest price observations and the 5 highest price observations for all goods and services included in the biannual analysis. In Dublin there are smaller differences between the average highest and average lowest price observations. On average from May 2005 to November 2007 the highest five price observations in Dublin were 77.6% higher than the lowest five price observations. Outside Dublin, on average the highest price observations were 125% higher than the lowest price observations. It therefore appears that there is greater price dispersion in the Outside Dublin region.

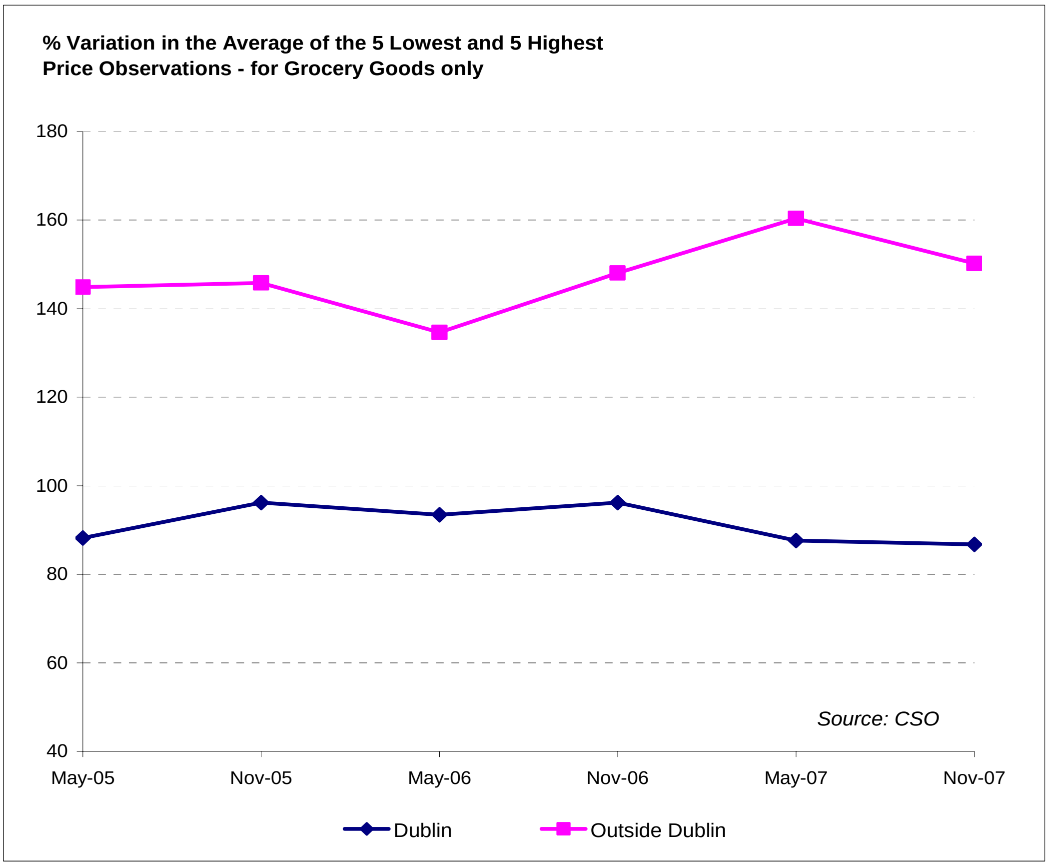
5.16 Figure 10 also shows the variation in the average of the 5 lowest prices observations and the 5 highest price observations, when 'Drinks Out' is excluded. Excluding 'Drinks Out' tends to increase price variation within both the Dublin and Outside Dublin region, but by slightly more for the Outside Dublin region.

Figure 10: Price Dispersion for Goods and Services within Regions (May 2005 - November 2007)



5.17 The analysis was then repeated but this time considering groceries only. Figure 11 shows that for groceries only, the dispersion is still greater outside Dublin. On average from May 2005 to November 2007 the highest five quotes in Dublin for grocery goods were 91.4% higher than the lowest five quotes. In the Outside Dublin region, the highest quotes were on average 147.34% higher than the lowest quotes. There, therefore, appears to be greater price dispersion for groceries than for other product categories. While services such as gents' wash, cut and blow-dry and ladies' wash, cut and blow-dry differ significantly in quotes, there is much less dispersion for items such as unleaded petrol and auto diesel. By removing the items with low differences in quotes, the overall average increased, thus resulting in higher dispersions in price observations for grocery goods.

Figure 11: Price Dispersion for Grocery Items within Regions (May 2005 - November 2007)



Comment

5.18 This section looked at price difference across the Dublin and Outside Dublin regions. Prices in the Dublin region are on average higher. When 'Drinks Out' is excluded from the comparison, the price differential is less than 1.5% on average. When non-grocery items are excluded from the comparison, the Dublin region appears less expensive during the earlier period of the analysis and more expensive during the later period. During this later period, prices were on average less 1.4% more expensive in the Dublin region.

5.19 The percentage of products that are more expensive in the Dublin region was typically between approximately 55% and 70% over the period November 2004 to November 2007. However, when groceries only are considered, the number of items more expensive in the Dublin region falls to between approximately 45% and 60%. This is because the price of services such as hairdressing and items such as alcoholic drinks consumed on licensed premises are typically higher in the Dublin region. The number of grocery items that were more expensive in Dublin was less than 50% for four of the seven observations.

5.20 As already noted, the price of services, such as hairdressing, and items, such as alcoholic drinks consumed on licensed premises, are typically higher in the Dublin region and together they tend to increase the price differential between the two regions. The price difference between grocery items for the two regions is more moderate. Meat, fish, and fresh fruit and vegetables tend to be more expensive in Dublin, while other food categories and alcoholic drinks (not for consumption on licensed premises) tend to be less expensive in the Dublin region. Finally, within regions, price variation tends to be less pronounced in the Dublin region.

6. CONCLUDING COMMENTS

6.1 The Groceries Order prohibited retailers from selling items that it covered below cost, where the cost benchmark was the net invoice price. This limited the extent to which retailers could use price enticements to compete. Grocery items not covered by the Groceries Order were typically fresh produce and retailers retained the ability to price more freely on this set of products.

6.2 This *Report* examined price trends for Grocery Order items and Non Groceries Order items for the period from December 2001 to November 2007. The price trends for Groceries Order items and Non Groceries Order items appear to behave differently prior to the removal of the Groceries Order. Specifically, when grocery prices are rising, the price of Groceries Order items tended to rise more rapidly than Non Groceries Order items and when the prices of grocery items are falling, the prices of Non Groceries Order items tended to fall more rapidly. During the nine month period following the removal of the Groceries Order, the price trends for Groceries Order items and Non Groceries Order items appears to behave very differently. The price trends move in opposite directions, with the price of Groceries Order items falling and the price of Non Groceries Order items rising. Since the beginning of 2007 the price trends for Groceries Order items and Non Groceries Order items appear once again to behave similarly with both trends rising. Toward the end of 2007, the rise in the price of Groceries Order items is steeper and this has been attributed to the rise in world commodity prices of certain agricultural products such as wheat.

6.3 Prior to the removal of the Groceries Order, the principal drivers of movements in the price trend for Groceries Order items appear to have been 'Sugar, Jam, Honey, Chocolate and Confectionery', 'Bread and Cereals' and alcoholic products. Price changes in these product categories tended to increase the price of Groceries Order items. The principal driver of the price trend for Non Groceries Order items prior to the removal of the Groceries Order appears to have been 'Vegetables (NGO)', i.e. fresh vegetables. During the nine month period following the removal of the Groceries Order, the principal drivers of the downward price trend for Groceries Order items appear to have been alcoholic products, 'Bread and Cereals' and 'Sugar, Jam, Honey, Chocolate and Confectionery'. For Non Groceries Order items, Meat (NGO)' and 'Vegetables (NGO)' tended to be the principal drivers of the upward price trend. Stark increases in the price of 'Bread and Cereals' and 'Milk, Cheese and Eggs' tended to push the price of Grocery Order items up more rapidly toward the end of 2007.

6.4 The Groceries Order limited the extent to which retailers could use price enticements to compete. Grocery items not covered by the Groceries Order were typically fresh produce. Thus retailer retained the ability to price more freely on this set of products. This is why, prior to the removal of the Groceries Order, the price trend for Non Groceries Order items rose less rapidly and fell more rapidly than Groceries Order items. Once the Groceries Order was removed, retailers were free to compete on the basis of price on the full set of grocery products. The period immediately following the removal of the Groceries Order therefore saw a period of price adjustment by retailers across their range of grocery products. Once this adjustment had been achieved, the price trends began to behave similarly.

6.5 This *Report* also looked at regional price differences, for Dublin and Outside Dublin. The price of goods and services in the Dublin region are on average higher, though there is only a marginal difference between the two regions when groceries only are considered. The number of grocery items more expensive in the Dublin region was between approximately 45% and 60% for the period November 2004 to November 2007. The number of grocery items that were more expensive in Dublin was less than 50% for four of the seven observations.

6.6 The prices of services, such as hairdressing, and items, such as alcoholic drinks consumed on licensed premises, are typically higher in the Dublin region. The price difference between grocery items for the two regions is more moderate, with meat, fish and fruit and vegetables tending to be more expensive in Dublin, while other food categories and alcoholic drinks (not for consumption on licensed premises) tend to be cheaper in the Dublin region. Price variation tends to be less pronounced in the Dublin region.

6.7 This is consistent with the Competition Authority's findings addressed in Report No. 1 with regard to both the structure of the retail level of the grocery supply chain and the conduct of grocery retailers. The national pricing policies pursued by the major retailers, including Tesco, Dunnes Stores and SuperValu lead to a degree of uniformity of grocery prices across the two regions of the State, the Dublin region and the Outside Dublin region.

6.8 The greater price variation observed in the Outside Dublin region occurs for two reasons. Firstly, Dunnes Stores and Tesco have less of a presence there. Secondly, the majority of retailing in the Outside Dublin area is done by retailers that are affiliated with a franchise group (including SuperValu retailers). The implication is that for this group of retailers, a uniform price across retail outlets of the same brand cannot legally be enforced by the wholesaler licensing the brand. For example, unlike Tesco and Dunnes Stores who can ensure that prices across their retail outlets are the same, Musgrave, which owns the SuperValu brand, cannot enforce a uniform price across SuperValu outlets.

APPENDIX: ILLUSTRATED PRICE INDICES

Figure A.1: Price Indices for Category: Alcoholic Beverages (Dec. '01 – Nov. '07)

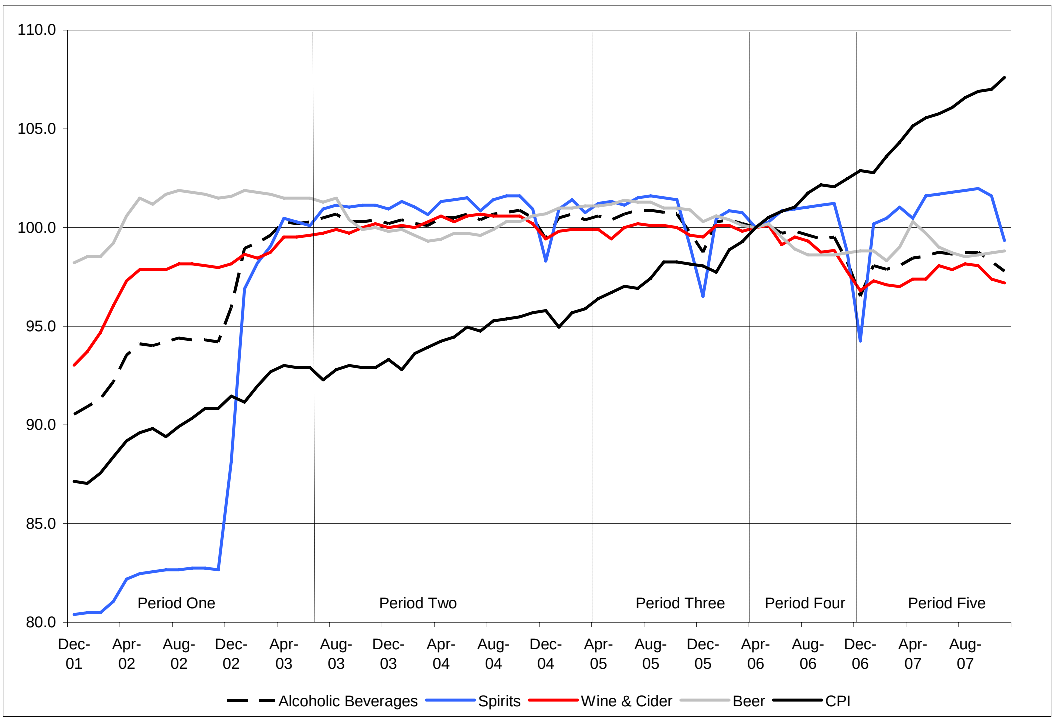


Figure A.2: Price Indices for Category: Bread and Cereals (Dec. '01 – Nov. '07)

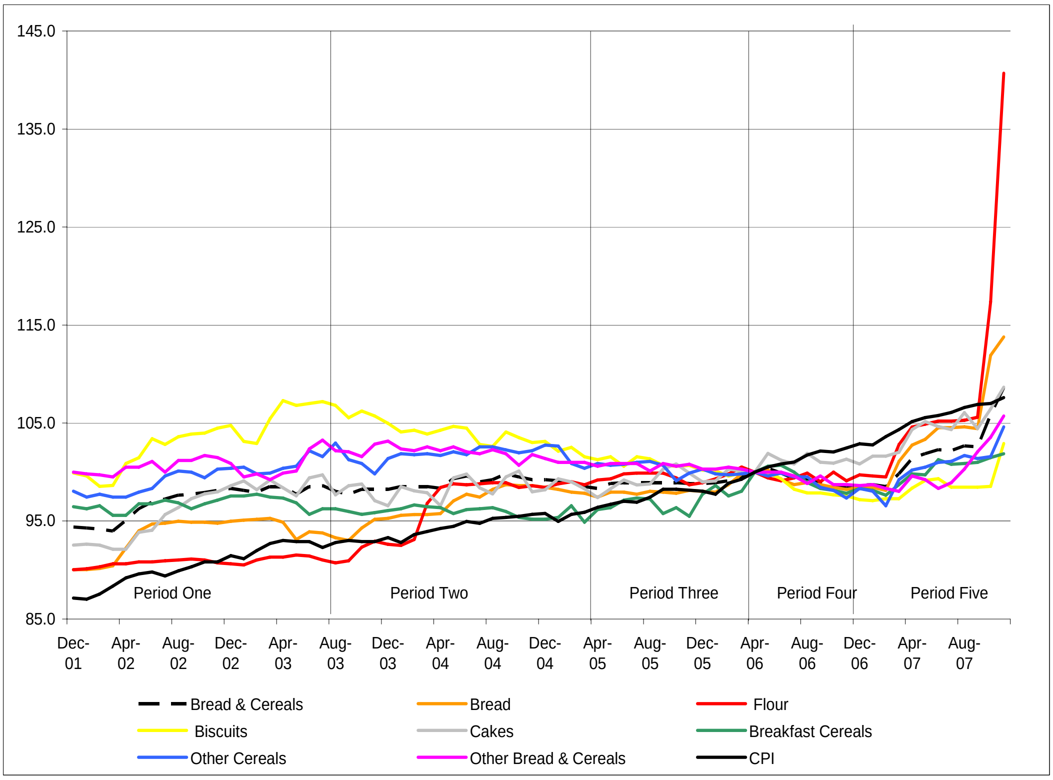


Figure A.3: Price Indices for Category: Milk, Cheese & Eggs (Dec. '01 – Nov. '07)

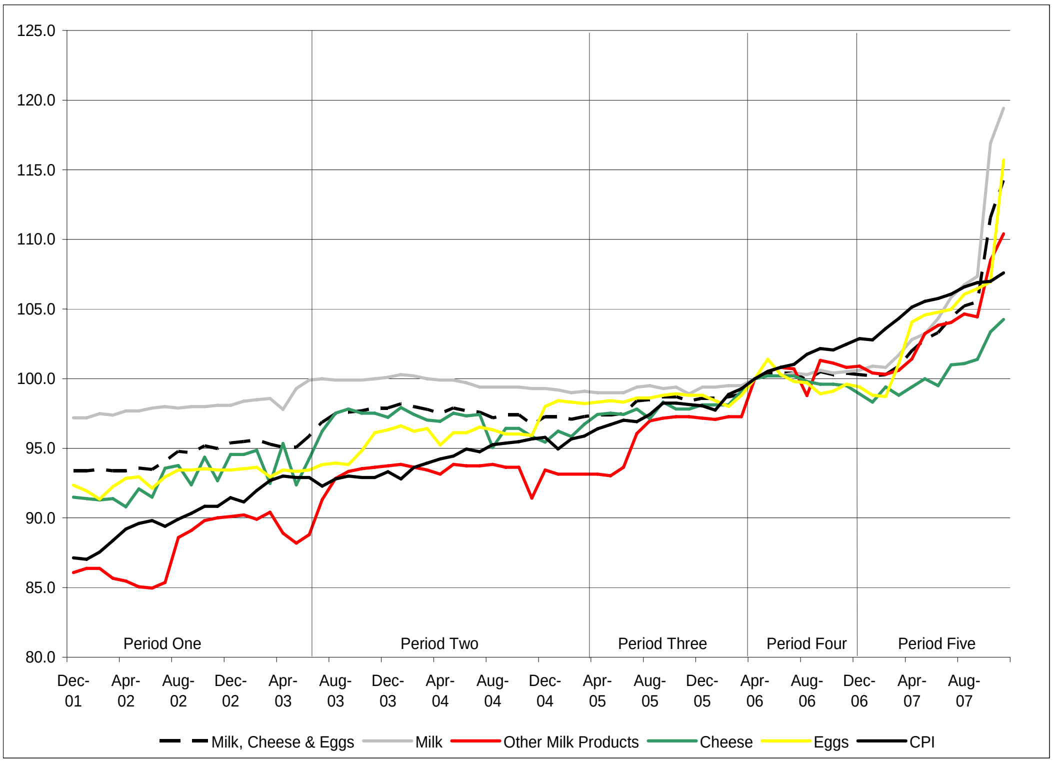


Figure A.4: Price Indices for Category: Sugar, Jam, Honey, Chocolates and Confectionary (Dec. '01 – Nov. '07)

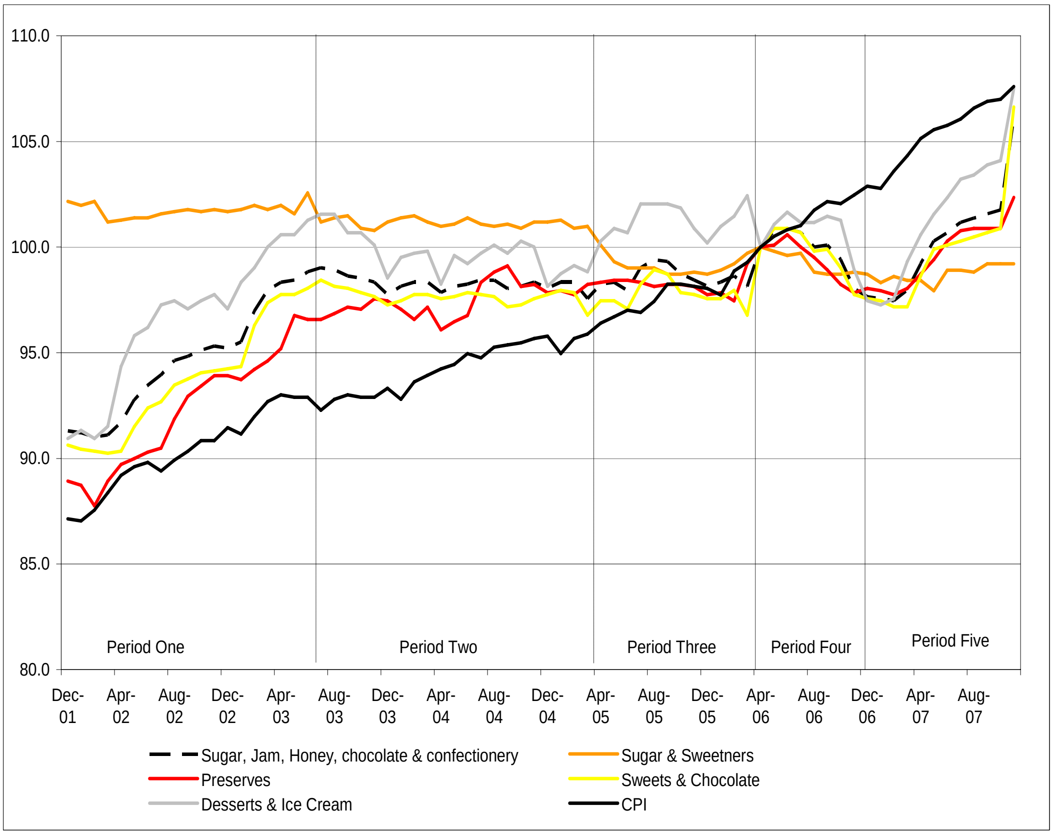


Figure A.5: Price Indices for Category: Coffee, Tea and Cocoa (Dec. '01 – Nov. '07)

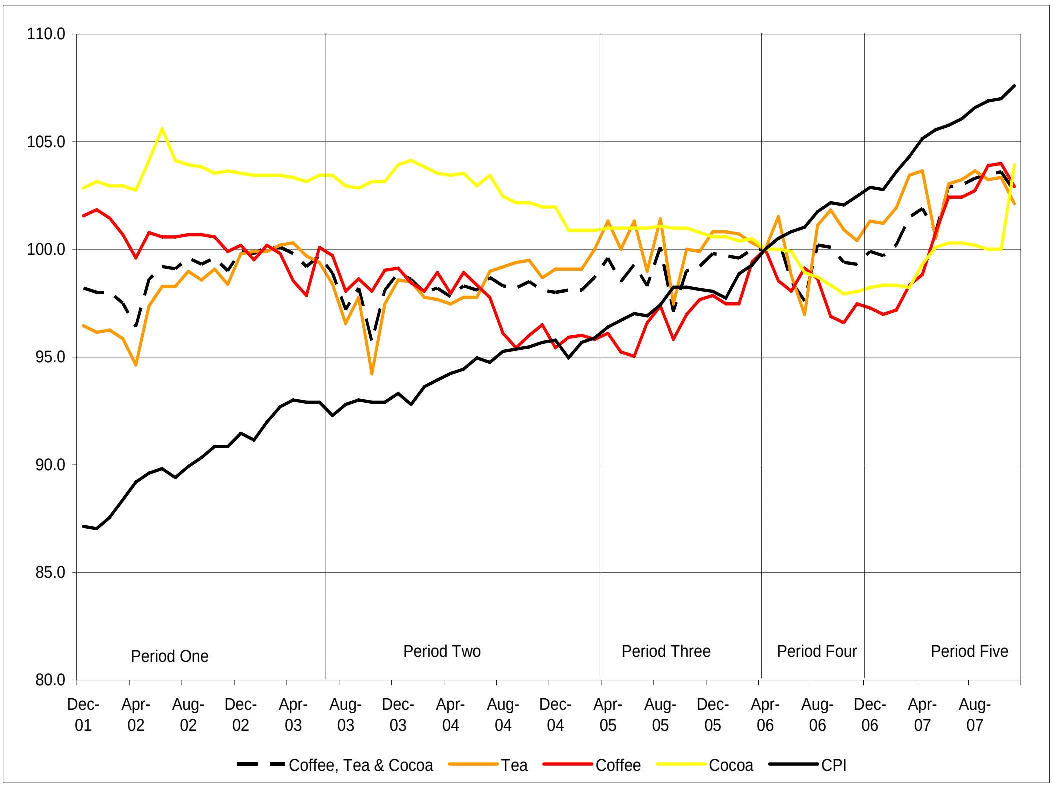


Figure A.6: Price Indices for Category: Mineral Waters, Soft Drinks and Fruit Juices (Dec. '01 – Nov. '07)

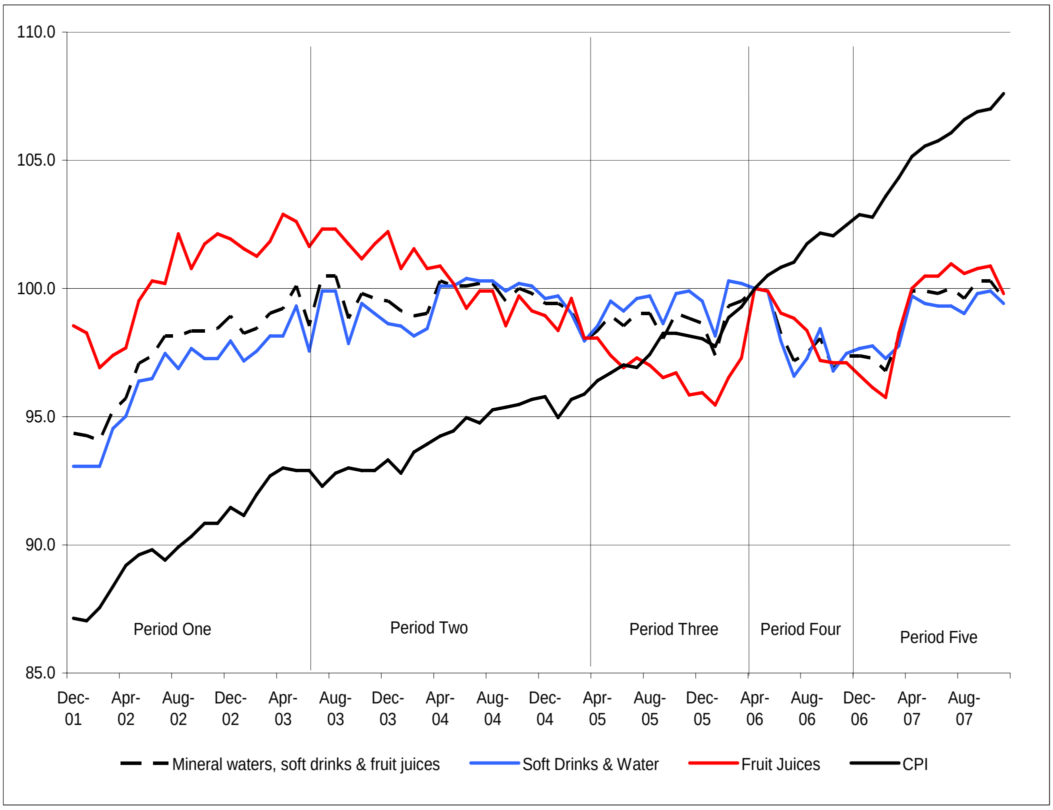


Figure A.7: Price Indices for Category: Oils and Fats (Dec. '01 – Nov. '07)

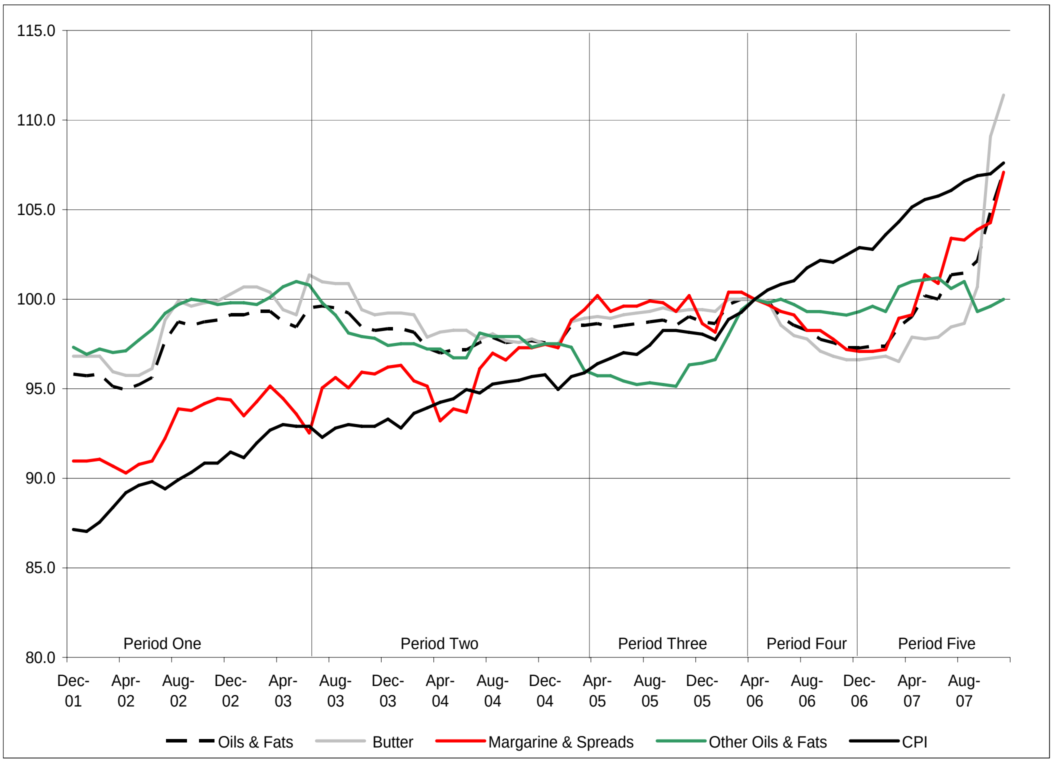


Figure A.8: Price Indices for Meats GO and NGO (Dec. '01 – Nov. '07)

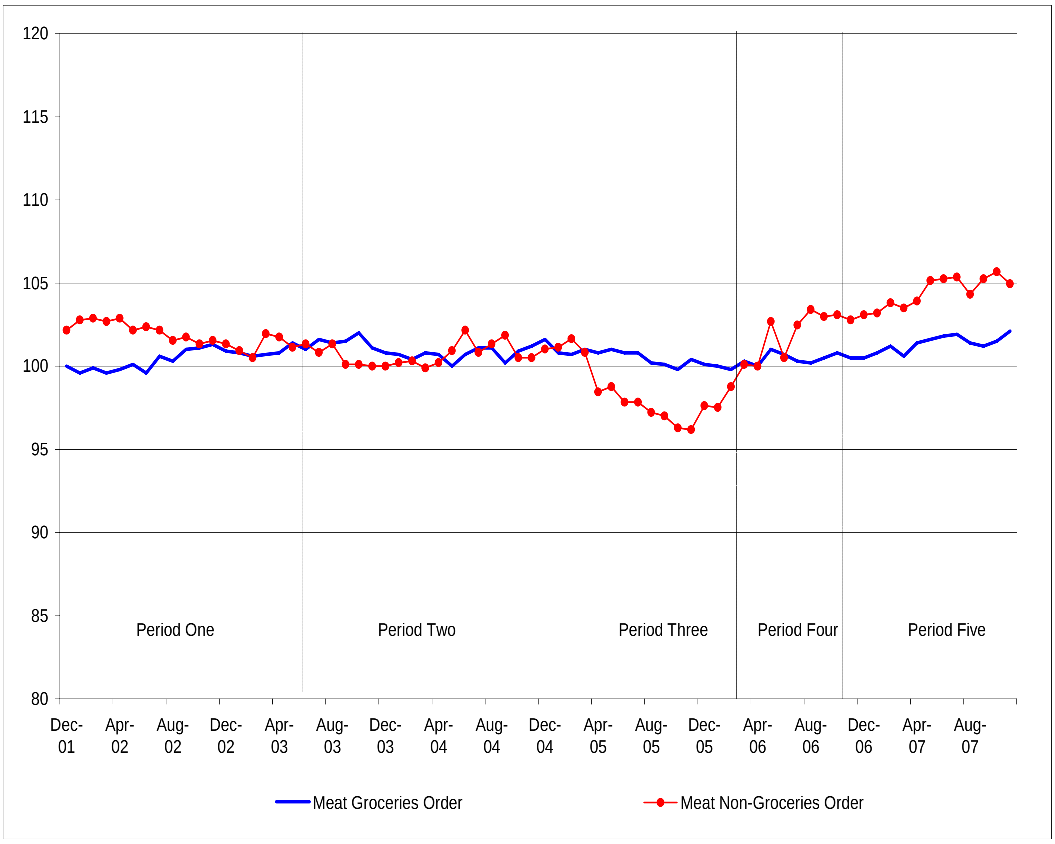


Figure A.9: Price Indices for Fish and Seafood GO and NGO (Dec. '01 – Nov. '07)

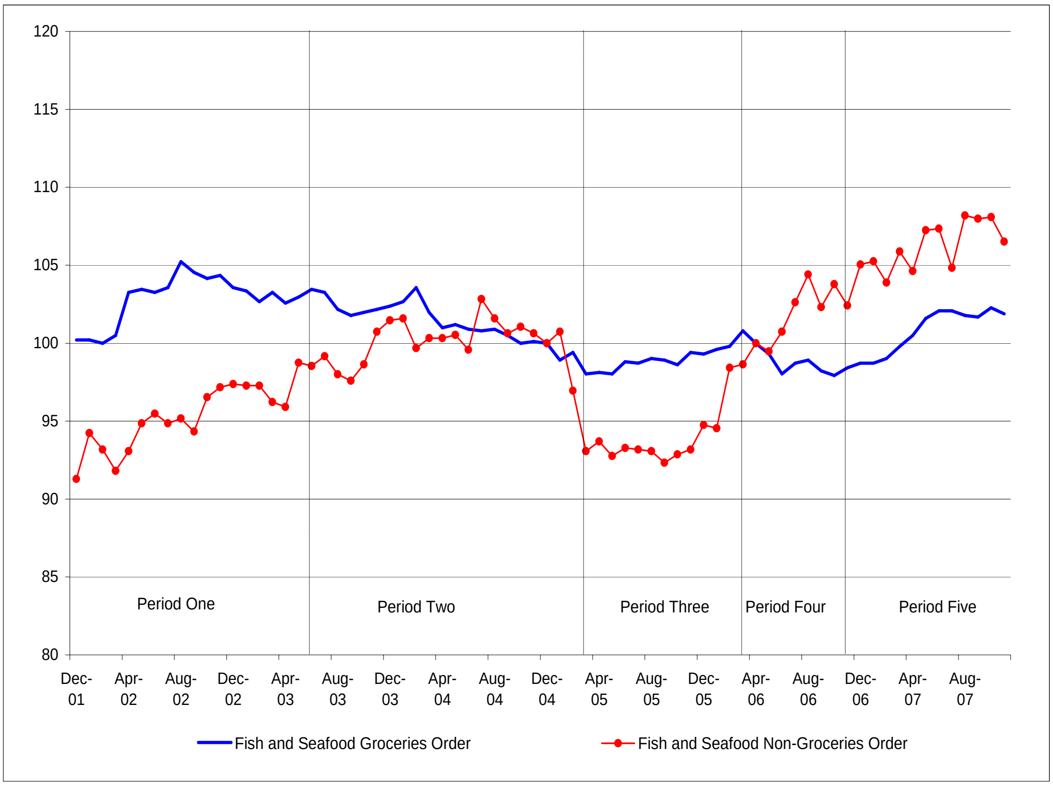


Figure A.10: Price Indices for Fruit GO and NGO (Dec. '01 – Nov. '07)

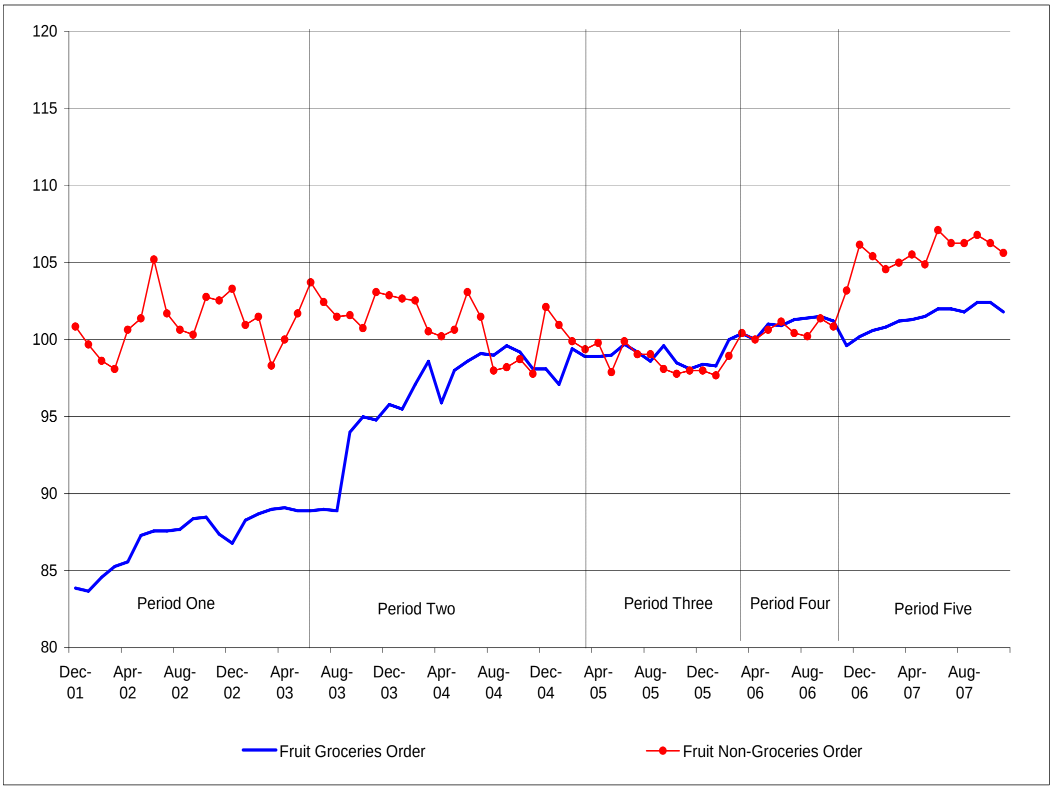


Figure A.11: Price Indices for Vegetables GO and NGO (Dec. '01 – Nov. '07)

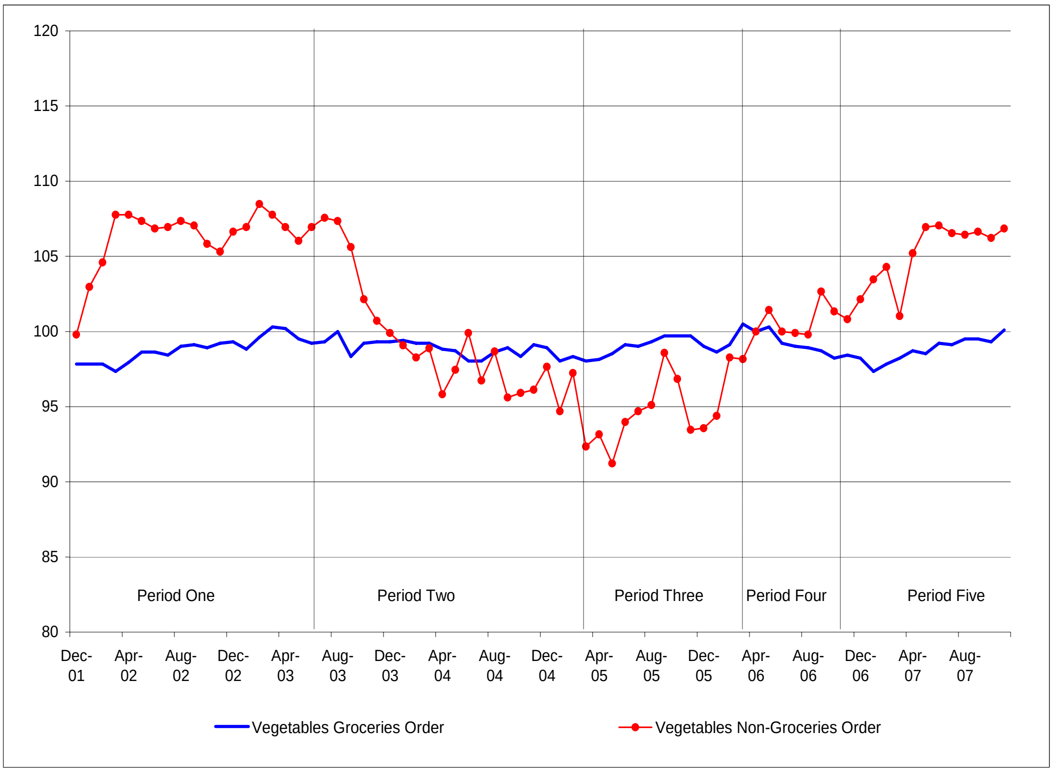
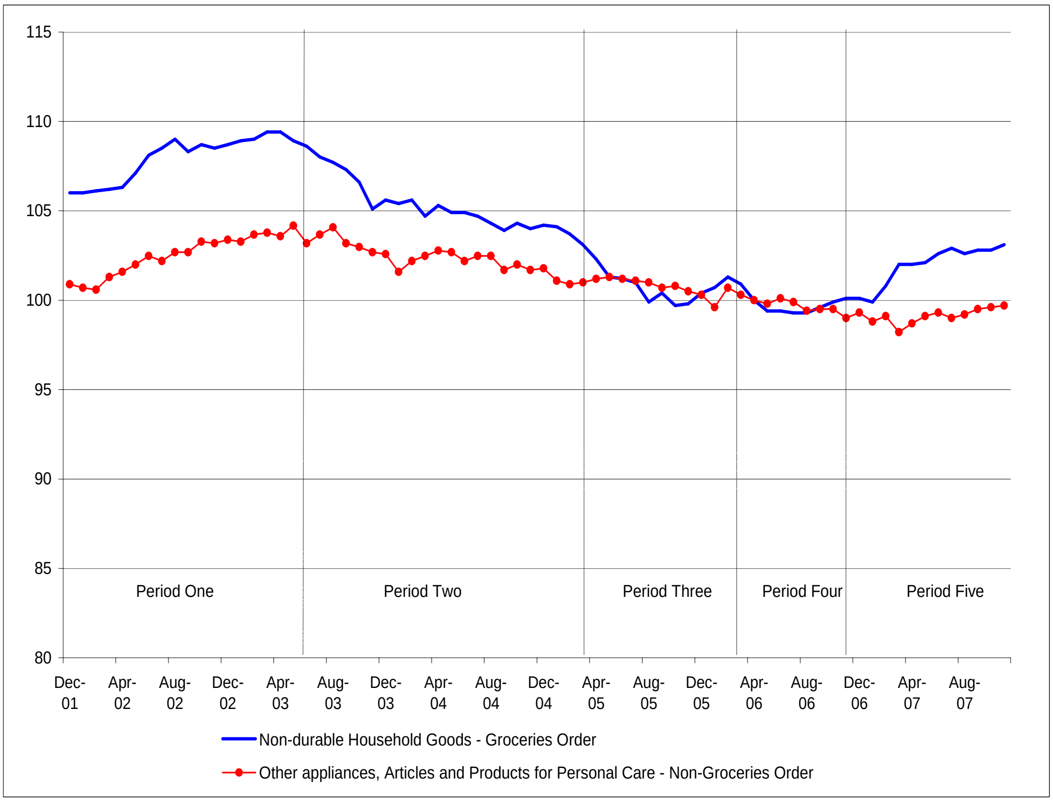
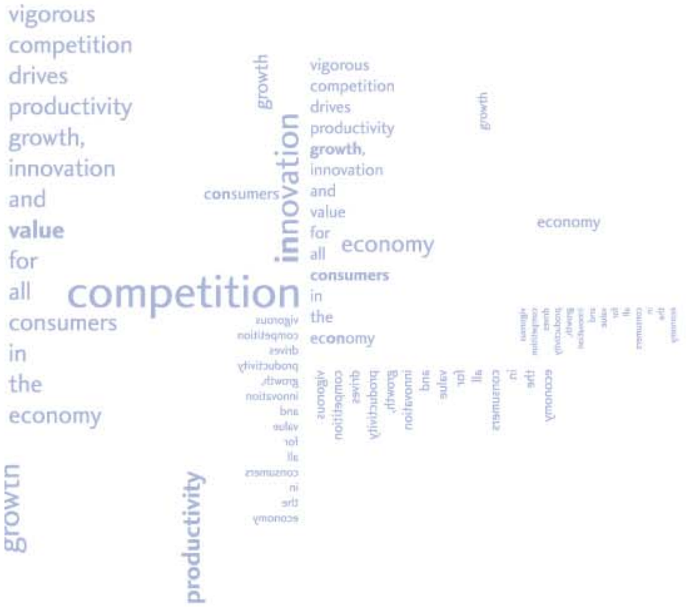


Figure A.12: Price Indices for Non-Food Products GO and NGO (Dec. '01 – Nov. '07)





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