Economic and Financial Impact of Restaurant Closures

REPORT PREPARED FOR RESTAURANTS ASSOCIATION OF IRELAND (RAI)

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KEY CONCLUSIONS

The Restaurants Association of Ireland represents more than 3,000 members, with establishments ranging from full-service restaurants, coffees shops, hotel restaurants, gastropubs, golf clubs and cookery schools. It also has over 150 trade partners, which are businesses that it has approved as suppliers of products and services for restaurants. The primary aim of the association is to develop the restaurant industry in a professional and high-quality manner by providing strong support to its membership.

CSO data suggests that, in 2021, there were 15,609 active enterprises engaged in food and beverage service activities. [1] At the end of 2023, CSO data suggests that the restaurant sector directly employed 132,800 employees. An additional 79,680 indirect jobs are supported because of the operations of a restaurant.

The Restaurants Association of Ireland estimates that, in 2024, an average of two restaurants are closing each day, with over 70 closures in February 2024 alone. The closures are due to a combination of a more challenged consumer due to cost-of-living pressures; increased costs, including food, energy, interest rates, and wages; labour availability; and measures that the Government is now implementing that are already adding to business costs, with these costs set to intensify over the next couple of years.

The introduction of several labour-market measures is imposing considerable pressure on many businesses. The State-induced measures include the increase in the national minimum wage; the increase in the VAT rate from 9 per cent to 13.5 per cent on 1st September 2023; statutory sick pay changes; the move towards a living wage by 2026; parental leave changes; the extra bank holiday; higher PRSI; and auto-enrolment for pensions. The measures are combining to increase costs significantly for businesses across the tourism and hospitality sector. These businesses were already under significant pressure due to higher energy costs, higher food prices, labour shortages, the increase in the VAT rate and other input costs.

For a small restaurant business, analysis from IGEES suggests that the State measures would result in a policy-driven annual increase in payroll costs of 6.6 per cent in 2024; and the projected increase is expected to be closer to 19.4 per cent in 2026. Based on analysis and a survey of wage costs in the restaurant sector undertaken for this report, the various State measures are estimated to add €229 million to wage costs in the restaurant sector in 2024, and €675 million by 2026. These State-induced increases in the cost of employment come on top of normal pay increases in the sector, which are significant in an economy close to full employment and where many restaurants are struggling to recruit and retain skilled staff.

[1] CSO Business Demography

Impact of every one restaurant closure:

- The loss of 22 direct employees on average and approximately 13 indirect jobs, based on a multiplier of 0.6.
- The loss of €576,554 in gross wages and €461,244 in a net wage injection into the economy. If a multiplier of 1.5 is associated with the spending of these net wages, it is estimated that around €691,866 in spending power would be removed from the economy.
- As a result of direct job losses, the Exchequer would lose out on €115,310 in payroll taxes.
- An average of annual VAT receipts of €105,000 will be lost to the State.
- Commercial rates receipts of €11,874 on average would be lost for local authorities.
- Water charge receipts of €4,583 on average would be lost.
- If the workers laid off had to go on social welfare payments, the annual cost would work out at around €440,000.
- There would also be considerable financial losses suffered by the services and input provided to restaurants by numerous different businesses across the economy.

The closure of one restaurant could cost the State up to €1.36 million in total economic impact in one full year.

EMPLOYMENT IN THE RESTAURANT SECTOR

CSO data suggests that in 2021, there were 15,609 active enterprises engaged in food and beverage service activities. [1] At the end of 2023, CSO data suggests that the restaurant sector directly employed 132,800 employees. In addition to every job directly supported in a restaurant, the author of this report estimates that around 0.6 of a job is supported elsewhere in the economy. These indirect employees include suppliers, delivery drivers, cleaners, and other ancillary services. This adds up to an additional 79,680 indirect employees because of the operations of a restaurant.

The restaurant sector played a key role in the recovery of the Irish economy and its labour market after the global recession. Between the first quarter of 2012 and the final quarter of 2023, employment in the sector increased by 81.7 percent from 73,100 to 132,800.

These restaurant and food service businesses are spread throughout regional Ireland and are an important part of the streetscape and source of employment in the cities, towns and villages around the country.

Restaurants are also a vital component of Ireland's tourism offering.

Figure 1: Employment in Food and Beverage Service Activities

Source: CSO PxStat

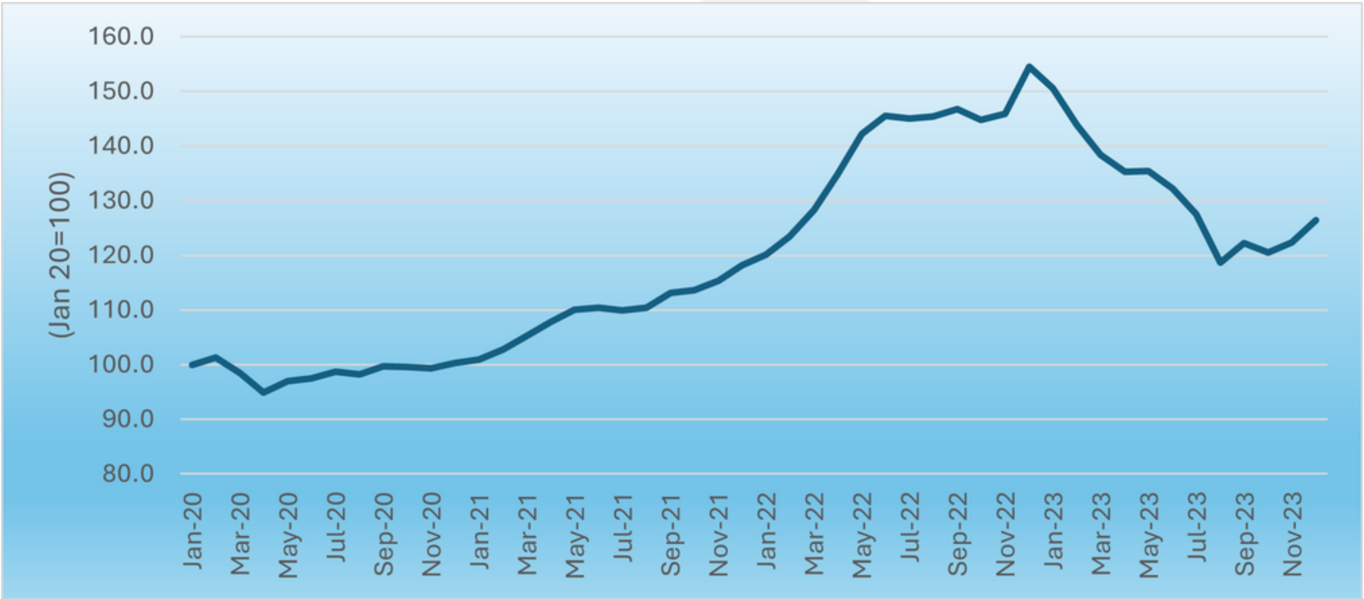
[2] CSO Business Demography

COST DEVELOPMENTS FOR RESTAURANT SECTOR

The operating environment for restaurants has become much more challenging over the past three years due to a combination of the disruption caused by Covid-19, the Ukraine war and global price developments.

Higher food prices have contributed strongly to rising input costs. Between April 2020 and December 2022, agricultural output prices increased by 64.2 per cent. Output prices have subsequently eased, but they are still 34 per cent above levels prevailing in early 2020.

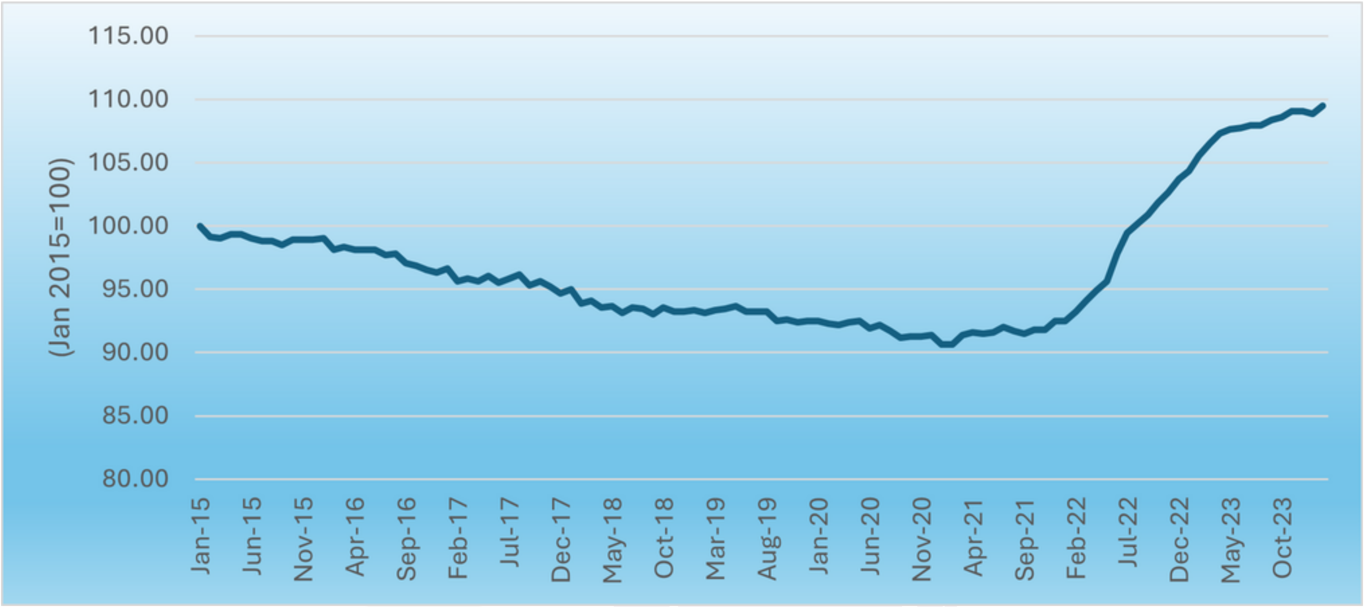
Figure 2: Agricultural Output Prices



Source: CSO PxStat

These agricultural output price trends have directly impacted food prices at the consumer level. Between February 2021 and February 2024, average food prices increased by 20.8 per cent.

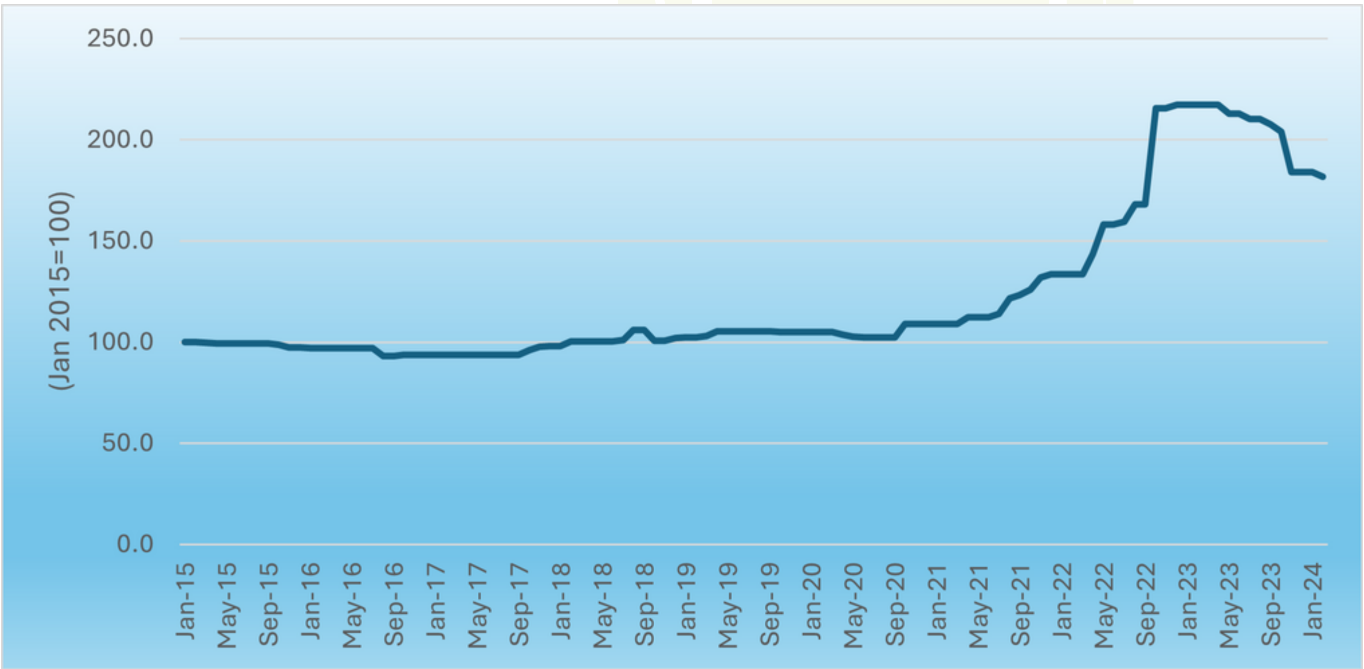
Figure 3: CPI Food



Source: CSO PxStat

The cost of electricity provides another stark example of the increased costs in the economy for consumers and businesses. Between September 2020 and April 2023, the average cost of electricity for consumers increased by 112 per cent. Although prices have subsequently started to moderate, average electricity prices in February 2024 were still 77.3 per cent higher than in September 2020.

Figure 4: CPI Electricity Prices



Source: CSO PxStat

THE IMPACT OF RECENT STATE-INDUCED COSTS FOR THE RESTAURANT SECTOR

The Government increased the temporary VAT rate for the hospitality sector from 9 per cent to 13.5 per cent on 1st September 2023. The timing of this increase was bad, as it occurred at a time when trading conditions were starting to become much more challenging for many businesses in the sector and many consumers were struggling with intense cost-of-living pressures.

In addition to this Government measure on VAT, several other Government measures are already impacting or will impact on businesses in the restaurant sector over the next three years. These Government measures include:

- The minimum wage was increased by 12.4 per cent on 1st January 2024.
- The progression towards a Living Wage.
- Statutory sick pay.
- Parent's Leave and Parent's Benefit.
- The addition of an extra public holiday.
- The auto-enrolment savings system.
- PRSI increases.

The National Minimum Wage

The National Minimum Wage was introduced in Ireland under the National Minimum Wage Act 2000. It was initially introduced at a rate of €5.58 per hour on 1st April 2000. Between April 2000 and January 2024, the minimum wage was increased by 127.6 per cent. Over the same period, the consumer price index increased by 61.4 per cent.

On January 1st 2024, the statutory minimum wage was increased by 12.4 per cent to €12.70 per hour. Average consumer prices in January 2024 were 4.1 per cent higher than a year earlier. Ireland now has the second-highest statutory minimum wage in the EU.

The Living Wage

The Living Wage is targeted to reach 60 per cent of hourly median earnings in 2026. Once this is achieved, the living wage will replace the national minimum wage. It is estimated that increase of more than €1 per hour will be needed over the next three years to reach an estimate Living Wage of €15 per hour by 2026.

Statutory Sick Pay

The statutory right to sick pay is equivalent to 70 per cent of normal pay. In 2024, statutory sick pay was increased from 3 days to 5 days. This is set to increase to 7 days in 2025 and to 10 days in 2026.

Parent's Leave and Parent's Benefit

In 2022 an additional two week's parental leave was introduced.

An Extra Public Holiday

An extra public holiday in February was introduced in 2023. This brings the number of public holidays to 10.

The Auto-Enrolment Savings System

It is planned to introduce the auto-enrolment retirement savings scheme in the second half of 2024. An employee aged between 23 and 60, earning at least €20,000 per annum, will be enrolled into the new retirement savings system, whereby they and their employer will pay a set rate of earnings into the fund. Employers and the State will not make contributions on annual earnings above €80,000. It is envisaged that the employer contribution will be equivalent to 1.5 per cent of salary per annum between 2024 and 2026; 3 per cent per annum between 2027 and 2029; 4.5 per cent per annum between 2030 and 2032; and 6 per cent in 2033, when the scheme is fully implemented. The scheme is not relevant for those employees already in occupational schemes, or in PRSAs, or who do not otherwise meet eligibility criteria.

PRSI Increases

PRSI rates will increase by 0.1 per cent on 1st October 2024. A further increase of 0.1 per cent is scheduled in 2025; 0.15 per cent in 2026 and 2027; and 0.2 per cent in 2028.

The Minister for Enterprise Trade and Employment directed the **Irish Government Economic and Evaluation Service (IGEES)** to carry out an assessment of the combined impact of the various measures to capture the costs and benefits that might arise from the measures being implemented. This assessment was published in March 2024. [3]

The assessment suggests that the overall payroll cost impact could range from 1.8 per cent to 2.2 per cent by 2026, with the largest costs arising from the introduction of a Living Wage and the auto-enrolment retirement savings scheme. The impact will vary significantly by sector across the economy, but IGEES acknowledge that the most affected will be labour-intensive and low-margin sectors including hospitality and retail.

For a small restaurant business, the analysis suggests that there would be a policy-driven annual increase in its payroll costs of 6.6 per cent in 2024; and the projected increase is expected to be closer to 19.4 per cent in 2026.

Based on analysis and survey of wage costs in the restaurant sector undertaken for this report, the various State measures are estimated to add €229 million to wage costs in the restaurant sector in 2024, and €675 million by 2026.

These State-induced increases in the cost of employment come on top of normal pay increases in the sector, which are significant in an economy close to full employment and where many restaurants are struggling to recruit and retain skilled staff.

[3] 'An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland', IGEES, Working Paper, March 2024

ECONOMIC AND FINANCIAL IMPACT OF RESTAURANT CLOSURES

Restaurants are an integral part of the fabric the national economy. They are key sources of employment and economic activity in the villages, towns, and cities around the country. This regional contribution is particularly important. In addition to supporting direct employment, they also support considerable indirect employment through suppliers, cleaners, accountants, legal services, deliveries, and other ancillary services. It is estimated that each job in a restaurant supports 0.6 of a job in the rest of the economy.

Restaurants and food service activities are also an integral component of Ireland's tourism offering. The closure of restaurants reduces consumer choice and diminishes the quality of the tourism product.

The direct contribution of restaurants and food service businesses include the wages associated with direct employment; the indirect employment supported; commercial rates; and water charges.

For every one restaurant closure:

- The loss of 22 direct employees on average and approximately 13 indirect jobs, based on a multiplier of 0.6.
- The loss of €576,554 in gross wages and €461,244 in a net wage injection into the economy. If a multiplier of 1.5 is associated with the spending of these net wages, it is estimated that around €691,866 in spending power would be removed from the economy.
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NOTES

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