



Analysis of changes in alcohol prices, taxation and affordability in the Republic of Ireland

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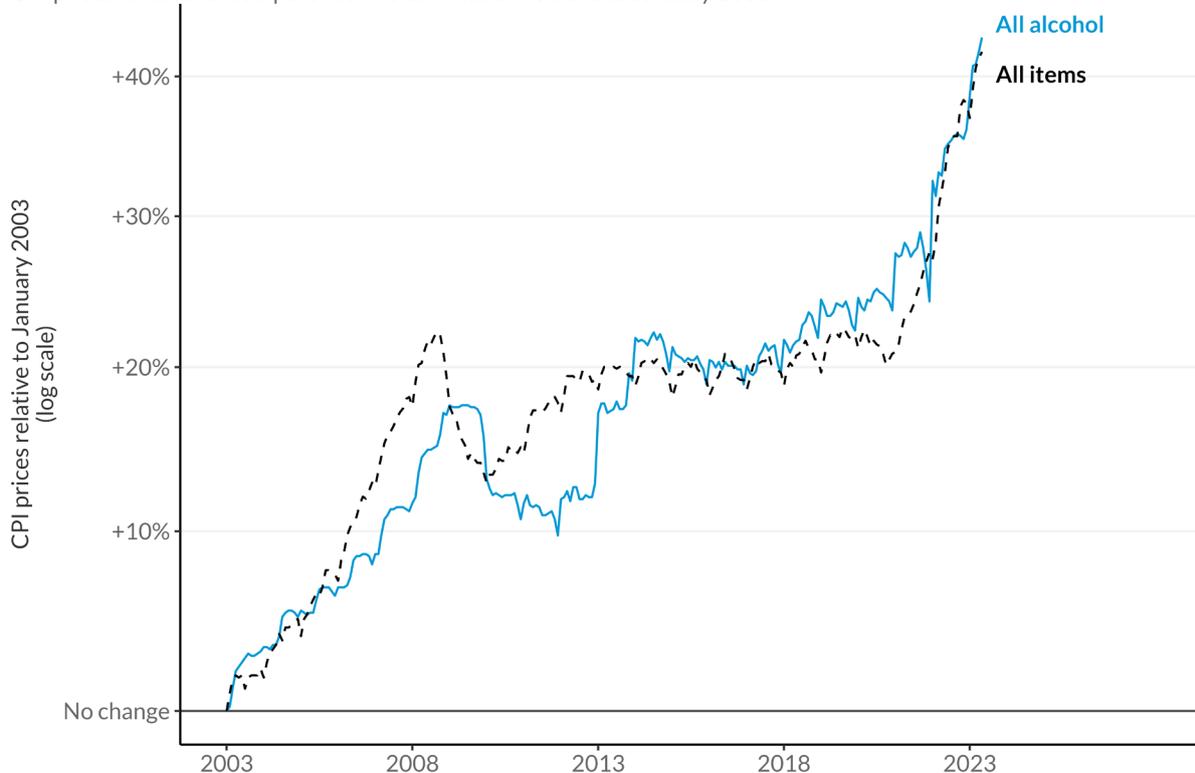
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Alcohol prices

The Central Statistics Office (CSO) in the Republic of Ireland publish monthly data on the Consumer Price Index (CPI), the government's preferred measure of inflation (1). This data includes the all-item CPI, representing the headline figure for inflation, as well as item-specific CPI indices which represent the change in prices for specific product groupings. Data is available in a consistent time series back to January 2003, with the latest data reflecting prices in May 2023. Over this period overall inflation has risen by 41.8%, with alcohol prices rising by 42.9%.

Alcohol prices in Ireland have kept pace with inflation

CPI prices for alcohol compared to overall inflation relative to January 2003

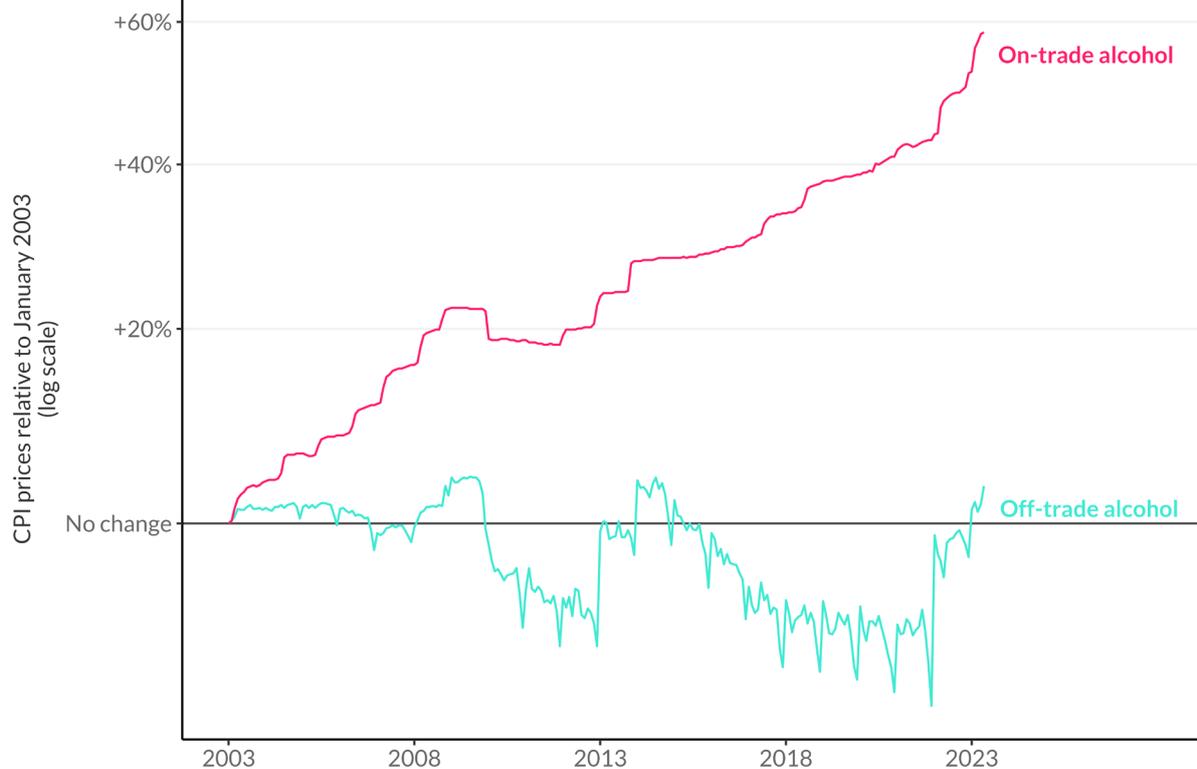


Data from CSO

CSO also publish CPI estimates for alcohol based on where the alcohol was sold: on-trade, representing sales of alcohol in pubs, bars, nightclubs and restaurants (where alcohol is sold for consumption on the premises) and off-trade, representing sales in shops (where alcohol is sold for consumption off the premises). Since January 2003 these have followed very different inflation trajectories. Prices of on-trade alcohol have risen consistently over the period and are now 58.5% higher, while the price of off-trade alcohol has risen by just 3.6%. In December 2021 off-trade alcohol prices were 15.8% lower than in 2003 before accounting for inflation. The increase in off-trade prices since this date is a product of the effects of Minimum Unit Pricing¹, which came into effect in January 2022, and a further increase in the price of both on- and off-trade alcohol in the initial months of 2023. One other notable difference between prices in the on- and off-trade is the greater seasonality in off-trade prices. There no obvious seasonal variation in on-trade prices, whereas prices in the off-trade are markedly lower in November and December than throughout the rest of the year. This likely reflects pre-Christmas discounting of alcohol products and appears to have increased in magnitude over the past two decades.

The price of shop-bought alcohol hasn't changed in 20 years

CPI prices for on- and off-trade alcohol relative to January 2003



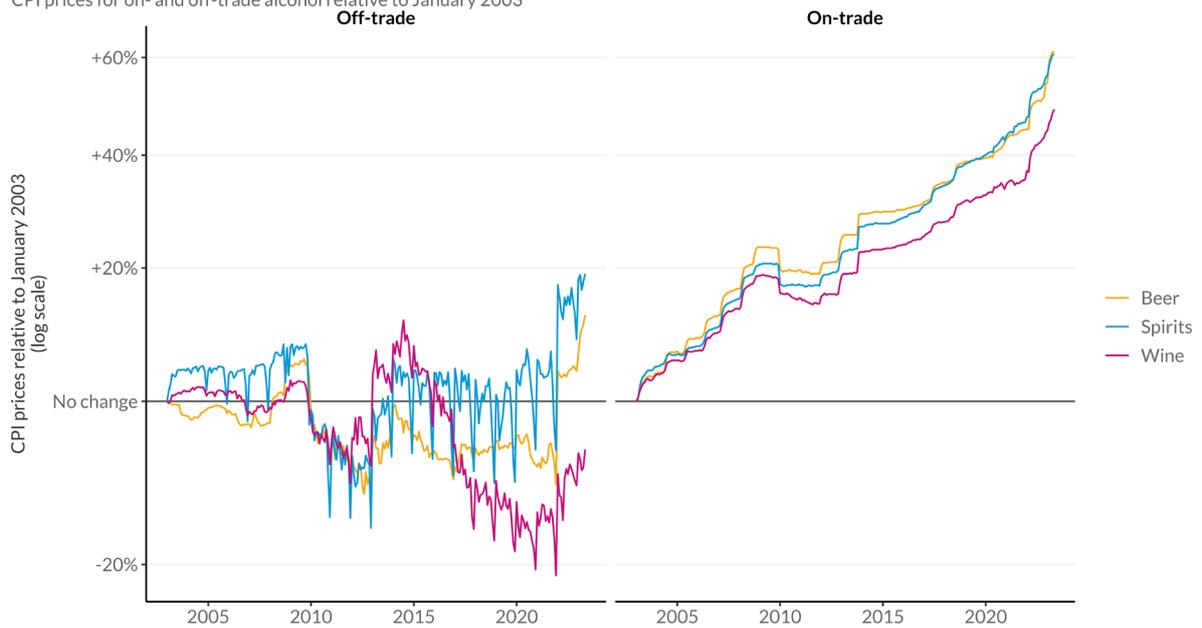
Data from CSO

¹ Note that CPI is a summary measure of prices within each category. The introduction of MUP has had different impacts on products across the price spectrum – increasing the prices of the cheapest off-trade products but having no impact on the prices of more expensive items.

Finally we can also look at CPI inflation by purchase location and beverage type. In the on-trade, beer wine and spirits all follow similar trajectories, albeit with wine prices having seen slightly overall lower price rises since January 2003 (49.1% compared to 61.2% for beer and 60.8% for spirits). This pattern is also evident in off-trade prices, although the difference is less consistent over time, having only emerged in the last 6-7 years. Overall the price of off-trade wine is 6.4% lower than in January 2003, while beer prices are 12.5% higher and spirits prices 19.1% higher. This separation by beverage type also demonstrates that the seasonal pattern in off-trade prices is primarily driven by pre-Christmas reductions in the price of spirits, and, in recent years, wine.

Prices have risen more for spirits and beer than wine

CPI prices for on- and off-trade alcohol relative to January 2003



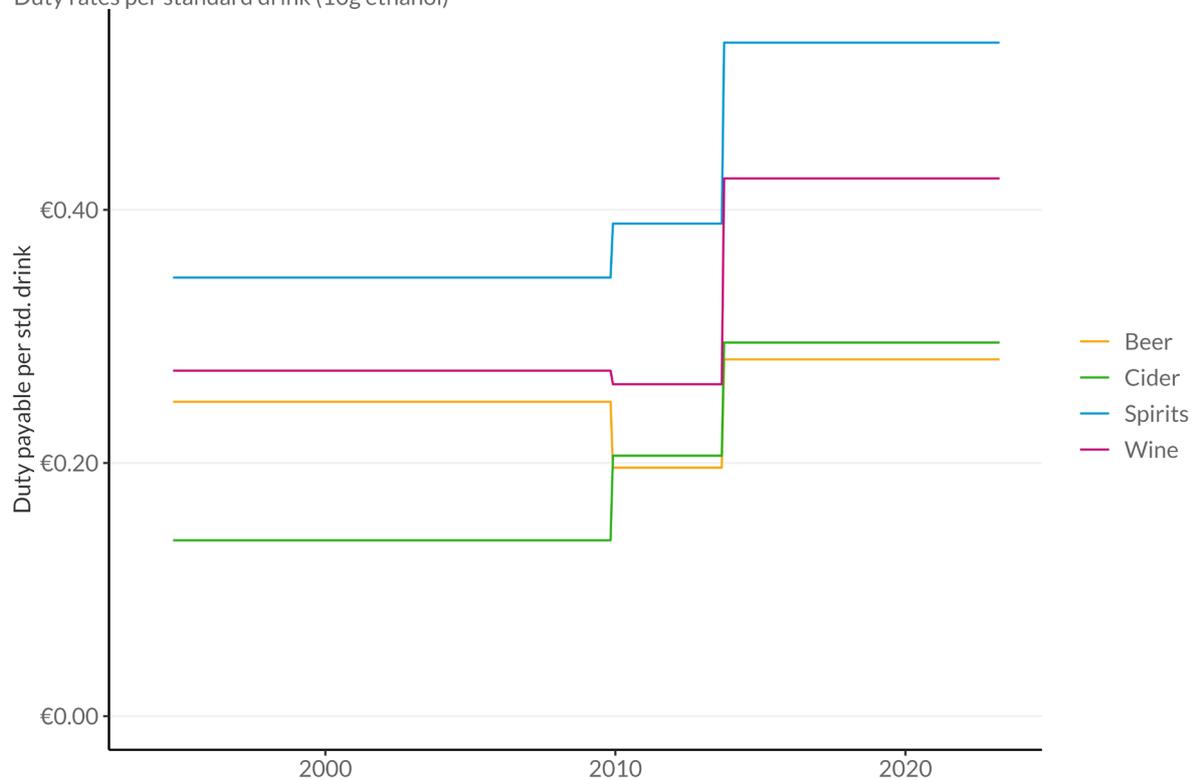
Data from CSO

Alcohol duty rates

In line with European Union regulations, beer and spirits are taxed on the basis of alcohol content in the Republic of Ireland, while cider and wine are taxed on the basis of product volume. In order to allow a consistent comparison of duty rates between products we therefore estimated the 'typical' duty rate per standard drink (10g of pure alcohol) by assuming a standard ABV of 4% for cider and 12.5% for wine. On this basis, current alcohol duties are similar for beer and cider (€0.282 and €0.295 per std. drink respectively), higher for wine (€0.425) and highest for spirits (€0.532). The fact that products of similar strengths attract similar rates of duty, while stronger drinks attract higher rates is in line with recommendations from the World Health Organization (2). Alcohol duty rates have remained unchanged since they were increased for all products in 2013.

Alcohol duty rates are higher than they were 20 years ago

Duty rates per standard drink (10g ethanol)

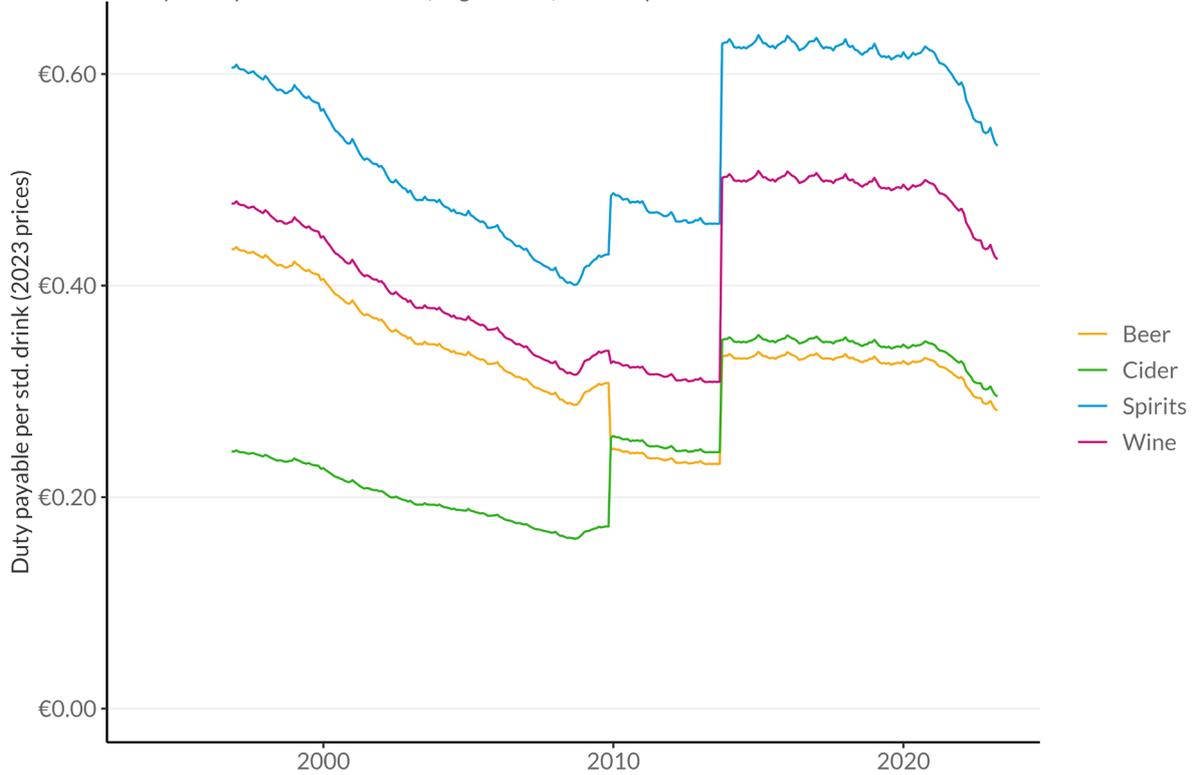


Data from Revenue.ie and HRB

Adjusting duty rates for inflation and converting rates since 1996 into 2023 prices paints a different picture. Low levels of inflation meant that real-terms duty rates remained more or less constant between 2013 and early 2021, but high levels of inflation since then have led to a rapid erosion in the real-terms value of alcohol duties – a fall of 14.4% since January 2021. As a result of this, current alcohol duty rates for wine and spirits are on a par with their levels in 2000, cider duties are at their lowest level since 2013 and beer duty is lower than at any point in the past 20 years except for between 2009 and 2013.

Inflation-adjusted duty rates have fallen sharply since 2020

Real-terms duty rates per standard drink (10g ethanol) in 2023 prices



Data from CSO, Revenue.ie and HRB

Alcohol affordability

A large body of international research evidence has demonstrated the role of price in shaping alcohol purchasing behaviour (3–5). However, it is also important to acknowledge the influence that income plays in the affordability of alcohol. One, widely used, approach to combining these two concepts is known as the ‘alcohol affordability index’ (6). The alcohol affordability index is based on the relative price of alcohol compared to other goods, and a measure of disposable household income, combined as follows:

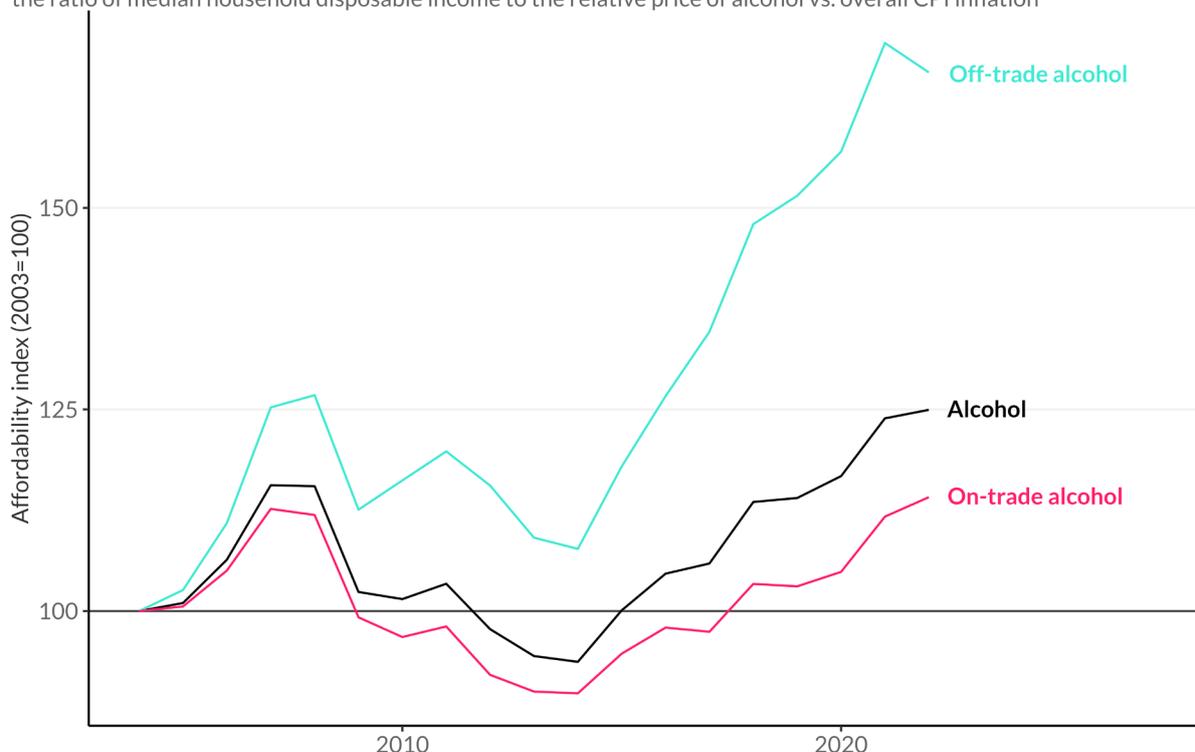
$$Affordability = \frac{Income * 100}{\left(\frac{Alcohol\ CPI * 100}{All\ item\ CPI}\right)}$$

Thus higher values correspond to greater affordability. We calculated this measure for each year 2004-2022 for the Republic of Ireland using the CPI data already outlined and disposable household income data taken from the annual Survey on Income and Living Conditions (EU-SILC) (7).

Overall alcohol affordability rose between 2004 and 2007, then fell in the aftermath of the financial crisis, leading to alcohol in 2014 being 6.3% more affordable than a decade prior. Since 2014 affordability has risen steadily to the point where alcohol in 2022 was 25.0% more affordable than in 2004. Given the large differences that we have already seen in price changes between the on- and off-trades, it is perhaps unsurprising that affordability has risen much faster over this period in the off-trade than the on-trade. On-trade affordability is 14.1% higher than in 2004, while off-trade alcohol has become 66.8% more affordable.

Off-trade alcohol has become much more affordable in the last decade

Alcohol affordability in Ireland since 2004 (higher = more affordable). Affordability is calculated as the ratio of median household disposable income to the relative price of alcohol vs. overall CPI inflation

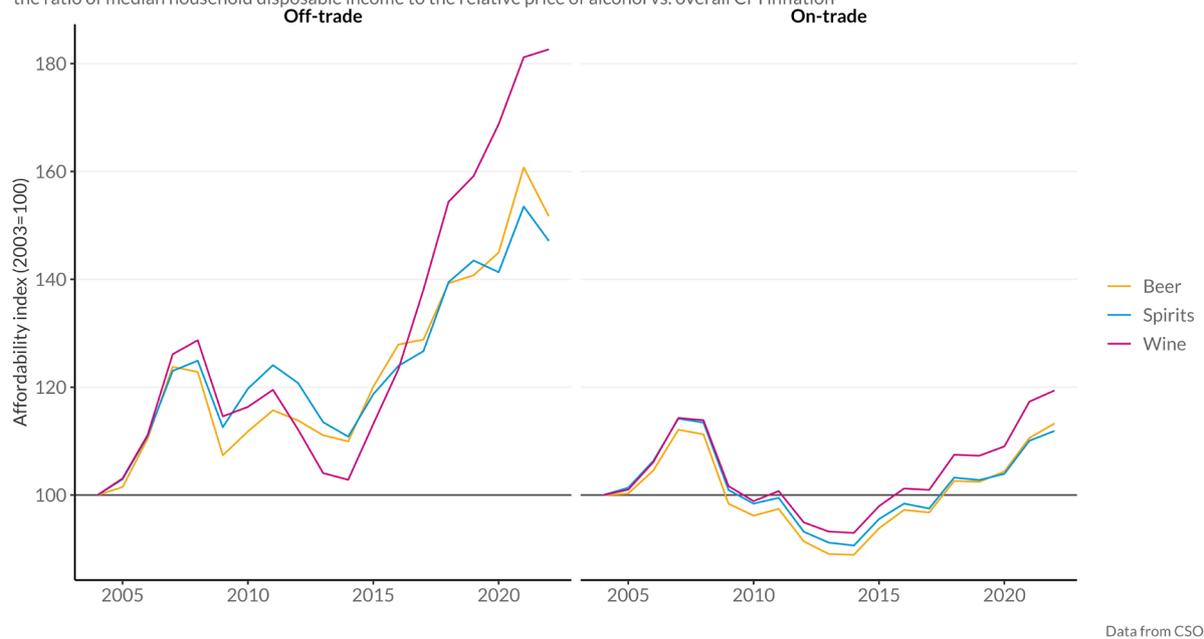


Data from CSO

Affordability trends by purchase location and beverage type demonstrate the extent to which wine, particularly off-trade wine, has become much more affordable in the past decade, rising by 77.6% since 2014. Over the same period the affordability of beer and spirits has also increased, but to a lesser extent, with the introduction of MUP leading to the affordability of beer and spirits to fall in 2022.

Wine has become a lot more affordable

Alcohol affordability in Ireland since 2004 (higher = more affordable). Affordability is calculated as the ratio of median household disposable income to the relative price of alcohol vs. overall CPI inflation



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