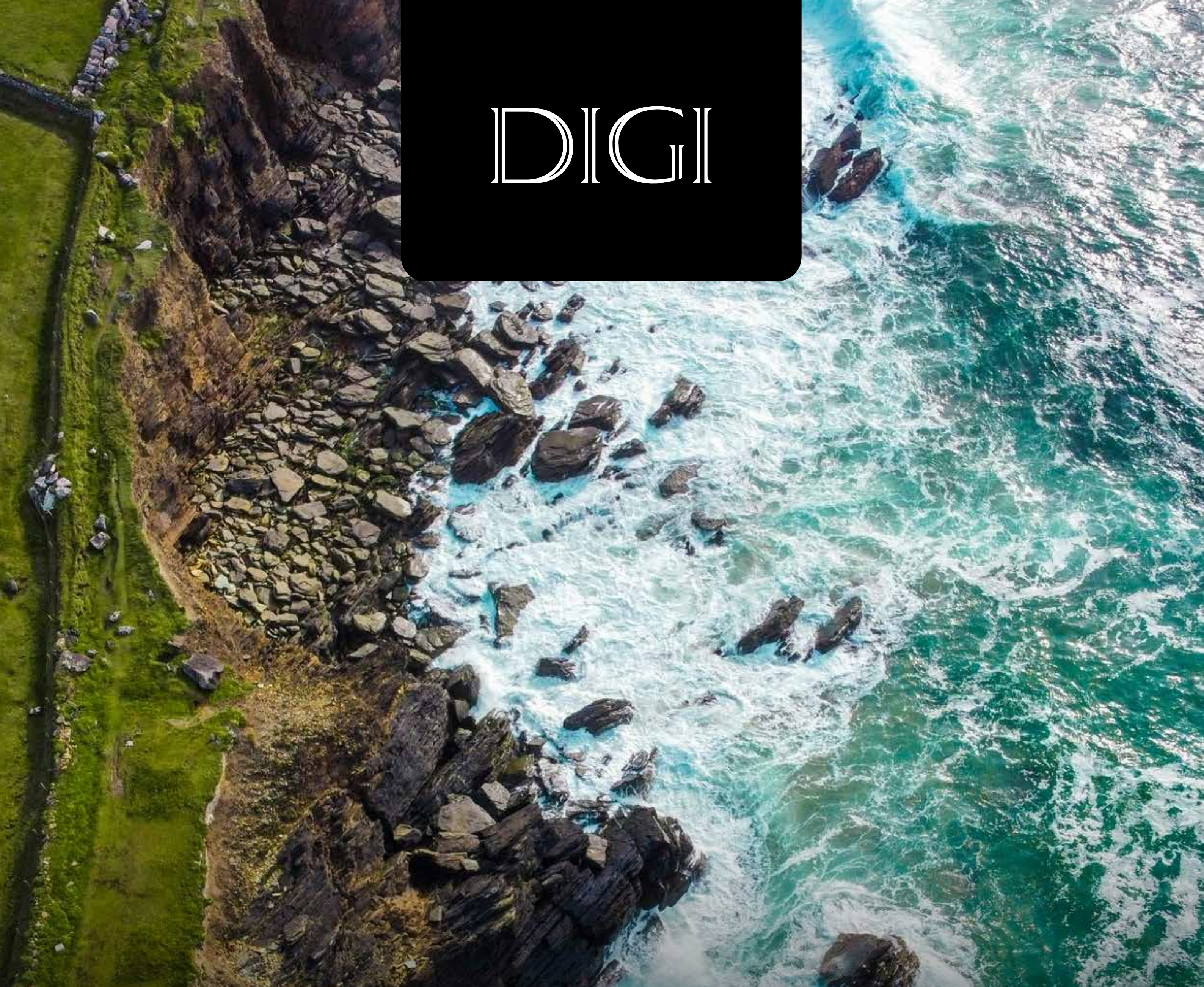

DIGI

COSTS OF BUSINESS IN THE HOSPITALITY SECTOR: **DEVELOPMENTS IN THE POST-COVID PERIOD**

A Drinks Industry Group of Ireland Report

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Objective and Introduction

The objective of this short paper is to identify and quantify, for the main business inputs, the increases in the costs of doing business in the hospitality sector over the past several years and particularly in the post-Covid period since 2022/2023. The analysis is also to identify the impact of alcohol excise on licensed premises and their prices. There are various definitions of the tourism, hospitality and food and drink services sectors. In this paper the main focus is on the Central Statistics Office (CSO) statistical classification of accommodation and food service activities. This includes hotels, guesthouses and other accommodation, restaurants and public houses as well as other food/drink services such as catering. The main data source is the various statistics published by the CSO. Section 2 identifies the low margin and high labour intensity nature of the sector and refers to the role of small enterprises in the overall hospitality sector.

It should also be noted that a constant level of cost over a particular period does not directly indicate the absence of a problem as regards business costs. The particular cost might be high by international standards and therefore imposes a competitiveness difficulty. An example is alcohol excise. The excise rates have been constant for many years, but the Irish rates are still high by EU and UK standards despite being constant. Irish interest rates are high by EU standards regardless of specific increases over a period.

The inflation pattern in the economy over the period is a useful background against which to identify the specific hospitality cost issues. The consumer price index measure of inflation is used for this purpose but there are other measures of inflation such as wholesale prices or the national accounts deflators. The annual % change in the consumer price index, or the inflation rate, was low in 2019 and, unusually, prices decreased in 2020. The 2021 rate was 2.3%. Inflation accelerated in 2022 to 7.8% and decreased to a still very high rate of 6.3% in 2023 before decreasing to 2.1% in 2024 and 2.2% in 2025.

Table 1.1: Annual % change in Consumer price index 2019 to 2025

Year	Annual % change	CPI index, December 2023=100
2019	0.9	84.3
2020	-0.3	84
2021	2.3	86
2022	7.8	92.7
2023	6.3	98.6
2024	2.1	100.7
2025	2.2	102.9

Source. CSO

The 2024 and 2025 decreases in the inflation rate compared with 2023 and 2022 still meant prices were rising, just at a slower pace. The overall annual change in prices is rarely negative, an exception is 2020, but the annual change can vary. Between 2021 and 2025 the overall consumer price increase was 19.7%. Between 2022 and 2025 the overall consumer price change was 11.0%. Between 2023 and 2025 the change was 4.4%. Price increases, however small, build on the previous price level.

For the period between July 2022 and July 2026 the overall consumer price index increase was 13.8%. Between July 2023 and July 2026, it was 7.5%.

Some products such as energy are an exception to this general expectation continually rising prices and display substantial volatility related to world market circumstances. The recent annual consumer price index energy performance is shown below in Table 1.2.

Table 1.2: Annual energy % price changes, CPI 2019 to 2025

Year	Annual % change	Energy index, December 2023=100
2019	1.1	66.0
2020	-4.9	62.7
2021	12.6	70.4
2022	41.1	99.5
2023	6.4	104.6
2024	-7.7	96.5
2025	-0.2	96.2

Source. CSO. Note, the data above is reproduced from the CSO database but some of the published per cent changes do not correspond exactly to the % changes in the actual index between the two years.

Energy prices decreased in 2020, 2024 and 2025 by a very small amount, increased by a very large 41.1% in 2022 and by still large but smaller amounts in 2021 and 2023. Over the two years between 2023 and 2025 the change was a decline of 8% but energy prices in 2025 were still 36.6% greater than 2021.

Characteristics of the Hospitality Sector: Labour Intensive, Small Businesses and Low Margin

The main CSO source of information on the business characteristics of the hospitality sector is the "enterprise statistics on distribution and services" series. Unfortunately, the latest available of this dataset refers to 2022 which is partly influenced by Covid. The latest non-Covid impacted dataset refers to 2019. The 2022 data is less disaggregated than 2019. As shown below the sector is **very labour intensive, is mainly composed of small enterprises and operates on relatively low margins**. These three features mean the sector is very exposed to labour and other cost pressures and **has limited capacity to absorb substantial cost shocks**.

In 2019 personnel costs were 72.1% of gross value added in accommodation, 83.7% in restaurants and mobile food services and 71.5% in public houses and other beverage services. **In 2022 the CSO reports personnel costs** to gross value added per cents of 57.0% in accommodation, **and 77.2% in food and beverage services combined**. In contrast, in 2019, the same indicators were 34% in the wholesale sector and 32.2% in telecommunications.

As shown in Table 2.1 the sector is dominated by very small enterprises. Enterprises with less **(fewer)** than 10 persons engaged were 76.6% of all enterprises in the hospitality sector. Those enterprises with under 50 people accounted for 96.1% of all hospitality enterprises. Enterprises with more than 50 persons numbered only 784 or 3.9% of the total.

Foley (2022) estimated the margin to cover profit, depreciation and interest in 2019 as hotels 12.7%, restaurants 7.2% and public houses 12.5%. However, when the significant cost increases between 2019 and 2022 are factored in these margins in the three sectors were reduced or eliminated, without including the impact of revenue growth through price increases. Comparing a normal year including the higher costs with 2019, the restaurants' margin for profits, depreciation and interest dropped from 7.2% to minus 7.5%; the hotels' margin dropped from 12.7% to minus 2.3%; and the margin for public houses dropped from 12.5% in 2019 to 0.2% in a normal year with the cost increases.

Table 2.1: Accommodation and food and drink services 2022

Size in persons	Number of enterprises
0 - 9	15482
10 - 49	3947
50 - 249	711
250 and over	73
All	20213

Source. CSO

When price and revenue increases were included, the margins improved but remained significantly below the 2019 margins for restaurants and public houses. **Including price increases the restaurants' operating margin was 1.9% in a normal year with the higher costs compared with 7.2% in 2019**. The new restaurant operating margin was very low and well below the 2019 level. Both cost and price increases have continued from 2022 but overall, much of the hospitality sector especially restaurants and public houses operate on low margins.

Increase in the National Minimum Wage (NMW) since 2023

The hospitality sector is a significant employer of people on the national minimum wage. Consequently, **increases in the NMW have a greater impact on the hospitality sector than on other sectors where minimum wage workers are a relatively small part of employment**. The NMW was €11.30 from January 2023. It was €14.15 from January 2026 and is recommended to be €14.94 from January 2027. Between January 2023 and January 2027 the increase will be 32.2%. Between 2023 and 2026 the increase was 25.2%. Over the January 2023 to January 2026 period the Consumer Price Index increased by 9.0% and the services (excluding mortgage interest) index increased by 14.4%. The relatively large NMW increases are part of the process of moving to a living wage of 60% of median income by 2029. (Table 3.1)

Table 3.1: National minimum wage hourly rate Jan 2023 to Jan 2027

Year	Hourly rate €	% rate of increase
Jan 2023	11.30	
Jan 2024	12.70	12.4
Jan 2025	13.50	6.3
Jan 2026	14.15	4.8
Jan 2027 (proposed)	14.94	5.6

Source. Low Pay Commission

According to the Labour Force Survey for Q2 2024 the number of employees earning the NMW or less nationally was 195.3k which was 8.2% of the national total number of employees. **In accommodation and food services there were 53.7k employees on the NMW or less which was 31.8% of the total number of employee**s in accommodation and food services. The sector with the next highest incidence of minimum wage and lower employees was wholesale and retail where the proportion was 18.0%, well below the hospitality share.

Total Labour Costs

There are several indicators of labour cost including hourly, weekly and annual earnings, gross earnings of employees and total labour cost including employer PRSI. The indicator used below is total hourly labour cost. Ten sectors are identified. **Hospitality hourly labour cost increased by 15.0% between Q2 2023 and Q2 2026**. This was the fifth highest increase after professional, scientific and technical 19.9%, administrative support services 19.0%, arts entertainment and recreation 16.4% and information and communications 16.2%. The hospitality labour cost increase of 15.0% exceeded the economy average increase of 14.5%. Reflecting the nature of the sector's labour force the hospitality average total hourly labour cost was the lowest of the ten sectors at €20.27.

Table 4.1: Hourly total labour costs various sectors Quarter 2 2023 and Quarter 2 2026 and % increase

All NACE economic sectors				% change 2023-26	Rank in order of increase
All employees	32.94	37.73		14.5	7
Manufacturing (C)					
All employees	32.9	37.28		13.3	8
Wholesale and retail trade; (G)					
All employees	25.88	28.93		11.8	10
Transportation and storage (H)					
All employees	28.31	32.43		14.6	6
Accommodation and food service (I)					
All employees	17.62	20.27		15.0	5
Information and communication (J)					
All employees	52.83	61.4		16.2	4
Financial and insurance activities (K)					
All employees	49.15	55.56		13.0	9
Real estate activities (L)					
All employees	30.18	32.94		9.1	11
Professional, scientific and technical (M)					
All employees	38.16	45.77		19.9	1
Administrative and support service (N)					
All employees	26.66	31.87		19.5	2
Arts, entertainment and recreation (R)					
All employees	26.09	30.36		16.4	1

Source. CSO

Energy

Section 1 referred to the consumer price change for energy. Table 5.1 identifies the wholesale price change between July 2023 and July 2026 using CSO statistics. The overall energy products **price increased by 48.8% in the period** and electricity price increased by 61.7%.

Table 5.1: % increase in wholesale energy prices July 2023 to July 2026

Product	% increase
Energy products	48.8
Gas oil (other than autodiesel)	23.6
Fuel oil	19.9
Electricity	61.7

Source. CSO

In terms of recent changes wholesale energy prices started to accelerate again in April 2026 because of the USA/Iran conflict. The 2026 monthly changes compared with 2025 are shown in Table 5.2.

Table 5.2: Changes in the wholesale price of energy products January to July 2026 compared with 2025

Month	% change compared to same month in 2025
2026 January	-20.9
2026 February	-19.1
2026 March	-0.2
2026 April	24.4
2026 May	34.2
2026 June	37.2
2026 July	45.6

Source. CSO

Energy prices were decreasing substantially compared with 2025 in January and February. March was almost unchanged compared with 2025 but from April the monthly increases compared with 2025 increased from 24.45% to 34.2% to 37.2% to the July figure of 45.6%.

Insurance

The annual average premium for packaged policies including commercial property, employers' liability and public liability increased from €2,475 in 2020 to €3,043 in 2024 (the latest year for which data is available), **an increase of 22.9%**, based on data from the central bank's National Claims Information Database. These polices are indicative of commercial insurance cost trends. Average premiums increased in each of 2023 and 2024. The increases occurred in the context of expected reductions due to various reform measures affecting the insurance market.

The consumer price index provides information on consumer type insurance such as health, motor and travel insurance and gives another indication of cost trends in the sector. Between July 2023 and July 2026, the insurance price increased by 26.6%.

Food and Beverage Inputs Costs

Food and beverage inputs are a large component of the food services and public house business model. Table 7.1 presents wholesale price data for food as a whole and meat and dairy products. A longer period of 2021 to 2025 is shown in the Table to illustrate the intra period changes. Overall food products price increased substantially in 2022 and remained much the same on an annual basis until 2024. There was a substantial increase in 2025. Meat followed the same pattern. There was a big increase in 2022 which was not reversed in 2023 and 2024. 2025 had another large increase in meat cost. Dairy products had a different pattern. There was a small price increase in dairy products in 2022 and 2023. There was a bigger increase in 2024 and a substantial increase of 15.7% in 2025.

Over the 2001 to 2025 period **food products price increase was 18.2%**, meat increased by 36.9% and dairy increased by 24.4%.

Table 7.1: Food input costs, wholesale prices, 2021 to 2025

Year	Product	Index, 2021=100	% Increase 2021 to 2025
2021	Food products	100	18.2
2021	Meat and meat products (101)	100	36.9
2021	Dairy products (105)	100	24.4
2022	Food products (10)	111.2	
2022	Meat and meat products (101)	124.3	
2022	Dairy products (105)	101.8	
2023	Food products (10)	112.5	
2023	Meat and meat products (101)	128.8	
2023	Dairy products (105)	102.6	
2024	Food products (10)	112.8	
2024	Meat and meat products (101)	128.7	
2024	Dairy products (105)	107.5	
2025	Food products (10)	118.2	
2025	Meat and meat products (101)	136.9	
2025	Dairy products (105)	124.4	

Source. CSO

Recent changes in wholesale food prices have been moderate. Table 7.2 shows the 12-month changes for the months of 2026. In each of the first three months of 2026 the wholesale food price was lower than the equivalent month of 2025. The reductions ranged from 1.6% to 2.9%The price increased in each of the next four months compared to the equivalent month in 2025. The increases were relatively moderate and ranged from 1% in April to 2.9% in June.

- **Table 7.2: % Changes in wholesale price of food products January to July 2026**

Month	% change compared to same month in 2025
2026 January	**-2.3**
2026 February	**-2.9**
2026 March	**-1.6**
2026 April	**1**
2026 May	**1.3**
2026 June	**2.9**
2026 July	2.7

Source. CSO

Alcoholic beverages are a significant element of licensed premises in the hospitality sector and in off-licences. The actual price charged to retailers depends on several factors. The price referred to below is intended to be illustrative of the price trend. Between July 2023 and July 2026, the wholesale price of a keg of beer increased by about 12%. This followed a substantial increase earlier in 2022/2023. If the **July 2022 to July 2026 period is considered, the increase is about 20%**.

The CSO wholesale beverages price increase between 2021 and 2025 was 14.0%. This included a decline in 2025.

Between July 2023 and July 2026, the average price of a pint of stout in a public house increased by 14.5%.

Other Costs and Taxes Including Alcohol Excise

The recently published report of the Cost of Business Advisory Forum identified measures to reduce costs over seven areas, energy, insurance, regulatory burden and infrastructural planning, water services, legal costs, reporting and compliance and banking/financial services. Among other issues it argued that limited banking competition was increasing borrowing costs and contributed to relatively high interest rates in Ireland compared to the EU as a whole.

The recent restoration of the 9% Vat rate to food services has contributed to business cost reduction but, of course, applies only to those hospitality enterprises which serve food and only to the food part of their turnover. Other measures have been introduced over recent years and currently to affect business costs. Ireland also has a relatively low rate of employer PRSI compared to other EU countries and also has a low rate of corporation profits tax. **However, the licensed trade element of the hospitality sector including pubs, restaurants and hotels and the off-licensed sector have relatively high alcohol excise taxes which are effectively a cost on the relevant sectors of business. In addition, the standard rate of Vat is charged on the excise amount.**

A summary of the 2026 Irish alcohol excise situation compared to other EU economies and the UK is given below.

- Ireland has the second highest wine excise in the EU27 and UK behind Finland.
- Ireland has the third highest beer excise in the EU 27 and UK behind Finland and the UK (using the UK non-draught excise rate).
- Ireland has the third highest spirits excise in the EU 27 and UK after Sweden and Finland.
- Fourteen EU economies do not impose any excise on wine. In addition, France and Malta have very low wine excise tax. Romania recently introduced a small excise on wine.
- On an overall composite alcohol excise level (measured by the unweighted average of the different beer, spirits and wine excise rates), Ireland is the second highest behind Finland.
- Finland's composite rate is 33.9% higher than Ireland's, €4630 per HLPA compared to €3458. The UK rate is 1.6% below the Irish rate. Sweden's composite rate is 10.6%below the Irish rate.
- Lithuania has the fifth highest composite excise rate of €2365 and is 68.4% of the Irish level. Its relative position changed from 48% of the Irish level in 2023 to its current 2026 level of 68.4%.
- Estonia and Latvia have the two next highest composite rates at 52.5% and 43.3% respectively of the Irish rate. In money terms Estonia and Latvia have a composite rate of €1817 and €1496 respectively compared to Ireland's €3458.

The excise share of a pub pint of stout is 8.5% (€0.54), pint of lager 8.1% (€0.55), glass of wine 9.4% (€0.80 on a glass priced €8.50), off-licence bottle of whiskey 43.3% (€11.92) and off-licence bottle of wine 29% (€3.19 on a bottle priced €11.00). These statistics are sourced from Foley (2026).

Summary and Conclusions

Over the past several years since Covid, the hospitality sector has experienced a substantial worsening of its cost situation in labour costs, energy and food and beverage inputs. With the exception of recent increases in energy and the National Minimum Wage to an extent, the rate of cost increases has moderated. However, a legacy of higher costs arising from earlier substantial increases remains. A lower rate of inflation means costs continue to increase but at a slower pace.

The absence of an increase does not necessarily mean there is no problem with the issue. Alcohol excise has been unchanged for several years but it is still currently relatively high by EU standards.

For the period between July 2022 and July 2026 the overall consumer price index increase was 13.8%. Between July 2023 and July 2026, it was 7.5%.

The hospitality sector is very labour intensive, is mainly composed of small enterprises and operates on relatively low margins. These three features mean the sector is very exposed to labour and other cost pressures and has limited capacity to absorb substantial cost shocks.

The hospitality sector is a significant employer of people on the national minimum wage. Consequently, increases in the NMW have a greater impact on the hospitality sector than on other sectors where minimum wage workers are a relatively small part of employment.

Between January 2023 and January 2027, the increase in the NMW will be 32.2%. Between 2023 and 2026 the increase was 25.2%. Over the January 2023 to January 2026 period the Consumer Price Index increased by 9.0% and the services (excluding mortgage interest) index increased by 14.4%. The relatively large NMW increases are part of the process of moving to a living wage of 60% of median income by 2029.

The hospitality hourly total labour cost increase of 15.0% between Q2 2923 and Q2 2026 exceeded the economy average increase of 14.5% and was fifth highest of 10 sectors.

The energy wholesale price change between July 2023 and July 2026 for overall energy products was an increase of 48.8% and for electricity the price increased by 61.7%. In terms of recent changes, wholesale energy prices started to accelerate again in April 2026 because of the USA/Iran conflict.

Over the 2001 to 2025 period the wholesale food products price increase was 18.2%, meat increased by 36.9% and dairy increased by 24.4%.

The annual average premium for packaged policies including commercial property, employers' liability and public liability increased from €2,475 in 2020 to €3,043 in 2024 (the latest year for which data is available), an increase of 22.9%. The increases occurred in the context of expected reductions due to various reform measures affecting the insurance market.

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The licensed trade element of the hospitality sector including pubs, restaurants and hotels and the off-licensed sector have relatively high alcohol excise taxes which are effectively a cost on the relevant sectors of business. In addition, the standard rate of Vat is charged on the excise amount.

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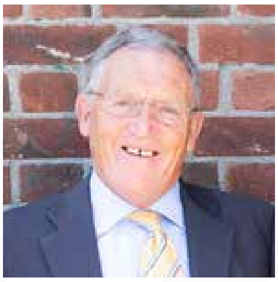

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