

South East

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Summary

The South East is experiencing improving consumer and business sentiment with a broad increase in employment driving healthy improvements in regional consumption and a renewed demonstration of willingness to spend on cars and housing.

However, when compared to national economic performance, and peer regions in Ireland, the data illustrates how the South East's economy continues to be characterised by persistently high levels of unemployment, deprivation and significantly lower job quality. Two data points explain why this might be the case; low education attainment and low higher education capacity within the region; and the paucity of new MNC/IDA-supported jobs over the past 25 years; the kind of jobs which are crucial to Ireland's economic development and growth. In many cases, the data indicates that the South East entered a regional recession in 2002. This regional recession was deeply exacerbated by the national recession and the South East continues to lag behind the national recovery; the regional stagnation has reasserted itself as the dominant economic trend.

About

This report presents a selection of key economic indicators for the South East region. This report is prepared by academic faculty in WIT School of Business to track developments in the South East economy with the ambition of promoting an increased understanding of the economic situation of the region. The report is for general informative purposes only, and whilst every effort has been made to ensure its accuracy, WIT accepts no liability whatsoever for any direct or consequential loss arising from its use. Where data is available for Tipperary South it is used, otherwise the Tipperary figures are halved, unless otherwise noted.

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7 NUMBERS TO UNDERSTAND THE SOUTH EAST ECONOMY

26% INCREASE in New Car Sales in 2015

45,700 NEW Jobs since 2008

25.1% INCREASE in House Completions in 2015

6,312 MISSING IDA Supported Jobs

7,260 MISSING Higher Education Places

14 Years of STAGNATION

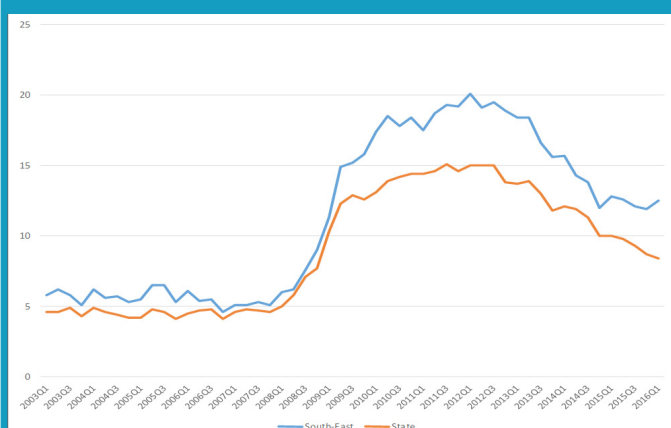
10.8% OF IRISH CITIZENS



IMAGES FROM THE REGION

Persistently High Unemployment Rate

	2009Q1	2010Q1	2011Q1	2012Q1	2013Q1	2014Q1	2015Q1	2016Q1
State	10.3	13.1	14.4	15	13.7	12.1	10	8.4
South-East	11.3	17.4	17.5	20.1	18.4	15.7	12.8	12.5
Border	12	11.3	13.1	15.5	15.6	13.2	10.2	8.6
Dublin	9	11.2	12.7	13.3	11.4	10.4	8.8	6.9
Mid-East	9.3	13.3	13	12.7	14.3	11.7	7.8	5.9
Midland	12.1	15.2	17.2	18.9	17.1	14.5	12.5	11.6
Mid-West	11.6	15.3	15.8	16	15.6	13.3	10.2	7.9
South-West	10	12.3	13.9	13.6	11.2	11.4	9.7	7.7
West	11.2	13.7	16.7	16.2	12.9	11	11.7	10.2



The unemployment rate in the South East remains stubbornly above the national average, a trend that re-emerged in 2002 as the South East entered recession against the national “Celtic Tiger” trend.

The national economic crisis that emerged in 2007 greatly deepened the employment crisis in the South East, a trend that persists today. The South East started its recession earlier than other regions, and the employment crisis was deeper and more prolonged than all other Irish regions.

LEFT: Unemployment Rate (%)
Source: CSO QNHS

Stubbornly above the national average

The unemployment rate in the region derived from the QNHS peaked at 20.1%, compared to 15.1% nationally, and currently stands at 12.5%, in contrast with the state-wide rate of 8.4%. The South East currently has the highest rate of unemployment in the country.

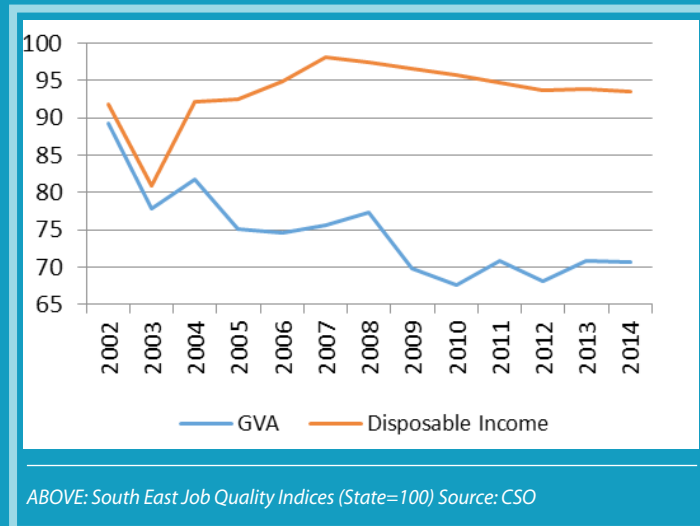
Other measures for unemployment broadly corroborate this trend. So live register figures for April 2016 stand at 40,954, or 8.1% of the population of the region, compared with 6.6% for the State.

Despite the long-term unemployment trend illustrating the relative underperformance of the region, over the last three years the employment in the South East has increased at a faster pace than the national increase. There has been impressive performance in the broad sectors of construction and services, where growth rates in the South East have comfortably out-stripped those nationally. The broad industry sector has notably struggled in the South East with a 12.9% drop in employment, compared to a 4.7% increase nationally. Employment growth in agriculture in the South East has lagged significantly behind the national increase; which suggests a more productive industrialised agricultural sector relative the rest of the state.

“The unemployment rate in the region derived from the QNHS peaked at 20.1%, compared to 15.1% nationally, and currently stands at 12.5%, in contrast with the state-wide rate of 8.4%. ”

Low Job Quality Holds Economy Back

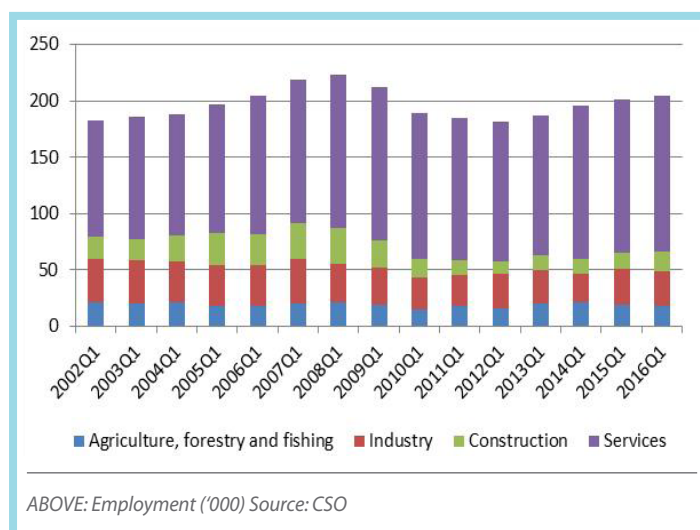
Taken together, the long-term trends in both unemployment and job quality point to a significant economic malaise in the region.



As measured by Gross Value Added per capita (GVA) and Disposable Income, job quality in the South East is far below the national average.

The GVA in the South East is approximately 71% of the national average, declining from a peak of 89.3% in 2002. In 2004 the GVA index in the South East was 117.8% of the EU average; it has since declined to 91.9%. In a similar vein, the index of Disposable Income is 93.5% of the state average, declining from a peak of 98.1% in 2007; disposable income is moderated by the inclusion of rent, which is lower in the South East.

High quality old economy jobs being replaced by inferior quality new work

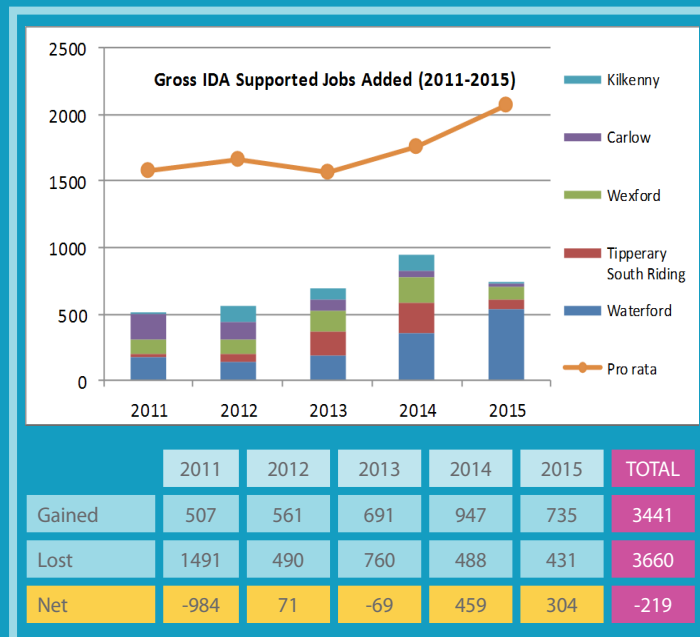


Employment in the South East peaked at 227,000 in Q2 of 2008, fell to 181,300 in Q1 of 2012 and is currently at 204,400. More granular analysis of the South East labour market suggests a reliance on old economy enterprises, and poorly remunerated service work.

Between 2008 and 2012, in excess of 24,000 jobs were lost in construction, and over a slightly longer timeframe the region lost 10,500 industrial jobs; these sectors account for the vast majority of the rise in unemployment. Since 2012 employment has grown but is far below the 2008 peak in terms of volume; and the data suggests that the new jobs are of a lower quality than the jobs that were lost.

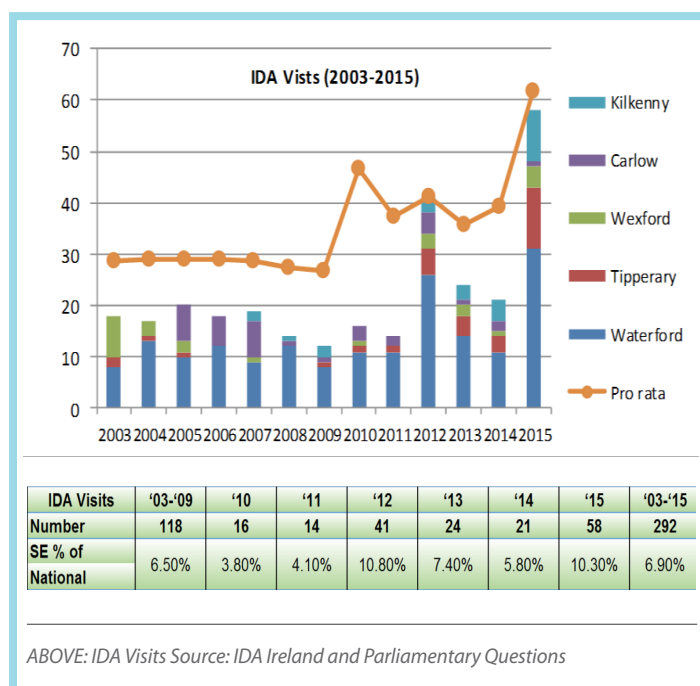
Some notes of optimism are present in the data; with the rise in employment in Professional, Scientific and Technical jobs of 25.3% over the last three years, compared to a national increase of 6.2%, albeit from a low base and a 14.3% (1,500 additional jobs) increase in employment in the accommodation and food service sector.

IDA Coming Back to Life



The IDA de-emphasised its South East regional office in 1992-1995; since then servicing the region from Cork. This coincided with a marked divergence between the IDA's regional and national performance.

LEFT: IDA Supported Jobs Source: IDA Ireland



ABOVE: IDA Visits Source: IDA Ireland and Parliamentary Questions

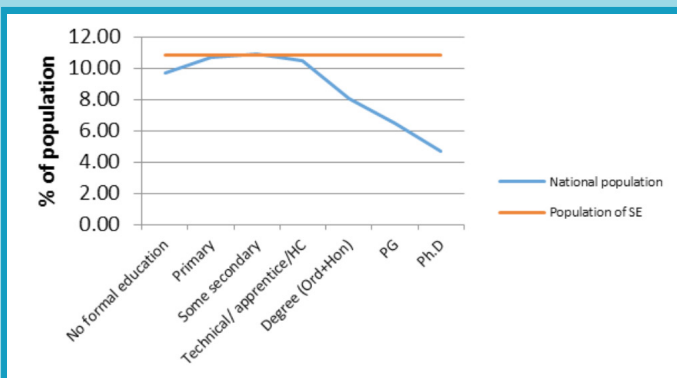
Were IDA jobs to be prorated based on the population of the South East (10.8%) one would have expected an additional 6,312 IDA- supported MNC jobs; and a further 4,000 additional indirect jobs; suggesting an overall shortfall of approximately 10,000 jobs.

Were such a distribution of IDA supported jobs to have happened over the last twenty years, the South East unemployment rate and job quality would not be materially different from the national norm. The South East accounted for approximately 4% of the new IDA-supported jobs created over the period 2011-15. The Annual Employment Survey (2014) conducted by the Department of Jobs, Enterprise and Innovation illustrates a similar divergence. It shows that between 2005 and 2014 there was an 8.5% decrease in employment in South East in Agency-assisted companies, compared with a 4.9% increase nationwide. Over the same period, there was an 11.6% decrease in employment in foreign-owned firms in the South East, compared with a 5.1% increase in the State and a 21.1% increase in Dublin.

Last year saw two positive developments - a noticeable increase in IDA visits to the region (but it still lags the national average) and a new IDA regional manager was appointed. These two developments hint at a new seriousness in the IDA's South East mission; but the scale of the employment deficit and the lead time of the IDA marketing process suggest it will take many years to unwind this legacy.

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Limited Higher Education Capacity



	UG + PG Enrolments	Total Higher Ed. Staff	Total Investment (Millions)
National HEA funded	164,677	23,396	2,286,601
HEA funded in SE	10,525	1,283	113,967
SE % of National	6.39	5.48	4.98

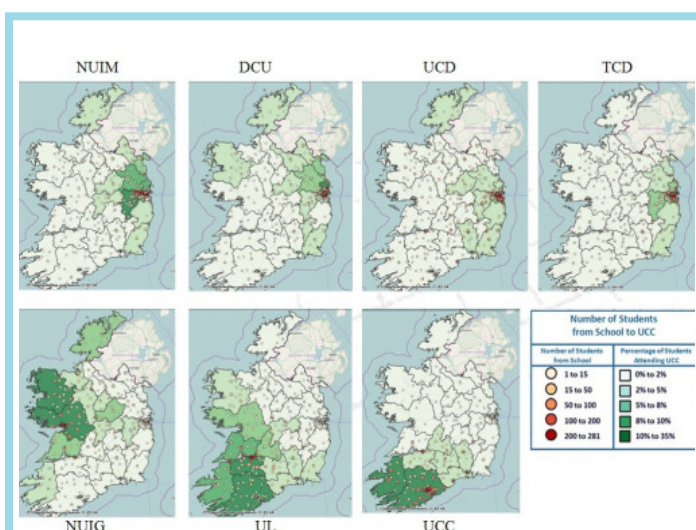
Education has driven the Irish economy since the 1960s, leading to a virtuous cycle of higher incomes and higher quality of life.

With average Irish incomes hovering north of €37k per annum, the Irish economy requires a smart, educated and highly productive workforce to sustain these income expectations. Clearly, the shortfall in the volume of graduates available to the labour market in the South East holds back economic development in the region.

ABOVE: Level of Educational Attainment
Source: CSO 2011

LEFT: Higher Education resourcing
Source: HEA

7,260 missing Higher Education places

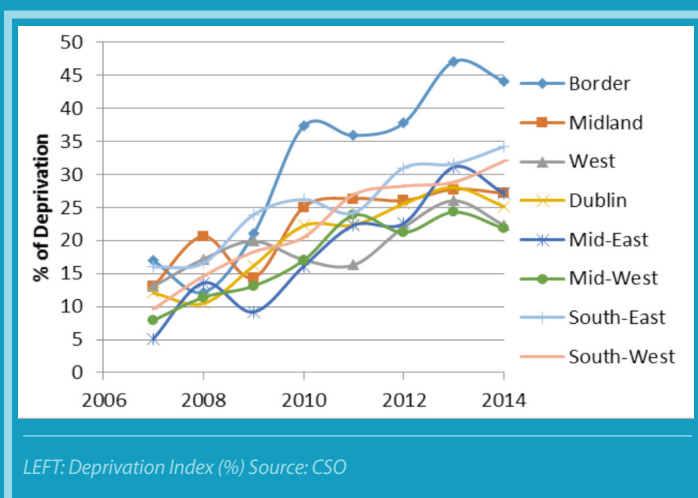


ABOVE: Map of Feeder Schools to the 7 Irish Universities
Source: AIRO Maynooth University

The South East has a natural capacity for 7,260 additional higher education places in the near term; and the absence of this capacity has three clear manifestations.

First, the South East has lower education attainment than other Irish NUTS3 regions, partially explaining the lower job quality and higher unemployment. This is particularly acute at the higher reaches of the National Framework of Qualifications (NFQ) - level 8 degree, level 9 postgraduate and level 10 doctorate; these three levels being key to the knowledge economy. Second is the strong trend to emigrate from the region for education, demonstrated by the AIRO mapping exercise. With the exception of NUIG, the universities drain young people from the counties across the South East region. Third is overlocking of the higher education institutions where with 5% of the national budget they have 6.5% of the system's enrolments. Usefully this points to the root cause of the South East's economic malaise, poor job quality and unemployment is directly related to under-provision and investment in education.

Social Inclusion + Health



Long shadow of recession appears in deprivation index

An individual is defined as being deprived if they experience two or more forms of enforced deprivation, such as not being able to afford a winter coat, heating, even a modest level of social life.

The impact of the global financial crisis clearly led to a dramatic rise in deprivation in all areas of Ireland.

Acute Hospital Expenditure

Net 2016 Budget (millions)	Activity Based Funding	Special Purpose Payments (incl. LRA, Winter Plan and new prioritised initiatives)	Income Targets	Total
University Hospital Waterford	128,614	55,186	-30,112	153,688
South Tipperary General Hospital	42,584	18,340	-9,962	50,962
Kilcreene Orthopaedic Hospital	0	7,709	-1,006	6,703
Wexford	68,034	543	-12,541	56,036
St Lukes	70,663	589	-12,941	58,311
Regional Acute Hospital Budget	309,895	82,367	-66,562	325,700
National Acute Hospital budget	5,039,611		-987,738	4,137,541
% of National Budget in SE	6.15		6.74	7.87

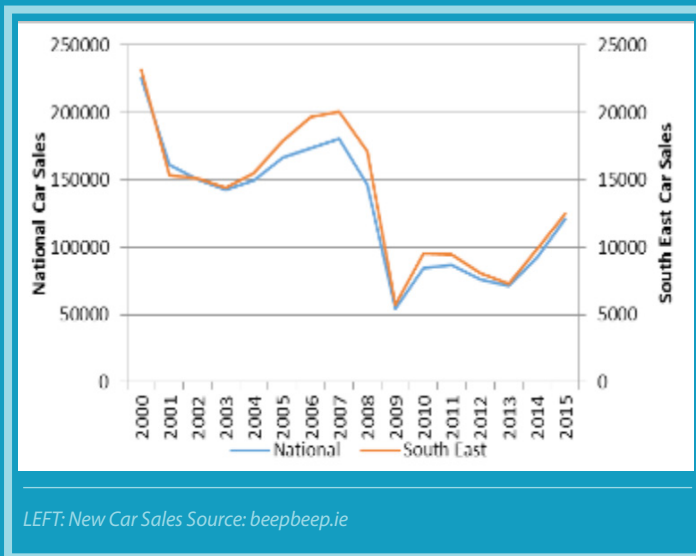
ABOVE: Acute Hospital Expenditure Source: HSE

Expenditure on healthcare represents about 12% of the entire Irish economy, with around €3,800 spent per capita on health provision each year.

The acute hospital budget is a politically sensitive and contested area, so this section provides regional data to facilitate informed debate. As such a large part of the economy beyond its social impact, healthcare expenditure has an important economic multiplier effect. Data drawn from the HSE operational plans shows that 7.87% of the acute hospital budget is expended in a region with 10.8% of the population. Adjustments are made for tertiary referral, specialist paediatric, high-cost oncology drugs, agency pay and transition plus block grant; suggesting that this data should be comparable to national numbers.



Sentiment Indicators

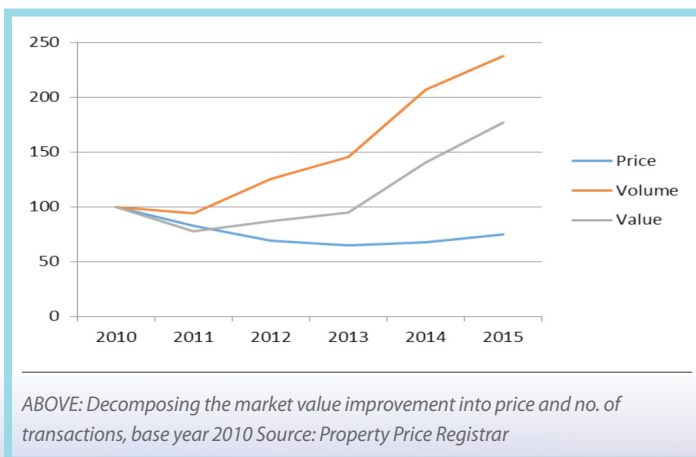


New Car Sales

New car registrations in the region are a bright spot for consumer sentiment, with a 26% growth in 2015, building on 35% growth in 2014, and the signs are good for another bumper year.

Nationally, consumers' confidence towards household purchases continues to increase (Source: KBC Ireland / ESRI) and this trend appears to be playing out in the South East. Discretionary big ticket purchases were the first things to go, or be delayed in the recession and some of this effect appears to be cyclical- one can only delay a car purchase for so long.

Overall Property Market Trend

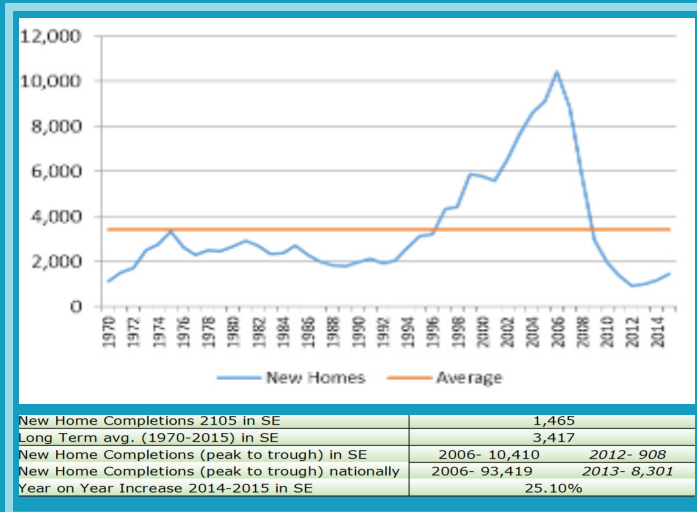


The property market in the South East is still at the early stages of recovering from the collapse.

Volumes of transactions are increasing strongly from a very low base, and indications are that mortgages are being written again in meaningful volumes. The dramatic increase in the housing market's turnover is almost exclusively related to an increase in the number of transactions, with little or no change in prices. Prices are still greatly subdued (over 35% down from the peak, and 25% down from 2010 levels) and have yet to see the price rebound experienced in Dublin and most of the other regions. All this suggests a weak but slowly restoring property market; albeit one still struggling to metabolise negative equity and a high number of repossessions.



New House Building Activity



Unlike the relatively slow recovery in house prices, the volume of new builds continues to closely track the national market.

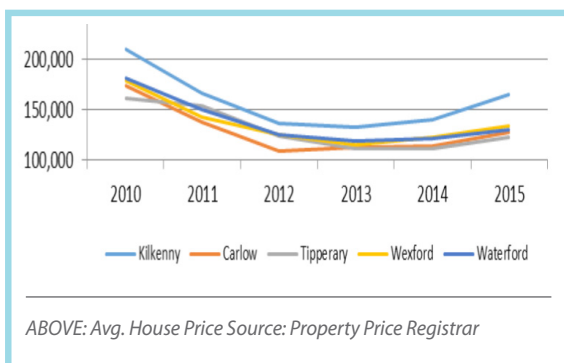
Although the overall level of completions is disappointing and far below the long-term average; the rate of growth is very positive, especially the increase in multi-unit developments. Building costs in the South East continue to be 3-8% cheaper than the other regional NUTS3 regions of Ireland (SCSI).

ABOVE: New House Building

Source: Dept. of Environment, SCSI

Region sticks together in terms of house price movements

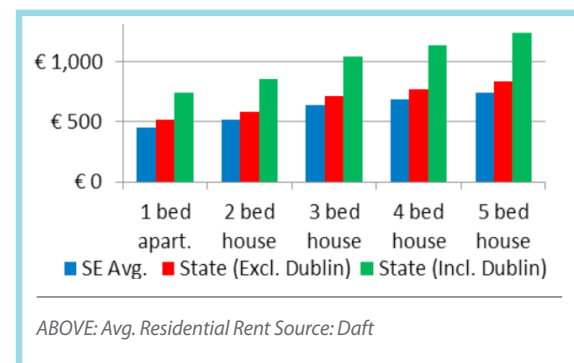
While the national trend of price restoration is remarkably different from the regional one, with some Dublin housing markets fully rebounded, and the overall Dublin market 15% from its peak in 2006/7, the other regional cities averages are 22% off the peak, and the South East is on average 38% off its peak.



Residential rents improving yields

After almost a decade of poor yields, residential rents have started to rise strongly across the region, albeit slower than the other regions.

Lack of supply is driving up prices, this stems from the lost decade of house-building activity. It is likely given the high social costs that are emerging from the dysfunctional property market that regulatory innovation will spur on house-building activity at some stage, but this will take a number of years to feed through. And so in the near term the demand and supply mis-match is set to continue.



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