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South East

ECONOMIC MONITOR – JULY 2019



Prepared by:

JOHN CASEY,
Lecturer in Accountancy, Dept. of Accountancy & Economics, WIT
T: 353(0)87 793 6095 E: jcasey@wit.ie

DR RAY GRIFFIN,
Lecturer in Strategy, Dept. of Management & Organisation, WIT
T: 353(0)85 737 3175 E: rgriffin@wit.ie

DR CORMAC O'KEEFFE,
Lecturer in Finance, Dept. of Accountancy & Economics, WIT
T: 353(0)86 395 3770 E: cokeeffe@wit.ie



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8.9%

of the national
population live in
the South East



South East generates
**5.1% of
National GDP**

(↓4.7% YoY against
national growth of 6.8%)
SE GDP €15.4bn (est.)



€10.7bn

GDP missing
(↑1.1bn YoY)



187,500

people in work
(+5,900, ↑3.3% YoY)



5.3%

of IDA supported jobs

8,230

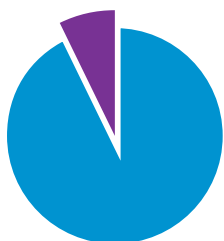
missing IDA
supported jobs



6.7%

unemployment
rate

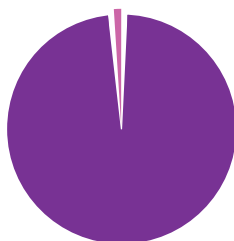
(↓0.5% YoY)



1%

2018-2022 Exchequer
capital investment

(€77m from €7.8bn)



7,806

missing higher
education places

(↓1.7% YoY)





Summary

The South East (SE) economy is now growing again, after a 4.7% contraction in 2017-18, based on the increase in employment of 3.3% and other sentiment measures which are now positive.

Positivity at the return to growth is tempered by the continued long-term relative decline of the region. Worryingly, we see no appetite to address the long-term deficit of the region, or indeed an acknowledgement that the SE economy requires interventions to support it. While the region has the greatest headroom for growth of any Irish region, we do not envisage the region closing the significant gap based on current policy. Exacerbating this is the relative over-exposure of the region to international headwinds associated with a hard-brexite.

Job creation in the last year was encouraging but it lagged slightly behind that of the State and thus the region fell further behind the Action Plans for Jobs (APJ) target of bringing the unemployment rate to within one percentage point of the State average. The other APJ target of creating 25,000 jobs by 2020 may be achieved by the end of 2020, if the rate of job creation returns to the levels witnessed during 2015-16 and there are no major macroeconomic shocks. Current national planning envisages just 0.6% of significant capital exchequer infrastructure projects being made in the SE, a region of 8.86% of the population, Government investment profile is at odds with the rhetoric on regional development.

About

This report, the fourth annual edition, aims to present a selection of key economic indicators for the SE region, to aid understanding and inform decision-making.

It is prepared by independent, politically unaffiliated academics who are part of the South East Network Social and Economic Research (www.senser.ie), an initiative of AIB CFBR and CEDRE research centres at Waterford Institute of Technology School of Business. All opinions expressed are those of the authors and do not represent those of Waterford Institute of Technology, WIT School of Business, AIB-CRBR or CEDRE. SENSER is committed to publishing all research that reaches the appropriate academic standards, irrespective of its findings, and all our work is fully open to public scrutiny. Any errors and omissions are the sole responsibility of the authors; please bring them to the attention of the authors.

Technical adjustments note: in Q1 2018 South Tipperary was moved from the SE to the Mid-West region. All data reflects this new administrative unit of the SE, unless stated otherwise.

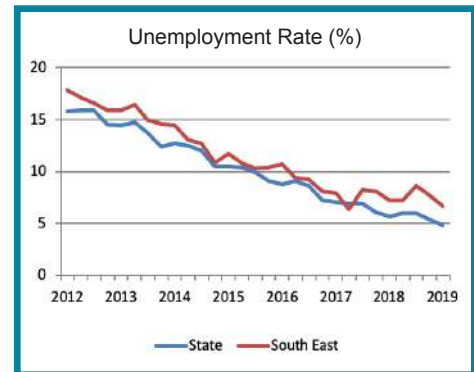
Unemployment continues to decline

UNEMPLOYMENT RATE STATE (2019 Q1)	4.8%
UNEMPLOYMENT RATE SOUTH EAST (2019 Q1)	6.7%
YEAR ON YEAR JOB CREATION	+5,900 (↑3.3%)

The unemployment rate in the SE continues to decline, moving from 7.2% 2018Q1 to 6.7% over 2019Q1. However, the SE still has the highest regional unemployment rate.

Unlike last year, the lower unemployment rate is due to higher employment rather than a shrinking labour force. However, the SE still has the 2nd lowest labour market participation rate of 58.5% (national rate 62%), were the SE to have the national participation rate an additional 12,000 people would be in the labour market.

(CSO: LFS)



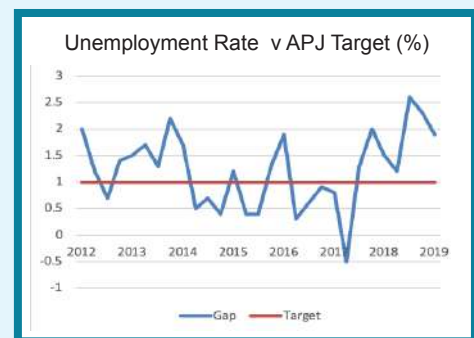
Government's Action Plan for Jobs targets

The SE is one of only two of the seven regions not to have already reached the regional Action Plan for Jobs (APJ) target of bringing regional unemployment to within one percentage point of the State average and it is unclear whether this will be achieved by the targeted deadline of 2020.

Despite the jobs created in the region, the gap has increased over the last 12 months from 1.5 to 1.9 percentage points.

The other APJ target of creating 25,000 jobs by 2020 may be still achieved by the end of 2020, if the rate of job creation returns to the levels witnessed during 2015-16 and there are no major macroeconomic shocks.

(CSO: LFS | Government: APJ)



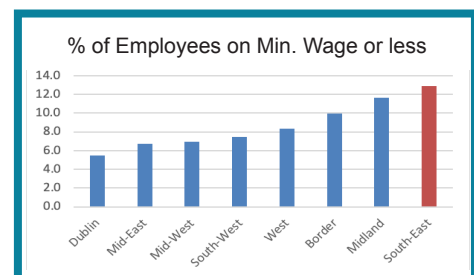
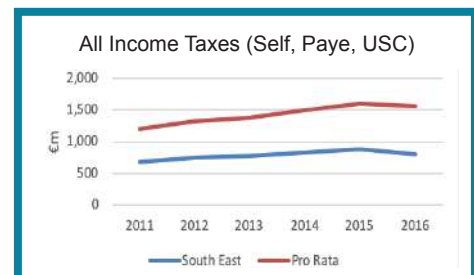
Low job quality holds the economy back

Income tax returns are a useful proxy of job quality. Workers in the SE return 52.2% of the national average of all income taxes, which is suggestive of the combined effect of low average wages and higher rates of unemployment.

The region lacks quality PAYE jobs (indicated by half the average PAYE returns). Income taxes from self-employed individuals are 77.6% of the State average. This assessment of job quality is also evidenced by disposable income statistics.

Furthermore, the most recent data (Q4 2018) shows that the SE (including S.Tipperary) has the highest proportion of employees earning the National Minimum Wage or less (12.9% versus 7.6% for the State as a whole).

(Source: Revenue Commissioners | LFS)



Labour Market Commentary

The labour market in the SE continues to grow episodically as part of a slow recovery. Notwithstanding the pick-up in job creation over the last year, the gap between the unemployment rate in the SE and the State increased over the last 12 months. There are also continuing concerns surrounding job quality in the region, as demonstrated by taxation returns and the proportion of workers in minimum-wage jobs.

Interestingly, we can find no evidence of significant disruptive actions taken to support Government's commitments in the APJ to bring unemployment in the SE to within one percentage point of the national average. Nor is there any identifiable measures in the Ireland 2040 stimulus plans that will address the structural issues in the SE labour market.

IDA has a strong 2018, but a relatively poor year in the SE and so the deficit of IDA jobs in the region widens substantially

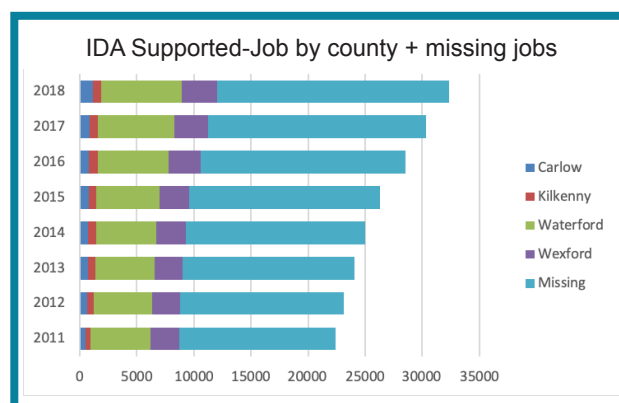
IDA supported jobs are amongst the highest paid jobs, last year the IDA re-estimated average incomes using a new method suggesting average incomes in IDA jobs are now €66k, some €19.5k higher than average Irish incomes.

While 8.86% of the population reside in the SE, the region has just 5.3% of all the IDA supported employment (58% of a fair share, which we use to calculate missing or below pro-rata IDA jobs), suggesting the IDA's lack of regional balance has a direct payroll cost of over half a billion euro per annum.

Growth in IDA supported jobs maps closely the national growth rate, which suggests the problem will persist.

(IDA Ireland)

Average salary of IDA supported job	€66,000
Average salary of Irish job	€46,402
IDA / FDI average salary premium	€19,598
IDA jobs in SE	12,064 (7.1%↑ YoY)
% of IDA in the SE	5.3% (5.2% 2017)
IDA jobs missing	8,230 (7,783 2017)
Missing MNC payroll	€543m

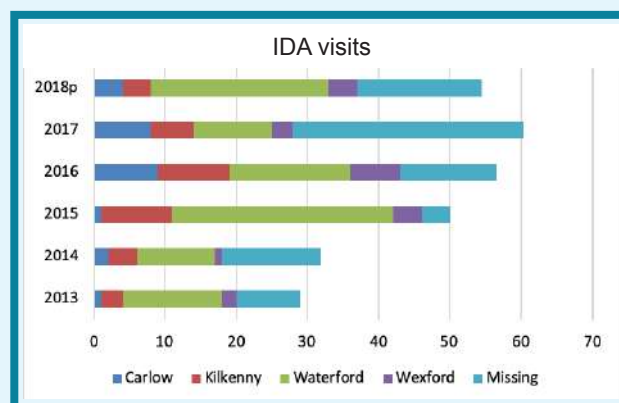


IDA visits fall further back

IDA employment growth is based on additional jobs in existing supported companies and new greenfield sites driven by IDA marketing visits.

With the SE having a significant deficit of IDA supported jobs (8,230 jobs), organic growth from the existing low base is unlikely to resolve this situation. So, IDA visits are a strategic imperative for the region. The number of IDA visits to the SE is well below the national average. In 2018 the region received just 6% of the visits; were the region to have a fair share based on population (8.86%) a further 17 site visits would have been made, potentially leading to additional investments.

(IDA Ireland)



Enterprise Ireland keeping pace

Enterprise Ireland (EI) is the state agency charged with supporting higher value start-up business activity.

Employment in EI-supported enterprises increased by 2.8% YoY. EI supported and added jobs in 2018 at a greater proportion to the population of the SE region.

The region attracts a fair share of EI supported jobs indicating that indigenous entrepreneurship and innovation is vibrant in the SE. This suggests that the region has the reserves, capacity, entrepreneurial talent and agency support to generate economic opportunities.

(EI | PQ)

	% Nat. Pop.	Jobs supp. by EI 2018	% of Nat.	New jobs supp. by EI 2018	% of Nat. new jobs in EI clients
Carlow	1.2%	3,221	1.5%	332	1.76%
Kilkenny	2.1%	4,549	2.11%	430	2.28%
Waterford	2.4%	6,849	3.18%	681	3.61%
Wexford	3.1%	4,674	2.17%	276	1.46%
SE Region	8.86%	19,293	8.96%	1,719	9.12%
National		215,207		18,846	

Economic choices are driving demographics

The SE has a higher dependency ratio than the state, with relatively more older people (>50yrs) and younger people (<20yrs). This means that there are relatively fewer working age people in the region and that the region carries a higher social load in terms of education and healthcare.

By exploring this pattern over time, it is clear that this is a migratory pattern of individuals leaving after secondary schooling and that this pattern is getting more pronounced.

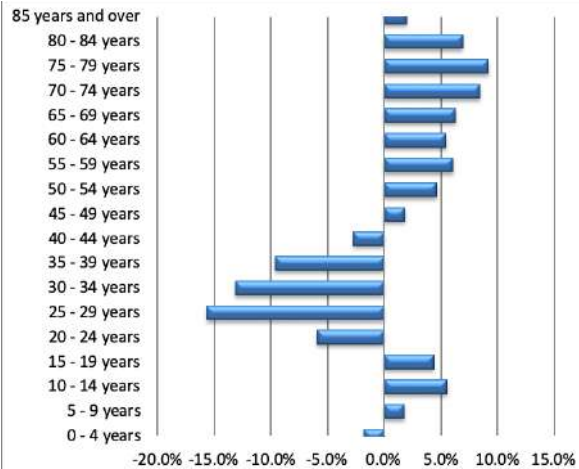
This migratory pattern is replicated across the regions. In university-led city-regions the migration happens later and to a significantly lower extent. The Border and the SE region have the deepest and most sustained loss of people in the 20-40 age range.

The overall impact is that there is almost 69,000 additional people between the ages of 20 to 49 in Dublin.

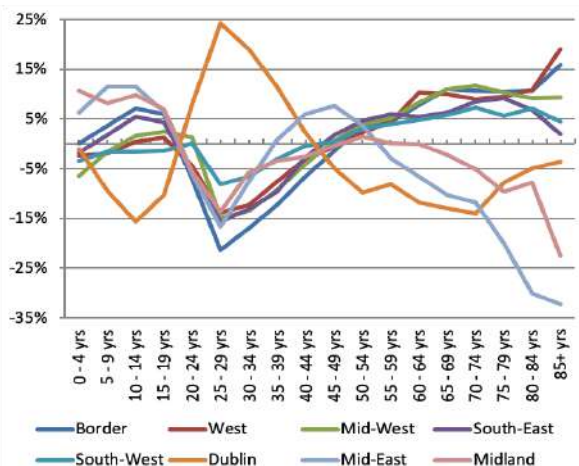
(Source: CSO Population Estimates)



The South-East Population Donut



Regional Population Donut



Population – Ireland 2040 projections

The population of the SE is expected to grow at a slower rate than nationally (under an assumption of 'current trends').

However, of greater concern is a continuation of the trend identified above with the age dependency ratio worsening considerably for the region. Most of the deterioration is due to an increase in the older age cohorts.

The number of people over 65 will increase over the next 20 years. The SE is projected to have an additional 2% above the national average of people over 65, an additional 11,000 people beyond the national distribution.

(Source: CSO | Morgenroth 2018. NUTS 2013 incl. S.Tipp)

Population Growth to 2040

	South East	Nationally
Current population (2016)	511,000	4,761,900
Projected population 2040	585,400	5,634,800
Overall Growth Rate	14.6%	18.3%
Annual Growth Rate	0.6%	0.8%

Population Distribution 2016 to 2040

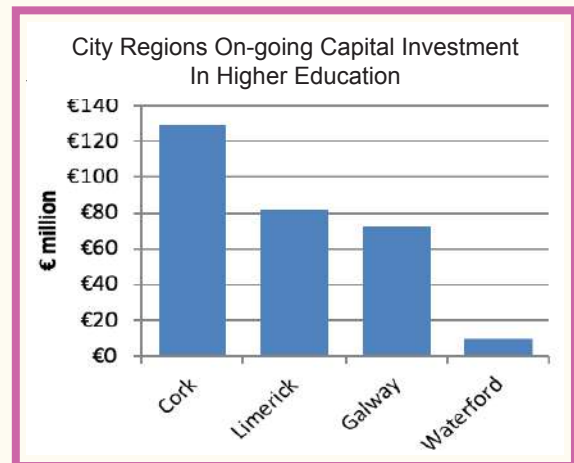
	DISTRIBUTION %		DISTRIBUTION %	
	South East 2016	Ireland 2016	South East 2040	Ireland 2040
0 to 14	22%	21%	16%	16%
15 to 64	64%	66%	59%	61%
65 to 100+	14%	13%	25%	23%

Exploring higher education as an engine for growth

Driving the SE's weaker labour market is significantly lower investment in regional higher education, which induces the migration of third level students out of the region.

The under-provision of higher education capacity is most evident at the capital investment level.

Our analysis of the most recently published accounts indicates that €130m is currently being spent (or is committed in on-going projects) in Cork/South-West, €80m in Limerick/Mid-West and €72m in Galway/West whereas the equivalent figure for Waterford /South-East is €10m.

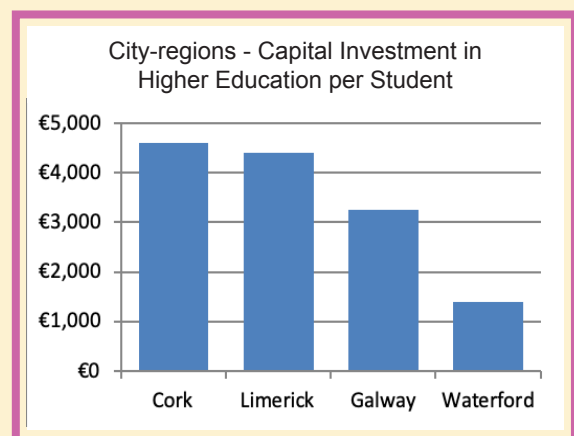


Per student investment less than 1/3 of other city-regions

Exploring capital spending on a per-capita student basis indicates that on average three times more is being invested in the other university-led city-regions. Institutional arrangements have been put in place to support growth of higher education in the university sector and the SE is closed out of these opportunities.

The reorganisation of the region's two IoTs into a Technological University, as currently proposed, will not lead to further investment in higher education capacity in the region.

(Source: Audited financial statements of individual institutions | HEA)

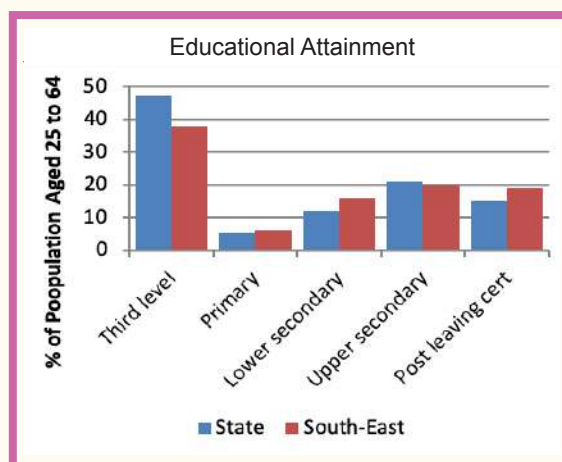


Impact of Underinvestment in HE #1: Lower educational attainment

Despite having equal or better participation rates in higher education, the SE has a greater proportion of those with lower levels of educational attainment and a smaller proportion of those with a higher level of educational attainment.

The impact of lower levels of educational attainment is lower job quality and persistently higher rates of unemployment. The SE is 'missing' almost 20,000 people qualified at third level (if the region had an average rate of 3rd level attainment). This human capital deficit is a contributory factor in the region's difficulties in attracting FDI.

(Source: CSO)



Impact of Underinvestment in HE #2: Missing places higher education places

The SE higher education providers do not have the capacity to educate the people of the region, with 7,806 missing places.

Having risen significantly the past number of years it is positive to see a 1.7% drop in missing places, with 4.3% additional places shared between IT Carlow and WIT the two higher education providers in the region.

There are now 7,806 missing FT degree places. This is the number of additional level 8 degree places required to give the SE region 8.86% of the national capacity. Lack of capital and current expenditure on higher education in the region has led to the gap in the region's higher education capacity.

(Source: HEA)

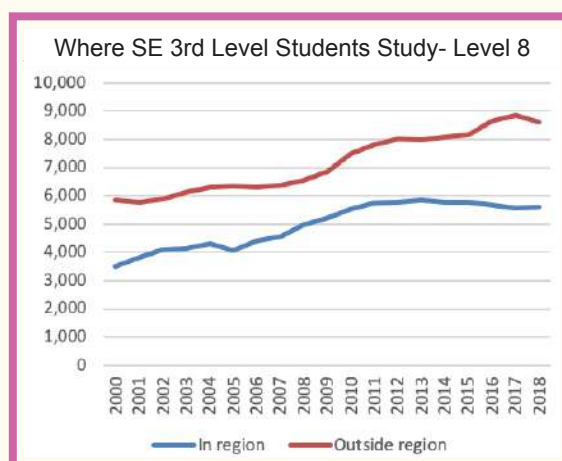


Impact of Underinvestment in HE #3: Regional brain drain continues apace

There are now 14,222 people from the SE studying for a level 8 degree award (NUTS3-2016), down slightly from last year. 61% of these study outside the region (8,621) and 39% take their degrees in the region (5,601).

The estimated minimum cost per annum of a student living away from home now stands at €12,828 (TU Dublin Cost of Living Guide), suggesting an annual transfer of after-tax income from the region (NUTS2016) of at least €111m.

(Source: HEA)



Tracking exchequer-led capital investment

The Department of Public Expenditure maintains a database of significant capital projects (>€20m). It does not claim to be exhaustive. The database lists 144 projects representing €16.4bn of exchequer expenditure identifiable to a particular county, of which €7.8bn is committed expenditure between 2018-2022.

Four projects from the SE are included on the table representing €92m of exchequer expenditure or 0.6% for a region of 8.86% of the population.

They are UHW new block (€31m), MRI & Radiology services in Kilkenny (€3m), Kilkenny Water Treatment (€21m) and Enniscorthy Flood Relief (€37m). On a separate schedule Public-Private-Partnerships are listed, by adding back in the two road projects in the SE exchequer funding in the SE on capital projects rises to 2.9% between 2018-2022.

(Source: PER)

Tracking Capital Investment

	Indic. Govt. Cost (18-22) €m	% of Indic. Govt. Cost (18-22)	Total Cost of Project €m	% of Total Cost of Project	% pop.
Border	465.3	6%	610.25	3.7%	8.28%
Dublin	5017	64.2%	9871	60.3%	28.29%
Mid-East	477	6.1%	609	3.7%	14.47%
Midlands	94	1.2%	96	0.6%	6.14%
Mid-West	198	2.5%	1156	7.1%	9.94%
South-East	77	1%	92	0.6%	8.86%
South-West	902	11.5%	2265	13.8%	14.5%
West	585	7.5%	1680	10.3%	9.52%
TOTAL	7815.3		16379.25		
Additional Wexford PPPs	153		977		
Incl. Wexford PPPs	230	2.9%	1069	6.2%	

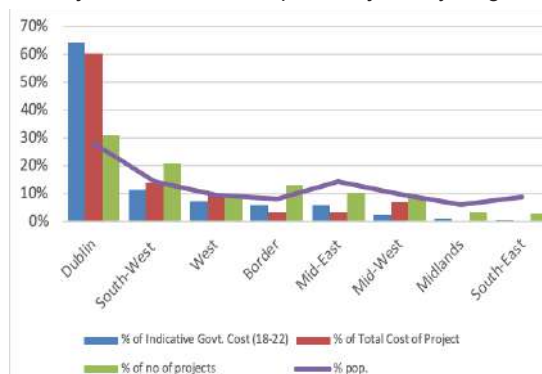
Major Government Capital Projects by Region

The 42 projects funded in Dublin represent 64% of the committed funding, with all other regions receiving less than a fair share based on their population.

This demonstrates the gap between the rhetoric of the Ireland 2040 National Planning Framework (NPF) and the Government's actual capital expenditure. The NPF commits to supporting double the growth rate in regional cities relative to Dublin.

(Source: PER)

Major Government Capital Projects by Region

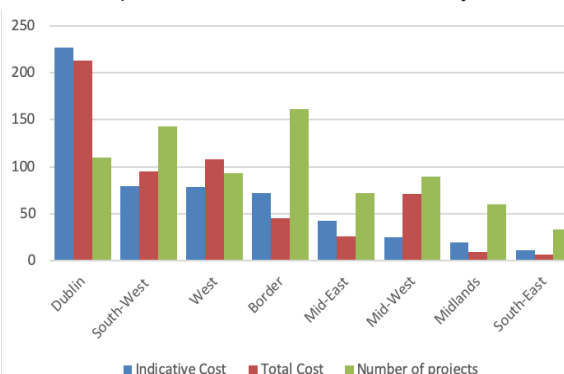


Capital Investment Fair Share Analysis

This data starkly demonstrates the growing regional inequity in Ireland and in a very practical way, why the SE economy is unlikely to close the gap with the rest of the country until alternative policy measures are adopted.

(Source: PER)

Capital Investment Fair Share Analysis



Disposable Income and Poverty by Region

The SE has the second lowest median disposable income of all regions but also the second lowest consistent poverty rate.

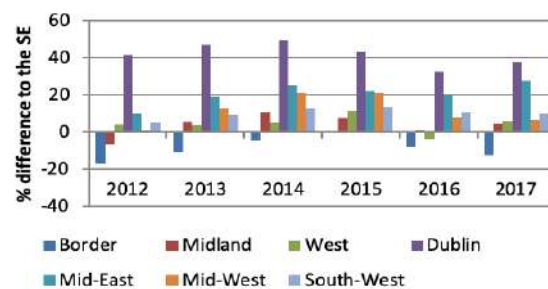
In recent years the gap in disposable income between the SE and Dublin (the lead region) has narrowed although the SE performs at the lower end of its comparator regions.

Lower disposable income could be explained by lower educational attainment. It could also be the impact of a weaker labour market or lower job quality.

By 2017 real disposable income per household in the SE had still not surpassed its pre-crisis high in 2007. The median nominal income per household in the SE was €34,501 in 2017 (€47,477 for Dublin) a 1.5% decline since 2016.

(Source: CSO SILC 2016)

Relative Real Household Disposable Income: South East = X Axis



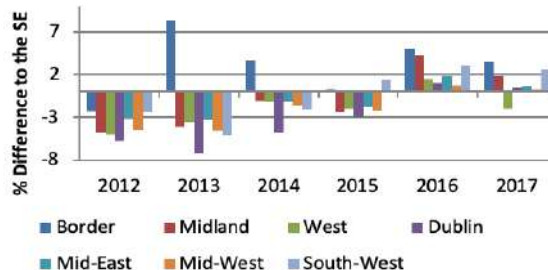
Poverty

While SE households experience lower incomes, there is lower consistent poverty in the SE. This possibly reflects the lower cost of living in the SE relative to other regions or the relative poverty line is lower in the SE (due to lower median incomes in the SE).

This represents a considerable improvement since 2012 when all other regions had lower consistent poverty than the SE. By 2017, the SE had the second lowest consistent poverty rate (at 5.9%) with only the West experiencing a lower consistent poverty rate.

(Source: CSO SILC 2016)

Relative Real Household Disposable Income: South East = X Axis



Educational Opportunities for the Unemployed

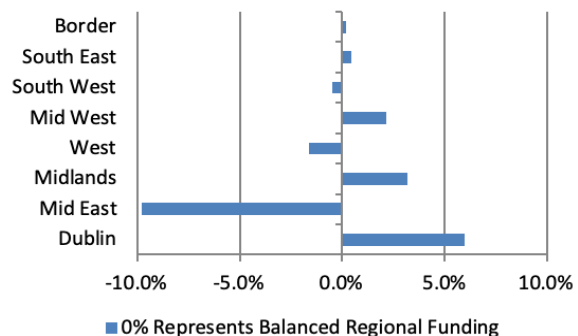
The Springboard+ initiative offers free tuition on industry relevant programmes for both unemployed and employed individuals.

With 8.3% of the labour force and 11.7% of the unemployed, the SE has 9% of the provision of Springboard courses. This represents a considerable decline on the previous year.

Whilst the SE is broadly in balance; Dublin attracted a disproportionate share of the available funded courses (36% of the funded courses but just 28% of the total unemployed in the state). Equally, Dublin does not have a relatively high unemployment rate.

(Source: CSO LFS Q1 2019, Springboard+)

Allocation of Springboard+ 2019 Funding Versus Labour Force



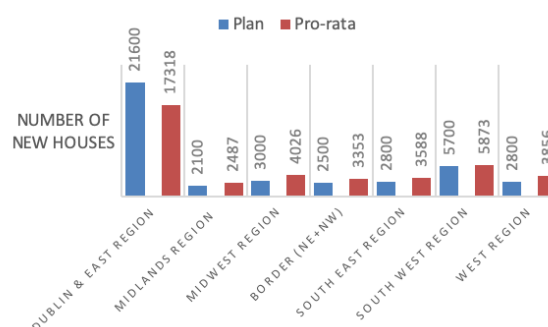
Rebuilding Ireland Action Plan

With significant pressure in the housing market the Rebuilding Ireland Action Plan envisages policy measures to support the building of 41,000 new social homes over the period of 2018-2022, representing around €10bn of capital investment, and around 27,500 construction jobs.

With the SE representing 8.86% of the population the plan envisages 2,800 new homes in the region being 6.9% of the planned house building. This represents the missing development of 788 new homes, representing €178m and 540 jobs.

(Source: PER)

Rebuilding Ireland Action Plan by 2021



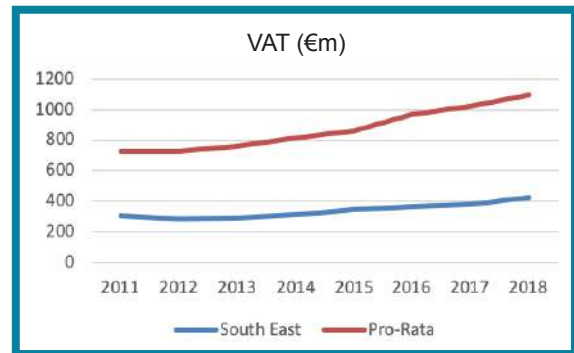
Sentiment Indicators

Consumption: VAT

VAT is a useful proxy for consumption. With 8.86% of the population living in the SE, in 2018 the region returned just 3.4% of the VAT. This represents an increase of 11.8% YoY, which demonstrates the absolute growth in the region's economy, but also the growing gap between it and the state.

While a certain amount of the lower vat returns is attributable to retail leakage to other regions, this data is suggestive of considerably weaker, albeit growing, consumer spending and sentiment in the region.

(Source: Revenue Commissioners)

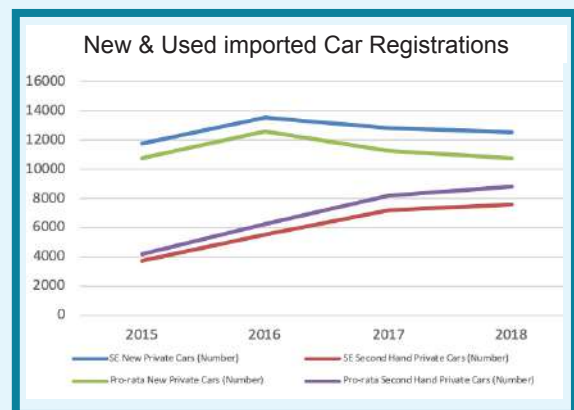


Car Sales Trend Shows Growing Spending Power In Region

New and imported car registrations are a bellwether for consumer sentiment; car sales have been recovering strongly since the lows of 2009, although the last three years saw a national and regional decline in new sales in favour of imported cars.

New car sales in the SE are 16% above the national average. The strong new car figures are consistent with the growing VAT returns.

(Source: CSO)

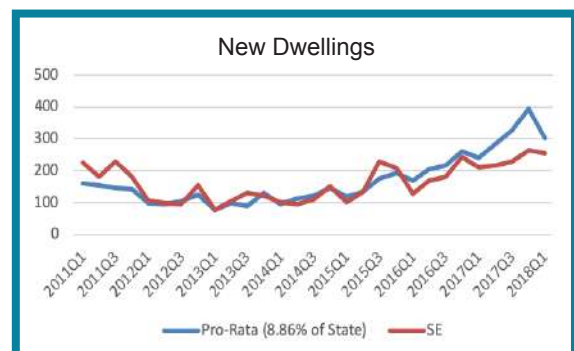


House building recovery underway, but recovering more slowly than the State

House building continues to recover slowly. In 2017, on a pro-rata basis one would have expected 1,242 new homes (8.86% of the national builds) to be built in the SE; 921 new dwellings were built (74% of the expected number). We estimate this generated €165m of economic activity.

Inflation in the rental market suggests significant pent up demand for housing, demand that is not being met by the market.

(Source: CSO)

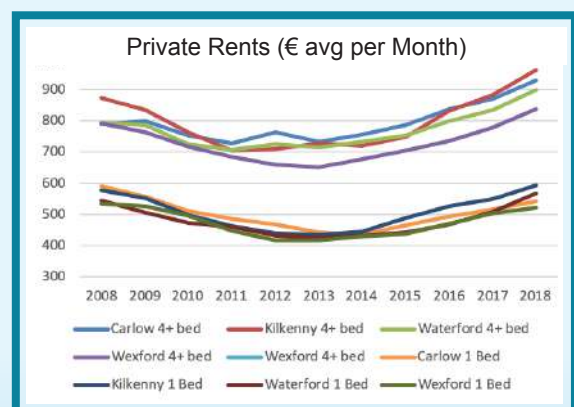


Rents remain considerably more affordable than elsewhere, strong inflation

Residential Tenancies Board (RTB) report that rents continue to rise by double digits year on year, with supply being reported as thin.

Daft.ie report shows rents rising in double digits year on year. With the average national rent standing at €1,122 per month, the SE offers significant value for money at an estimated 66.3% or €744.

(Source: RTB)





Contact Us:
cokeeffe@wit.ie | jcasey@wit.ie | rgriffin@wit.ie