

South East

ECONOMIC MONITOR

JULY 2018



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8.86%

of the national population live in the South East



South East generates
5.6% of National GDP

Total SE GDP €16.6bn (est.)



€9.6bn

GDP missing



181,600

jobs with an unemployment rate of

7.2%



5.4%

of IDA supported jobs

7,197

missing IDA supported jobs



7,944

missing higher education places

(+6.1% YoY)

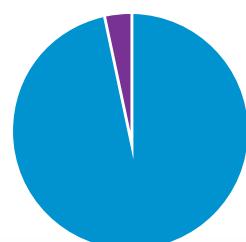


Ireland 2040 Capital investment in higher education nationally = €2.2bn
SE: 2.4% / €51.8m



2011-2017 IDA net jobs added nationally = 57,666

SE = 1,792 (3.1%)





Summary

The early indicators are that the recovery of the economy of the South East (SE) region is running out of steam. In particular, despite a bumper year for the IDA in the SE, the region has fallen further behind the rest of the State in most metrics.

Of great concern is that between 2017Q1 and 2018Q1, the number of people in work increased by 62,000 nationally but decreased by 2,400 in the SE. This decrease is unique to the SE and Border regions. The unemployment rate in the SE seems to have plateaued and any modest short-term decreases over the last 12 months are largely attributable to a shrinking labour force. There is also a degree of inertia in the job-quality and sentiment metrics, with the region continuing to significantly lag behind other regions.

The weak economy is illustrated in data on car sales, income tax and VAT returns, housing and the proportion of workers on the minimum wage. With the SE, the structural economic issues continue to dominate short-term economic trends. In particular, the very pronounced deficits in regional higher education capacity, acute hospital services, international tourism, and IDA supported employment drive ever lower job quality. The region faces economic headwinds which are shared with the State such as Brexit and the fragile EU recovery. However, the structural economic issues related to the SE's relationship with the State continue to assert themselves as the dominant economic driver.

About

This report, the third annual edition, aspires to present a selection of key economic indicators for the SE region, to aid understanding and inform decision making. It is prepared by independent, non-politically affiliated academics who are part of the South East Network for Economic and Social Research (www.senser.ie), an initiative of AIB CFBR and CEDRE research centres at Waterford Institute of Technology (WIT) School of Business.

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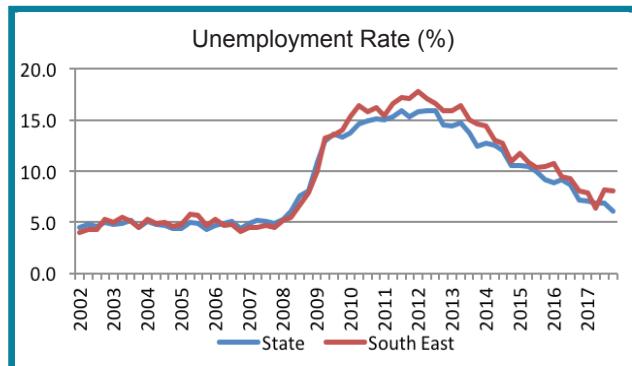
Technical adjustments note: the SE NUTS3 region has been reorganised to exclude South Tipperary from 2018Q1, removing approximately 89,000 people from the administrative unit of the SE. As a result the restructured region is 8.86% of the State's population, rather than the 10.74% it was prior to the adjustment. As we draw entirely on external data sources, we highlight the treatment of Tipperary.

Unemployment and the labour force decline

Unemployment Rate State (2018 Q1)	5.7%
Unemployment Rate South East (2018 Q1)	7.2%
Year on Year job creation	-2,400 (\downarrow 1.3%)

The unemployment rate in the SE continues to decline, moving from 7.9% 2017Q1 to 7.2% over 2018Q1. Since there are 2,400 fewer people working in the region, the reduction in unemployment is accounted for primarily by individuals leaving the region's labour force through migration or retirement.

(CSO: LFS)



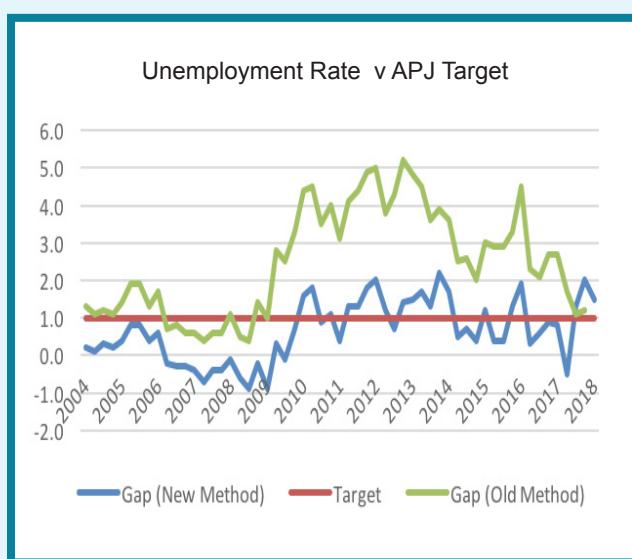
Poor performance towards Government's Action Plan for Jobs targets

The SE is one of only two of the eight regions not to have reached the regional Action Plan for Jobs (APJ) target of bringing regional unemployment to within one percentage point of the State average.

Statistical changes* make it difficult to evaluate whether the SE APJ is on course to achieve its aim of creating an additional 25,000 jobs by 2020. The new method suggests only 5,400 net new jobs have been added since Q32015. The SE has the 2nd lowest labour market participation rate at 59.8%. This compares with the national rate of 62.2%, and with Dublin which has the highest regional rate at 65.4%

*From QNHS to LFS, & reorganisation of NUTS3

(CSO: LFS | Government: APJ)



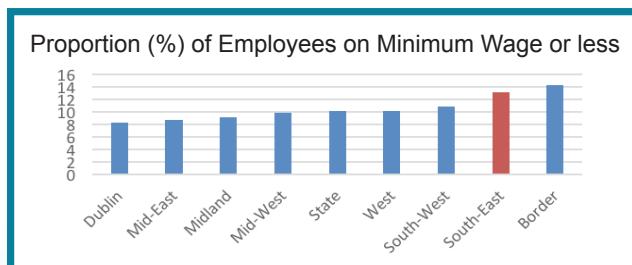
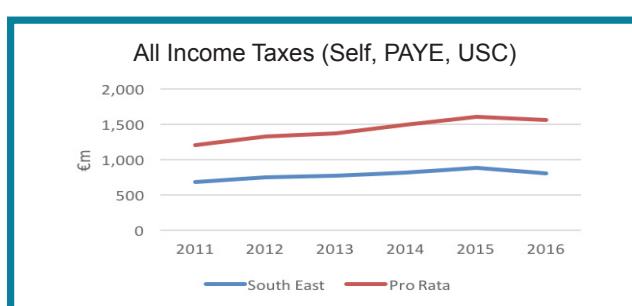
Low job quality continues to hold economy back

Individuals in the SE pay 51.5% of the national average of all income taxes. This highlights the combined effect of low average wages and higher rates of unemployment.

The region lacks quality PAYE jobs (48.9% of the average PAYE), with income taxes from self-employed individuals being above two-thirds of the State average (at 67%). This assessment of job quality is also evidenced by disposable income statistics. If the SE returned incomes taxes at the national average, it would add €800m to the national coffers.

Furthermore, the most recent data (April 2017) shows that the SE (including South Tipperary) has the second highest proportion of employees earning the National Minimum Wage (NMW) or less (13.2% versus 10.1% for the State as a whole).

(Revenue Commissioners, QNHS)

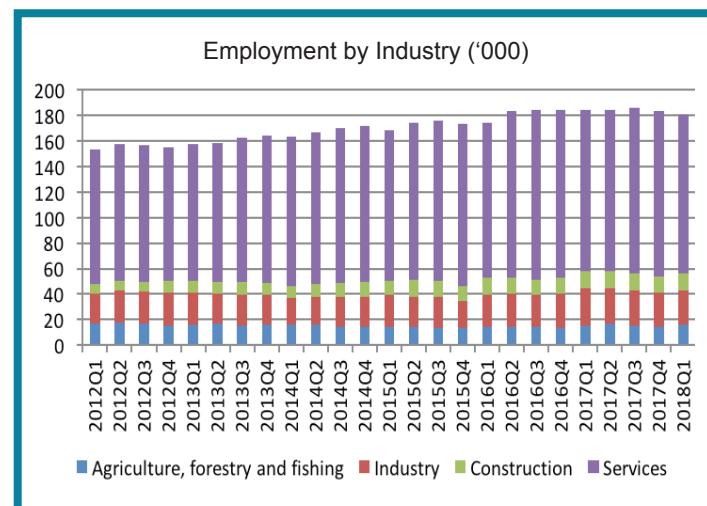


The South-East is re-orientating towards a lower-income, lower-skill economy

Regional employment is down year on year, mainly due to reduced numbers employed in the industrial and services sectors.

The traditionally high-paid sector of professional, scientific, and technical activities has declined sharply over the past two years - down 9%. In contrast, there has been modest growth in construction labour up 1.5% over the same period, but this is against a national construction recovery with a 20% increase in employment. Note: this CSO data has a small sample size, and so one needs to be careful in interpreting this data.

(CSO: LFS)



Labour Market Commentary

The drop in unemployment masks further deterioration of the SE labour market and a pronounced relative decline as the SE is left behind relative to most of the other seven regions of Ireland. All labour market data supports this view, particularly the decline in year-on-year employment, the long-term weakness in job-quality metrics and the greater proportion of minimum wage jobs.

Interestingly, we can find no evidence of actions taken to support Government's commitments in the 'Action Plan for Jobs' to bring unemployment in the SE to within one percentage point of the national average. Furthermore, it is highly unlikely that the SE will meet the target of having 25,000 net new jobs before 2020. There does not appear to be any measures in the recently announced 'Ireland 2040' stimulus plans that will address the structural issues in the SE labour market.



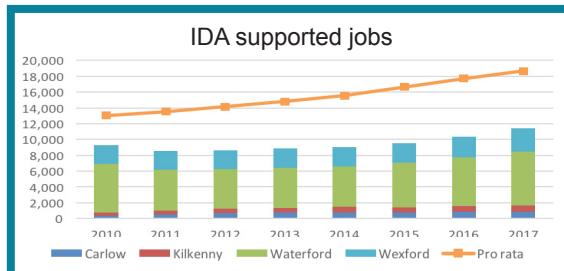
IDA in SE has a strong 2017, but worrying signs as visits and announcements stall, large deficit remains

IDA supported jobs are amongst the highest paid jobs, with 75% of all such jobs having incomes in excess of €35k. While 8.86% of the population reside in the SE, the region has just 5.4% of all the IDA supported employment (61% of a fair share).

2017 was a very good year for the IDA in the SE with the deficit reduced by almost 200 jobs as the number of IDA-supported jobs increased by 10.9% in the SE, an impressive performance against the 5.3% rise nationally. However, since 2011 the SE has only accounted for 5% of the net jobs added nationally. Worryingly of the 3,530 jobs announced in the IDA's 2018 mid-year performance update, relating to 21 publicly announced projects (of the 139 total projects), none were expected to generate employment in the SE region.

(IDA Ireland)

AVG Salary IDA supported job	€48,406
IDA jobs in the South East	11,455
% of IDA jobs in the South East	5.4%
IDA jobs 'missing'	7,197
Missing MNC payroll	€348m
Missing spill over jobs	5,752

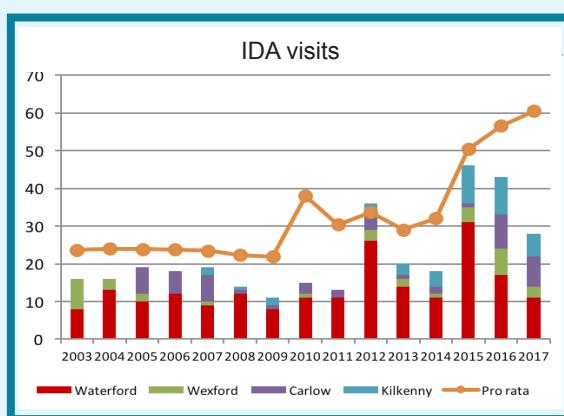


IDA visits fall further back

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 (7,190 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 a national average and has been declining each of the last three years. In 2017 the SE received just 4.1% of the visits in 2017, down from 6.7% in 2016 and down even further from a high of 9.5% in 2012.

(IDA Ireland)



Enterprise Ireland

Enterprise Ireland (EI) is the state agency charged with supporting higher value start-up business activity. EI largely supports jobs in proportion to the number of residents.

However, the SE has been relatively unsuccessful in accessing EI competitive funding, which may be due to weaker education attainment levels in the SE.

(EI annual statement 2017|PQ)

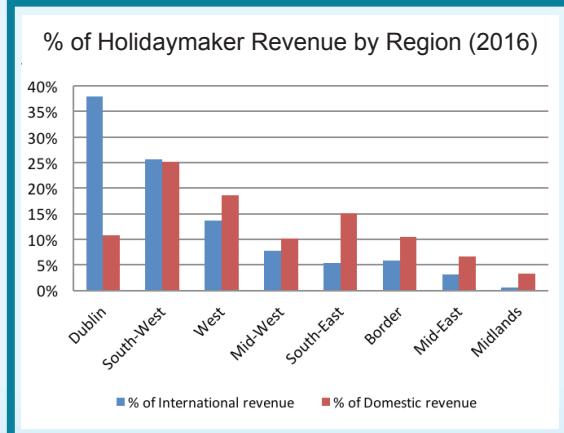
	Employment in EI clients	% of National Population	% of National Employment in EI clients
CARLOW	3,034	1.2%	1.4%
KILKENNY	4,276	2.1%	2.0%
WATERFORD	6,359	2.4%	3.0%
WEXFORD	4,670	3.1%	2.2%
SE REGION	18,339	8.86%	8.76%
NATIONAL	209,338		

Tourism strong domestically, not internationally

Tourism accounts for 4% of the Irish economy, contributing €7.7bn to GDP. It is strategically important because the majority of tourism income is retained within Ireland, and it is a labour-intensive industry (5.5% of the labour market), sometimes in areas with few other employment opportunities.

The SE is very attractive to domestic tourists- second only to the West and South-West. The SE has so far failed to reach its potential in attracting international holidaymakers. Suitable marketing support from Fáilte Ireland would be beneficial, as would direct air access to the region. Worryingly, the reduction in services in Rosslare Port is likely to further damage international access.

(Fáilte Ireland)



Exploring higher education as an engine for growth

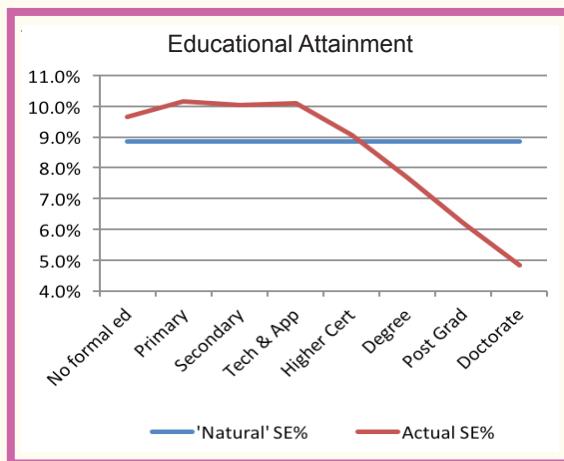
Educational Attainment

Relative to the national average, the SE has a greater proportion of individuals with lower levels of educational attainment.

This weakness in the region's human capital has a significant impact on the labour market, and translates into higher unemployment, lower job quality, fewer IDA supported FDI jobs and fewer Enterprise Ireland investments. The impact of the under-investment (see below) in higher education in the region is clearly evident in the extent of educational attainment within the region.

When looked at with the demographic profile of the region, it is evident that the SE is missing graduates in this 20-45 age spectrum of the labour market.

(CSO Census 2016)

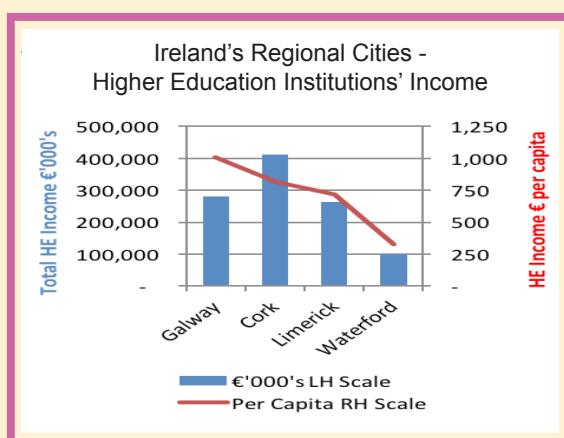


Low higher education spending drives weak labour market outcomes

Census 2016 data demonstrates the clear link between educational attainment and household disposable income.

Less authoritative data sources indicate average income for degree holders to be €49k compared with €23k for non-degree holders. This chart demonstrates the huge impact lower educational attainment has on incomes and thus regional economic performance.

(CSO: Census 2016)



Technological university unlikely to address brain drain

Driving the under-provision of higher education in the SE is the absence of capital investment in the Institute of Technology / Technological University (IoT/TU) sector.

With €3.6bn of identified planned capital expenditure in Irish higher education during 2011-2022, we can identify just €51.8m future investment proposed for the SE. This is just 1.4% of the 2011-2022 spending plans for higher education. The €51.8m committed to the SE is tentatively scheduled to commence in 2022 as public-private-partnership projects.

(EIB Announcements, Various HEI's, Dept of Education and Skills)

Institution	Announcement Date	Investment (€m)
UL	26/11/2013	€224
NUIM	17/12/2014	€153
TCD	25/06/2015	€155
DCU	21/12/2015	€230
UCC	19/07/2016	€241
RCSI	09/12/2016	€241
NUIG	30/06/2017	€120
DIT	28/03/2018	€220
Ireland 2040 (Uni)	16/02/2018	€2,000
Total University	2011 – 2012	€3,446
Ireland 2040 (TU / IoT)*	16/02/2018	€200
* South East portion (all in bundle 2)		€51.8

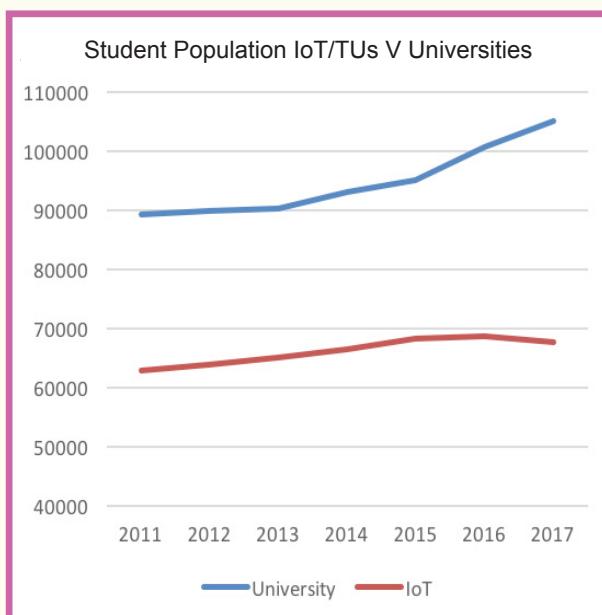
The University conundrum

Universities have absorbed almost all the HE growth in the past 18 years, having grown by 40% since 2000, with IoTs having only grown 3%. The region is clearly struggling from the high social and economic costs of not having a university and this is the primary driver of regional brain drain, lower educational attainment and the weak labour market.

The current proposals for a technological university do not address the funding inequity and so is unlikely to stem the growing pattern of migration to the university city-regions. We draw that view from the Ireland2040 capital plans with €200m available to the 14 IoTs/TU and €2bn to the seven Universities, and from our review of the technological university bill.

The high costs of the merger of the region's two IoTs (we estimate €18.5m pa for 5 years) have not been contemplated and such new funding would not be focused on addressing the core issue of higher education capacity.

(Source: HEA | Ireland2040)

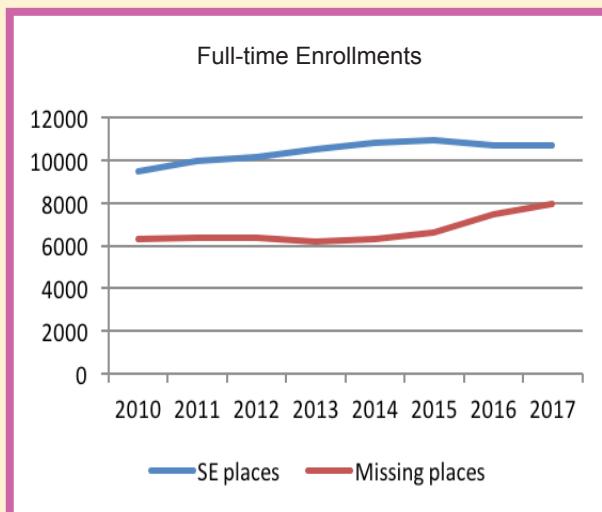


Missing higher education places

There is a significant rise in missing higher education places in the region, as higher education capacity dropped by 2% in the region against a national increase of 4%. There are now 7,944 missing FT degree places, a 6.1% year-on-year increase.

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 is leading to falling capacity in the region's higher education providers.

(Source: HEA)

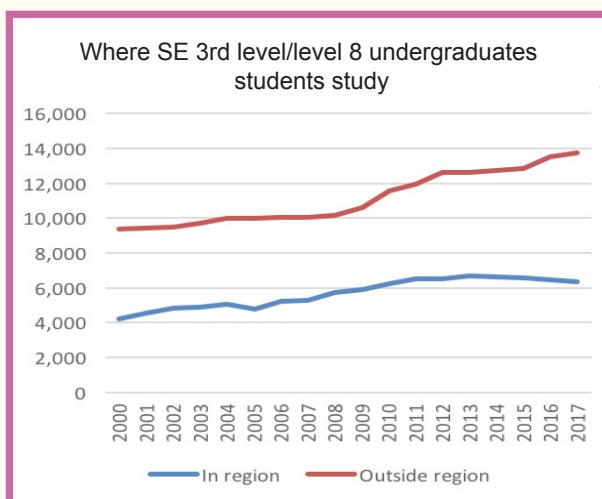


Regional brain drain continues to grow

There are now 20,114 people from the SE in higher education, up slightly from last year. 68% of these study outside the region (13,746), up slightly on last year (1.78%↑). 32% take their degrees in the region (6,368), down slightly on last year (1.65%↓).

The estimated minimum cost per annum of a student living away from home is rising at a rate of 7.5% per annum, now standing at €11,829 (DIT) to about €12,720 (UCD). This suggests an annual transfer of after tax income from the region of at least €162.6m (up from €148m in 2016/7). The region is missing 7,944 (up 4% or 463 places on 2016/7).

(Source: HEA)



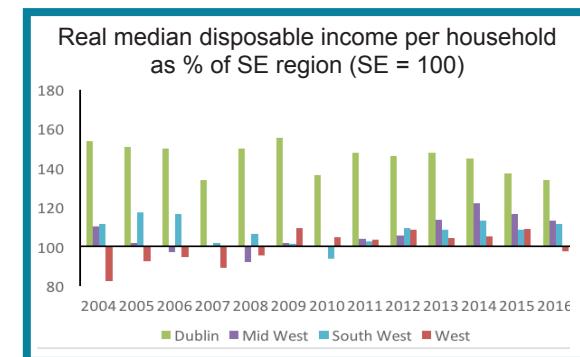
Disposable income by region

In recent years the gap in disposable income between the SE and Dublin (the lead region) has narrowed slightly, 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 paid jobs.

By 2016, 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 €34,709 in 2016 (€46,502 for Dublin).

(CSO Survey on Income and Living Conditions 2016 –
Disposable income = after tax income at the household level)



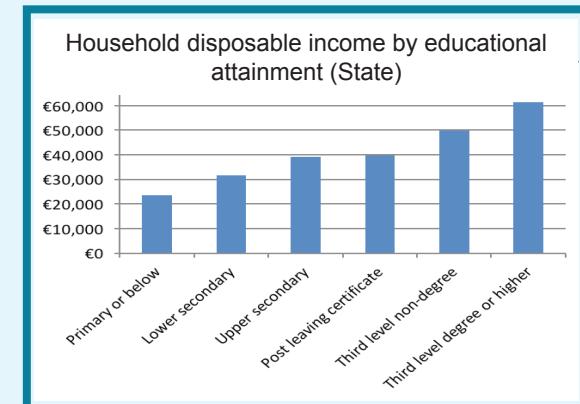
Disposable income by educational attainment

There is a clear link between educational attainment and real disposable income per household.

The income differential between those with a secondary school education and those with higher education is significant: in excess of €20,000 of earnings per annum.

This suggests that driving lower consumption is lower educational attainment of the region's labour force.

(Source: CSO SILC 2016)

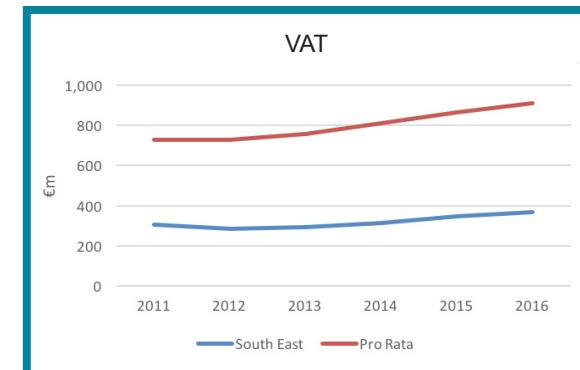


Consumption

Sales tax, VAT is a useful proxy for consumption. The most recent reported data, 2016, shows that the SE returned just 40% of the national average (pro-rata rate).

This points towards relatively weak consumer spending and sentiment in the region and is symptomatic of the region's higher unemployment, low job quality and the effect of the brain drain on spending. It can also be explained by the relatively low share of tourist visitors to the region.

(Revenue Commissioners)

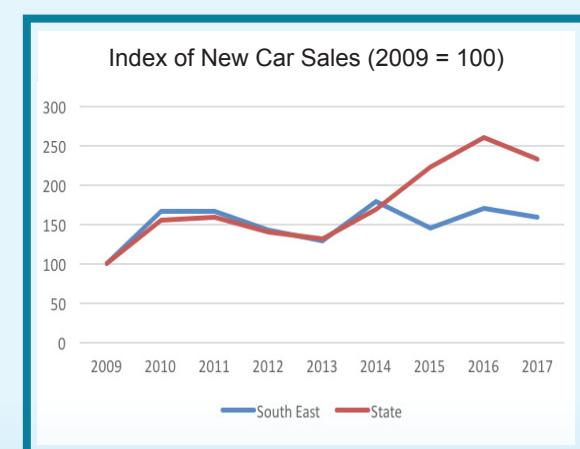


New car sales trend shows weaker spending power in region

New car registrations are a bellwether for consumer sentiment; car sales have been recovering strongly since the lows of 2009, although last year saw a national and regional decline.

Sales in the SE have grown at a slower rate than nationally since 2014. Indeed, over the last decade, registrations have increased nationally at more than double the rate in the SE. The same is the case when one includes second-hand imports, which account for approximately one-third of all registrations.

(CSO)



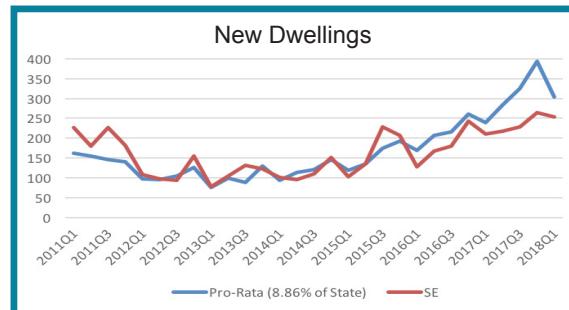
House building recovery underway, but recovering more slowly than the State

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.

(CSO)

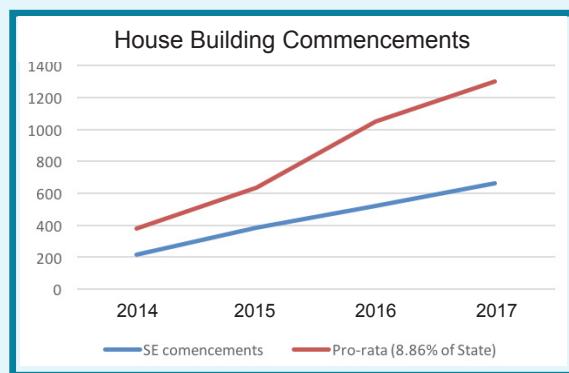


Housing commencements show slowness of construction recovery

The CSO report new house commencements data showing significant growth, but from historical lows.

In 2017 there were 661 new commencements, half the number of a pro-rata national distribution (1,301).

(CSO)



Rents remain considerably more affordable than elsewhere, strong inflation

Daft.ie report shows rents rising in double digits year on year, with supply being thin.

With the average national rent standing at €1,261, the SE offers significant value for money at an estimated 66.1% or €835.
(Source: daft.ie)

	1 bed	YoY ↑	2 bed	YoY ↑	3 bed	YoY ↑	4 bed	YoY ↑	5 bed	YoY ↑	Avg Rent
Carlow	€597	11.5%	€691	10.5%	€815	8.9%	€895	9.2%	€936	5.5%	€846
Kilkenny	€622	9.5%	€719	8.6%	€848	7.0 %	€932	7.3 %	€974	3.6%	€880
Waterford City	€644	15.0%	€737	15.4%	€869	13.7%	€955	14.0%	€998	10.2%	€868
Waterford Co	€551	14.2%	€642	13.1%	€757	11.4%	€832	11.7%	€870	7.9%	€800
Wexford	€560	13.4%	€647	12.4%	€763	10.8%	€839	11.1%	€877	7.3%	€779



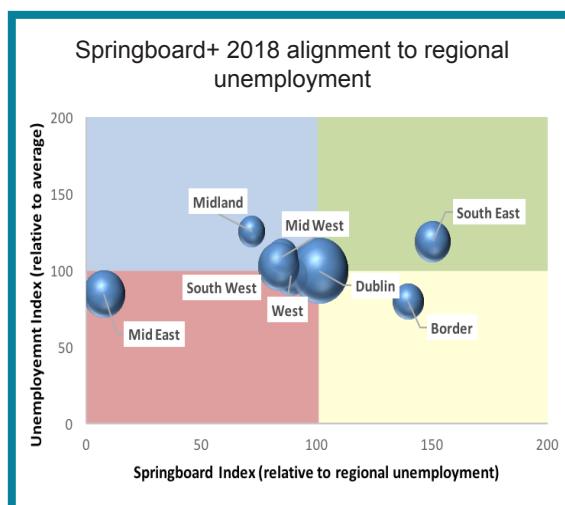
Social inclusion and health

Educational opportunities for the unemployed

The Springboard+ initiative offers free tuition in industry relevant programmes for unemployed jobseekers and, new for 2018, employed individuals.

In 2017, we criticised this scheme for focusing its efforts in regions with low unemployment. This year's scheme has addressed this spending deadweight, as the scheme now focuses more on labour markets where it is needed. With 10.3% of the labour force and 12.2% of the unemployed, the SE has 18% of the provision of Springboard+ courses. Much of this concentration is orientated towards the north of the region, close to the Dublin labour market.

(Source: Labour Force Survey Q42017, Springboard+ (based on number of approved courses as a proxy for student numbers), Census 2016
Bubble size shows relative regional population.)

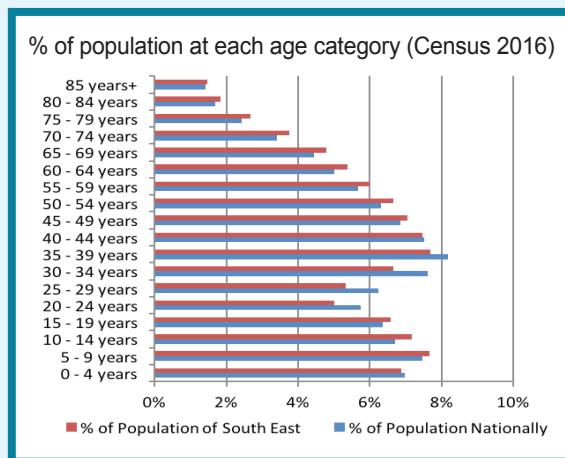


Census 2016 population shows a missing generation

The SE has a higher dependency ratio than the other regions, with relatively more people over 45 years old, and under 19 years old.

The SE has relatively fewer individuals aged between 19-45, and so has relatively fewer economically active people, and relatively fewer individuals of child-bearing age. It is likely that people in this age cohort migrate for better employment prospects and/or study opportunities. With this age structure we are likely to see further deterioration in the dependency ratio of the SE region and it is unlikely that the ambitious regional population growth projections in the Ireland 2040 plans will come to pass.

CSO Census 2016



Regional healthcare equality

Model 4 hospitals offer acute care on a regional basis. Despite the broadly similar offerings there are very significant and unaccounted for spending differences between the hospitals.

Both Galway and Cork claim super-regional as well as model 4 status, but these additional areas of expertise are minor from a budget perspective and do not account for the spending differences.

(HSE: various operational plans)

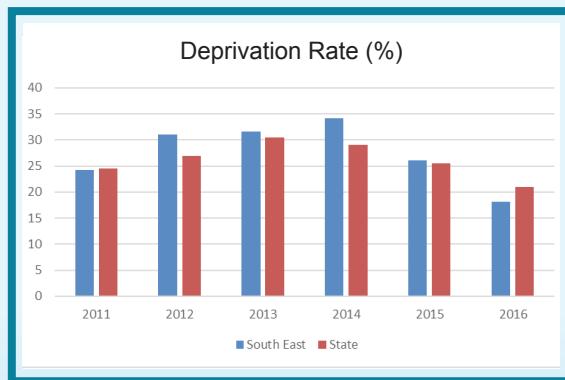
	UH Wat	Cork UH	UH Gal	UH Lim
Inpatient Bed	450	830	685	445
Baseline Population	500,000	550,000	822,880	385,172
Hospital Budget 2018	173,434	289,252	300,725	197,230
Staff WTE 12/17	1,881	3,809	3,427	2,695
Spend per Citizen (€)	346.9	525.9	365.5	512.1
Citizen per Staff	265.8	144.4	240.1	142.9
Citizen per Bed	1,111.1	662.7	1,201.3	865.6

SE shows dramatic improvement in deprivation index

After several years with the highest or second highest regional rate of deprivation, the SE saw a very significant and welcome drop - 18.2% of the SE population are suffering economic deprivation against a national average of 21%.

Deprivation is the most significant of the three measures as it explores absolute poverty such as not being able to afford home heating or a winter coat. The two CSO measures of poverty show an improvement.

(CSO:QNHS)





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