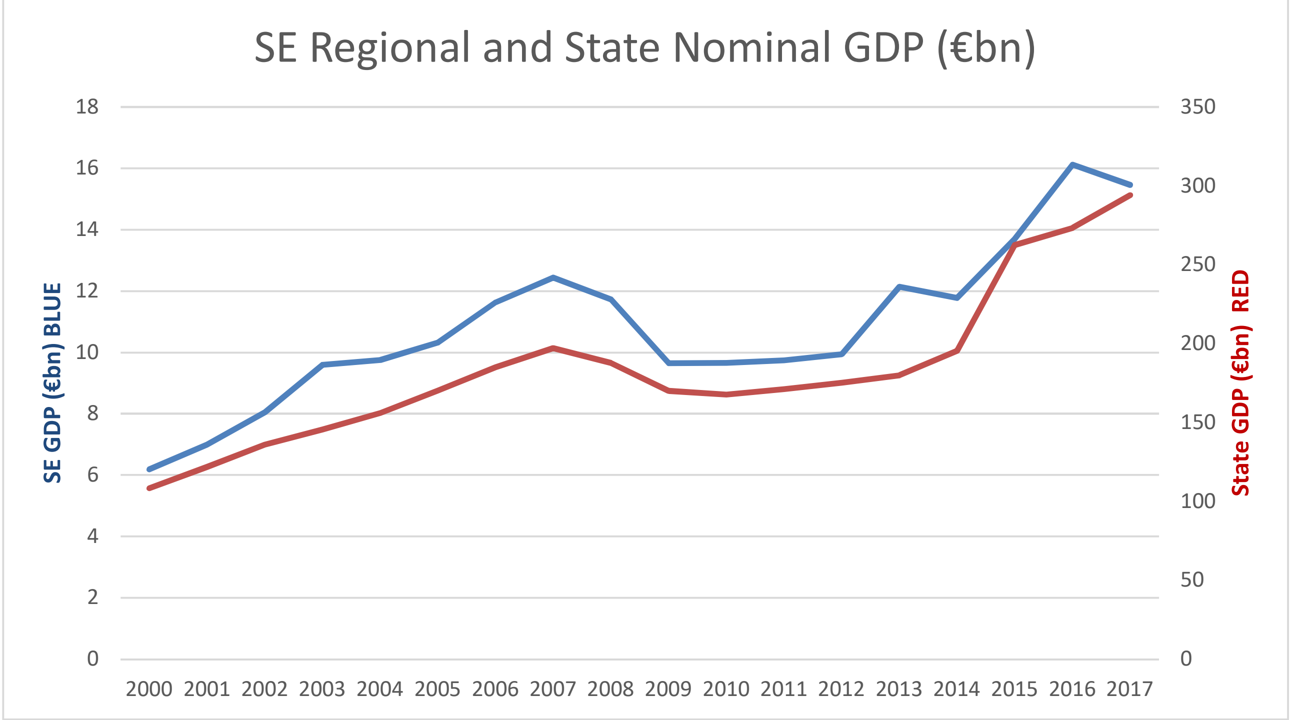
SE Regional GDP Prospects
Some insights for debate
June 2019

1. About GDP and GVA

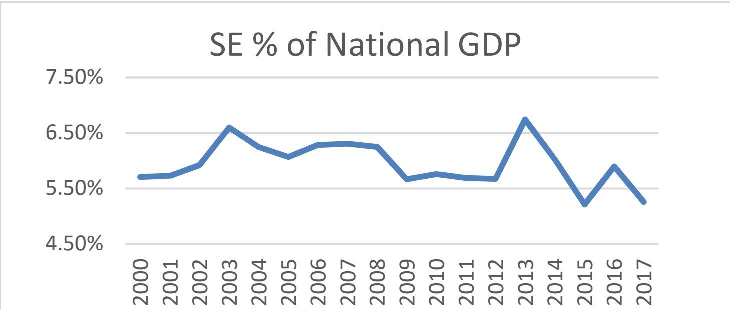
Gross domestic product (GDP) is the standard measure of regional income and output for an economy and is the yardstick for the performance of an economy. It applies as much to regions as national economies (Morgenroth, 2018). GDP per person is a measure of a country's economic output that accounts for its number of people and reflects how prosperous a country or region feels to each of its citizens.

There is considerable controversy and debate over the distortions affecting Irish GDP (Fitzgerald, 2015) but nonetheless it is the main measure of the health of an economy and is central to decision making. With a lower stock of multinationals in the South East it is expected that SE GDP and GVA would have a lower distortional effect compared to the South West (with a significant presence of pharmaceutical MNCS in Cork). Irish regional GDP is reported to Eurostat some two years in arrears, and so is useful when considered in long-term trend analysis.

2. Historical Irish regional/NUTS3 GDP

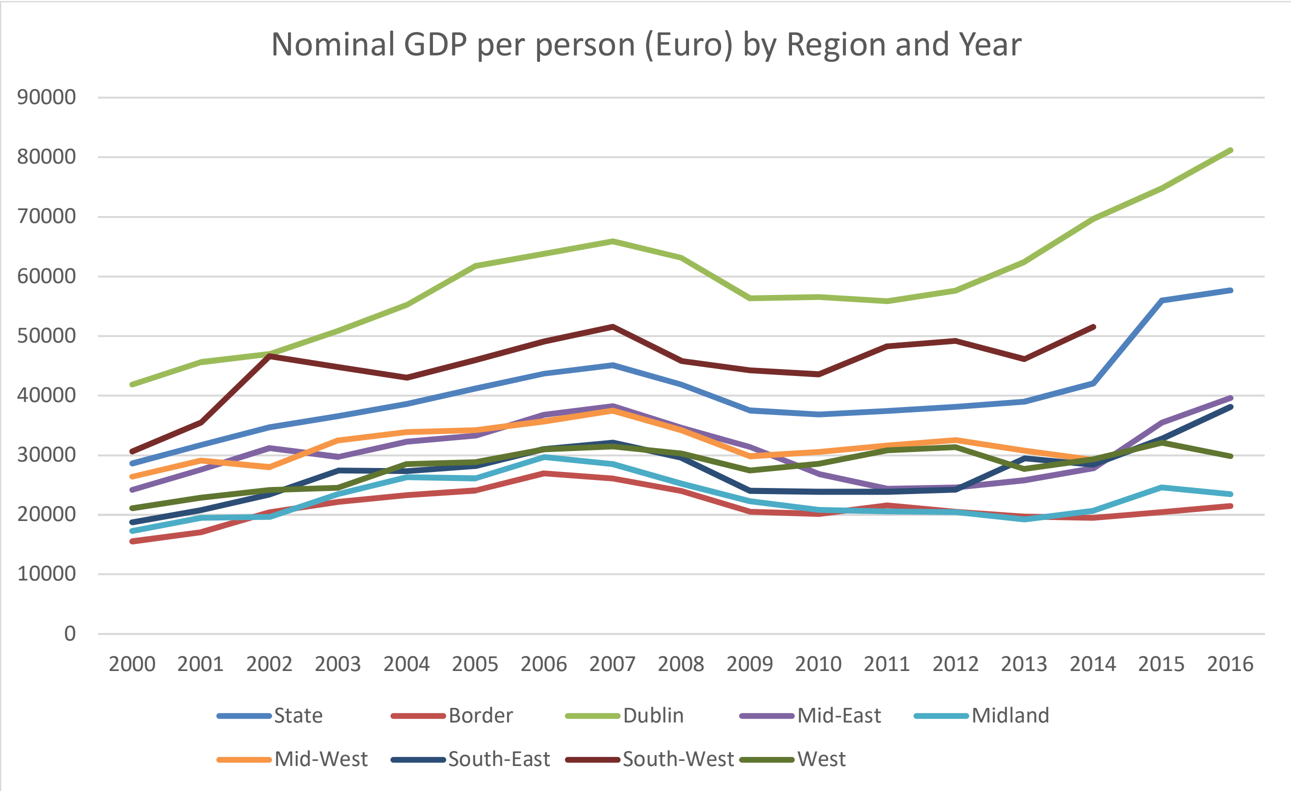


* 2017 data is an estimate generated from reported GVA per person data reported in April 2019 by CSO;

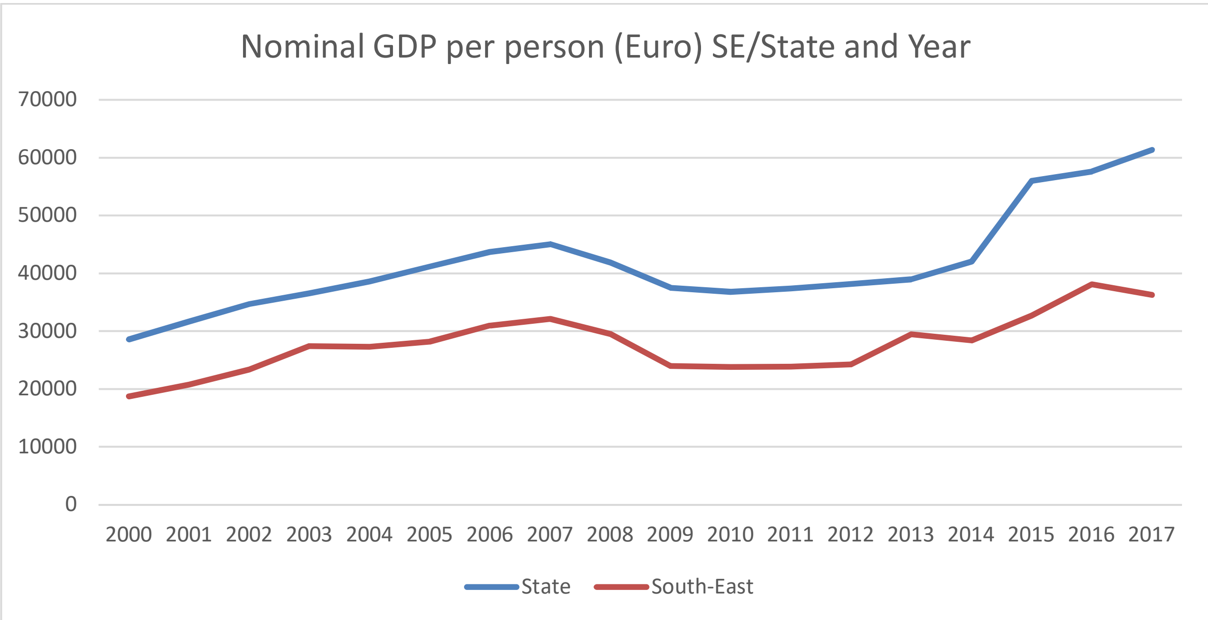


The long-term trend of both national and regional GDP shows considerable if uneven economic progress and growth. The SE, representing 10.8% of the Irish population (NUTS2013) averages 5.95% of the national GDP (2000-2017). The SE regional economy tracks the state closely, albeit with a mild long-term relative decline visible as the region grows at a slower rate than the state.

Exploring GDP per person data from all Irish regions over the past twenties years shows the growing agglomeration effects of Dublin with growth, development and economic progression increasingly concentrated on the greater Dublin area. The Ireland 2040 policy initiative calls for more balanced regional growth nucleated on city-regions constructs of Cork-Southwest, Limerick-Mideast, Galway-West and Waterford-Southeast.



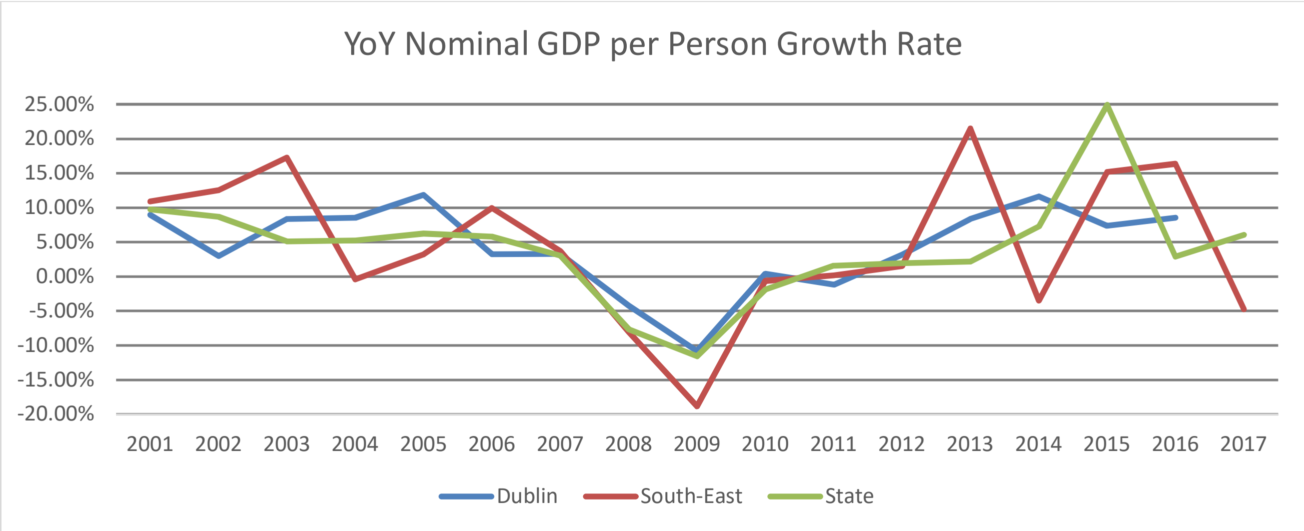
3. Historical National and SE GDP per person



Both Irish and the SE region's GDP per head has progressed significantly, but not uniformly since 2000.

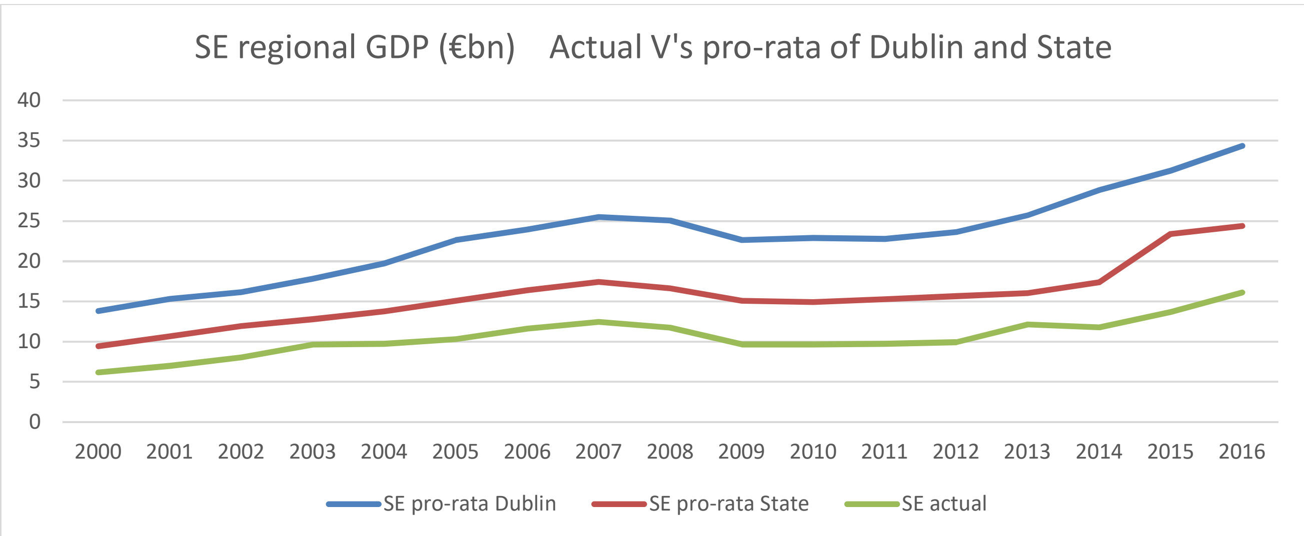
Following a period of sustained growth at an annual ***national level*** from 1984–2007, the global financial crisis of 2008-2011 severely affected the Irish national economy, compounded by the bursting of the Irish property bubble and the Euro crisis. The short technical Irish recession from Q2-Q3 2007 was followed by a deep and painful recession from Q1

2008 – Q4 2009, several years of stagnation, slow growth and return to recession. Since 2014 the Irish economy has grown strongly at circa 5% per annum. The NTMA report the Irish economy is in “rude health”, but that the short-term risk profile is rising as Ireland is perceived to be late into its growth cycle, exposed by close ties to the US economy, US corporate tax reform, the risk of a Chinese economic slowdown, trade wars and tightening monetary policy and the prospect of a hard brexit reducing growth by 4-7% over a five year period (NTMA Institutional Investor Presentation Jan,2019).



As one might expect, there is significantly less data and commentary to support an authoritative account of the **SE region’s economy**. Traditional indigenous agri-food business and manufacturing employment have been in decline in the region for some time and have not been replaced with a sufficient quantum of high quality MNC-led enterprise. Since 2000 a pronounced migratory pattern has emerged as the SE now conforms to the national higher education participation rate based on migration out of the region to university city-regions. The SE experienced a reduction in per capita real GVA from 2002 onwards (Morgenroth 2014), and so in effect it experienced two recessions- a regional recession arising from structural decline in its economy which commenced in 2004 and then the impact of the broader Irish and Global financial crisis.

This series of graphs shows that SE has been underperforming the State both in terms of the level and growth per capita over the past twenty years. This reflects both the underlying real activity and also the fact that the SE economy has considerably lower multinational enterprises than other regions. We suggest that amongst the factors driving this is the decline of traditional largely indigenous manufacturing industries, a lack of emphasis on FDI marketing and lack of a full-service university platform.



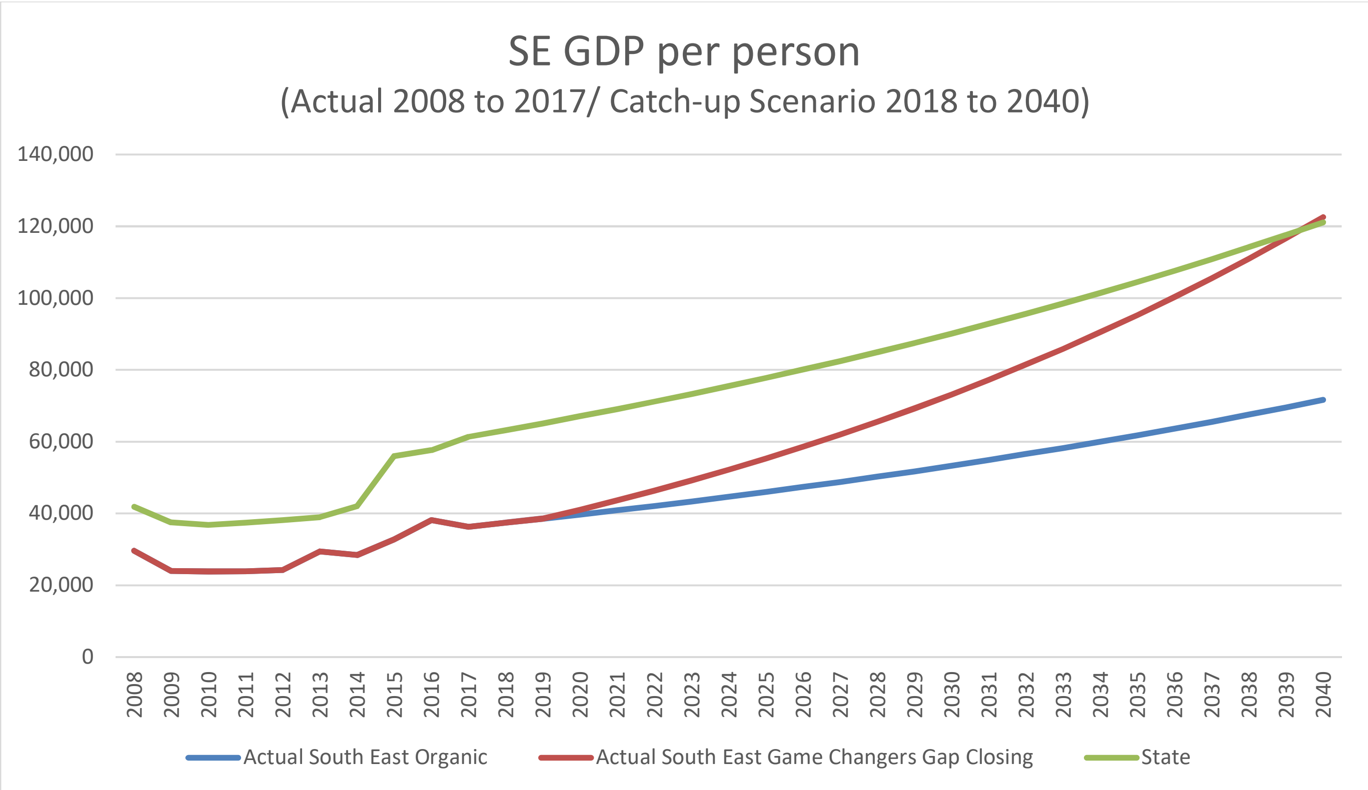
3. Ireland 2040 scenario growth rate

In this short note we aspire to offer projections and insight into prospects around a scenario that is envisaged in the Ireland 2040 plan, which is the framework for the Irish Government's long term spatial, infrastructure and capital planning. This is not a forecast, it is remarkably difficult and imprecise to generate economic forecasts, even in the short term; a projection is a scenario that is assembled based on a current baseline analysis extrapolated based on assumptions about the future.

Economists working under the Ireland 2040 policy umbrella have generated a single scenario with a national baseline scenario of Irish GDP growth envisaged at 3% or more each year until 2040 (Wren, 2017; Morgenroth, 2018). This chimes with the more cautious ERSI medium-term growth projection for the Irish economy of c. 3% per annum to 2025. A central pillar of Ireland 2040 is that growth concentrate in the four regional cities, which are planned to grow at twice the rate of Dublin (Ireland 2040). Unbundling this at a regional level suggests that the SE GDP per person is envisaged to close the gap with the state over the life of the Ireland 2040 plan.

Ambitious submissions and plans from each of the four city-regions have emerged to articulate how tiger growth rates can be achieved. In the Cork-South-West 'Cork 2050 realising the full potential', in Limerick-Mid-West the Ireland 2040 submission 'A vision for the Mid-West Limerick City Region', in Galway-West the Western Development Commission and in Waterford-South-East there is unusual clarity around game-changing potential of the North Quays, a university of international stature, the M24 motorway and enhanced regional airport and ports. In the context of Ireland 2040, IDA Ireland's renewed commitment to the SE and its regional strategy and the Government's commitment to deliver a university of international standing in the region we can observe targeted measures that suggest growth prospects for the SE are relatively favourable to the nation prospects.

The entire Ireland 2040 policy initiative also identifies significant national capacity constraints as a barrier to frothier growth rates. Such capacity constraints are not evident in the SE, indeed the structural under-profiling is indicative of headroom for growth in advance of the national average.



	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Actual SE GDP per person € Organic Growth (3%)	39,665	40,855	42,081	43,343	44,643	45,983	47,362	48,783	50,247	51,754
Actual SE Game Changers Gap Closing	41,009	43,623	46,357	49,216	52,205	55,328	58,593	62,003	65,565	69,285
State GDP per person €	67,059	69,071	71,143	73,278	75,476	77,740	80,072	82,475	84,949	87,497
Implied growth rate of SE Game Changers/Gap Closing %	6.49%	6.37%	6.27%	6.17%	6.07%	5.98%	5.90%	5.82%	5.75%	5.67%
Additional GDP per person formation required	1,304	1,344	1,384	1,425	1,468	1,512	1,558	1,604	1,652	1,702

	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Actual SE GDP per person € Organic Growth (3%)	53,307	54,906	56,553	58,249	59,997	61,797	63,651	65,560	67,527	69,553	71,640
Actual SE Game Changers Gap Closing	73,169	77,224	81,457	85,874	90,482	95,290	100,305	105,535	110,988	116,674	122,601
State GDP per person €	90,122	92,826	95,611	98,479	101,433	104,476	107,611	110,839	114,164	117,589	121,117
Implied growth rate of SE Game Changers/Gap Closing %	5.61%	5.54%	5.48%	5.42%	5.37%	5.31%	5.26%	5.21%	5.17%	5.12%	5.08%
Additional GDP per person formation required	1,753	1,806	1,860	1,916	1,973	2,032	2,093	2,156	2,221	2,287	2,356

In the absence of a I/O model of the regional economy it is difficult to accurately decompose the implied growth rate into a set of investments, productivity measures or institutional changes that would drive this additional economic activity. **Given the historical growth rate in the SE and its relative underperformance to other regions, and the commitment to address the structural issues in the SE economy, growth rates envisaged in the 5-7% range over the long-term are not unreasonable**. Such growth requires both public and private capital to be invested in strategic game-changing investments.

About

SENSER 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 Social and Economic Research (www.senser.ie), an initiative of AIB CFBR and CEDRE at Waterford Institute of Technology School of Business. All opinions expressed are those of the authors , any errors and omissions are the sole responsibility of the authors; please bring them to the attention of the authors.

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