

Capital Securities corporation

Midlands Gateway Index

Issue 2 – Jan 2008

“Capital Securities Corporation predicts that Midlands Gateway now poised to become a more sustainable economic region as national economic growth moderates”

Introduction

The Capital Securities Corporation Midlands Gateway Index examines economic activity in counties Offaly and Westmeath by tracking changes in new house completions, planning permissions granted, house prices, new car registrations, and the Live Register. This second issue of the Index shows a prevailing climate of stability in the Region despite the reality of slower economic growth nationally.

The Midlands Gateway has the potential to be a more sustainable economic region as national economic growth moderates. Having avoided the extreme rises in house prices and building levels seen in locations like Dublin, Cork, and Galway, the Region is now likely to avoid the extremes of the downturn with lower-than-average price falls. The Region is set to benefit from closer proximity to Dublin and Galway as the N6 development continues, bringing better “visibility” for the Region, and making “Centralisation” a reality.

In addition to our analysis of trends in the housing market etc., this issue of the Index includes the results of our first Business and Consumer Sentiment Surveys. During the last few months of 2007, we conducted a survey of both business leaders and consumers to assess their views on the economy. Although the results show that consumers have concerns for the year ahead, the outlook for interest rates has changed since the surveys were conducted, with rates now expected to fall this year. The Business Sentiment Survey shows that, while being aware of moderating economic growth, businesses in the Midlands Gateway Region generally do not expect this to affect turnover or profitability.

Ireland’s economy grew by almost 5% in 2007 and the forecast for 2008 is for a more moderate level of around 3%. The outlook for the economy changed considerably over the course of the last year as the rising probability of a US recession threatens the global economy. And while the outlook for interest rates last summer was for further increases by the ECB to 4.5%, by September the rate had stuck at 4% and now looks set to drop by up to 0.5% during 2008.

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The second half of 2007 was something of a transition period for the Irish economy as the reality of falling house prices and rising unemployment began to take hold. While there has been bad news (for sellers at least) in terms of house prices, car sales have continued to grow, with 2007 being the best year for car retailers since the millennium. And while house completions look set to fall, the numbers of planning permissions granted is not following this decline. In some ways, the boom times might be over, but it might just be that normalcy has returned.

New Car Registrations

More than 5,800 new cars registered in Offaly and Westmeath in 2007

The steady growth rate in new car sales was maintained throughout the second half of 2007 with a national increase of over 4% in new car registrations. The total figure of 180,379 new cars is the highest since the car sales boom of 2000. Growth of new car sales in Offaly and Westmeath was higher than the national average at 6.13% and 5.73% respectively. The range of growth levels across the country varied widely from -6.5% in Mayo to +19% in Roscommon so on that basis, Offaly and Westmeath were very much “middle of the road”.

The growth in car sales in 2007 was lower than in 2006 when Offaly showed an increase of nearly 8% while Westmeath showed an increase of close to 10% - further evidence that 2006 was a peak year in economic terms. On a per capita basis, new car registrations in Offaly and Westmeath last year were in the upper quartiles on a par with Kilkenny.

New Car Registrations

| | June 07 | Jul 07 | Aug 07 | Sept 07 | Oct 07 | Nov 07 | Dec 07 | Total End Yr 07 | Total End Yr 06 | % change |
|-----------|------------|-----------|-----------|------------|-----------|-----------|-----------|-----------------------|-----------------------|-------------|
| Offaly | 214 | 150 | 204 | 106 | 47 | 37 | 15 | 2,770 | 2,610 | +6.13 |
| Westmeath | 252 | 235 | 167 | 107 | 95 | 30 | 23 | 3,063 | 2,897 | +5.73 |
| National | 15,472 | 15,745 | 10,012 | 6,677 | 5,303 | 2,858 | 1304 | 180,379 | 173,273 | +4.38 |

Source: Central Statistics Office and SIMI

New car sales for 2008 will no doubt be impacted by the budgetary changes in car tax. Traditionally, most new cars are purchased in the first few months of the year with sales tapering off towards autumn. As the new tax rates will only take effect from July, some purchasers may wait until then to make their move. Though many retailers are factoring the tax impacts into the sales price as an incentive for customers not to postpone their purchase.

Housing

House Completions and Planning Permissions

2,676 houses were built in Offaly and Westmeath in the 11 months to November 2007 – a fall of 10% on the same period last year.

As the table below shows, the decline in completions was more pronounced in Offaly with a fall of 25% in the level of completions to November which is higher than the national decline of 16% for the 11 months. Westmeath has bucked the trend showing growth in completions of 4% over the same period. According to national figures the level of once-off housing is not declining at the same rate as multi-unit developments so demand for individual residential units may be holding up while the investor-friendly developments fall out of favour. Commencement notices during 2007 at a national level were down by over 30% on 2006.

While house building in Offaly cooled significantly during the year, the number of planning permissions granted for new dwellings is well ahead of the national trend with permissions granted for 445 units in the nine months to September, an increase of 24% on the same period last year. The drop of more than 7% in planning permissions for the period in Westmeath shows that the against-trend growth in house completions may not continue into 2008. At the national level, the figure for new dwellings is changed little on the previous year with just a 1% drop in the number of permissions granted overall.

Total New House Completions

| | Jul 07 | Aug 07 | Sept 07 | Oct 07 | Nov 07 | Total to Nov 07 | Total to Nov 06 | % change |
|-----------|--------|--------|---------|--------|--------|-----------------|-----------------|----------|
| Offaly | 79 | 120 | 119 | 100 | 101 | 1,084 | 1,453 | -25% |
| Westmeath | 80 | 143 | 183 | 188 | 193 | 1,592 | 1,525 | +4% |
| National | 5062 | 5903 | 6362 | 7397 | 7696 | 71,198 | 85,055 | -16% |

*2006 figures may include some units completed in 2005. December figures for 2007 not available.
Source: Department of the Environment, Heritage and Local Government

Planning Permissions granted for New Dwellings

| | Qtr 2 2006 | Qtr 3 2006 | Total to Sept 06 | Qtr 2 2007 | Qtr 3 2007 | Total to Sept 07 | % change |
|-----------|------------|------------|------------------|------------|------------|------------------|----------|
| Offaly | 157 | 112 | 360 | 156 | 115 | 445 | +24% |
| Westmeath | 145 | 145 | 431 | 145 | 138 | 401 | -7.5% |
| National | 5,595 | 6,035 | 17,439 | 5,636 | 5,880 | 17,225 | -1.2% |

Source: Central Statistics Office. Qtr 4 2007 figures not available.

House Prices

House prices have fallen back to end 2005 prices as 2006 gains eroded by weakening market

House prices across the country have been falling since the start of 2007. In January 2007, the average price for a house in Ireland was just over €311,000. The average price is now around €292,000. There are of course, substantial variances in price in different areas and locations such as Dublin and Cork where house prices had risen most, have suffered the largest declines with around 10% knocked off the value of homes in these areas. These are average figures – anecdotal evidence, and reports from property website Daft.ie suggest that some sellers dropped prices by up to 15% to attract a buyer.

Data from the PTSB/ESRI House Price Index shows that the average house price in Offaly has dropped by 6% over the year to €245,864, while in Westmeath, the average price is now €266,051. The general consensus is that prices have retreated back to end 2005 levels as the 2006 gains have been eroded.

Although there was a brief surge in sales activity in the last three months of the year, it is likely that sales will not pick up until at least the end of 2008. While buyers now have the upper hand, and the ECB are likely to cut interest rates, there is still a huge overhang of unsold stock, which together with worries about rising unemployment, is likely to keep prices on a downward trend.

However, given the forecasts for housing completions of about 50,000 this year, the market is at least heading towards a better balance between supply and demand.

Average House Prices

| | Jun 07 € | Jul 07 € | Aug 07 € | Sept 07 € | Oct 07 € | Nov 07 € | % change Jan - Nov |
|-----------|-------------|-------------|-------------|--------------|-------------|-------------|-----------------------|
| Offaly | 251,615 | 251,112 | 250,860 | 251,112 | 247,847 | 245,864 | -6.1% |
| Westmeath | 272,274 | 271,730 | 271,458 | 271,730 | 268,197 | 266,051 | -6.1% |
| National | 302,605 | 301,267 | 300,375 | 299,483 | 295,469 | 292,124 | -6.4% |

Source: PTSB/ESRI House Price Index

Live Register*

Rise in Live Register figures attributed to construction slowdown

The numbers on the national Live Register have risen by over 11,600 since January 2007 to bring the percentage from 3.74% to 4.02%. This rise has been attributed to job losses in the construction sector which have resulted from the slowing housing market, as well as closures of some manufacturing operations around the country.

When compared with the national level, we see that Offaly and Westmeath both have relatively high levels of unemployment. Offaly, in particular has shown a significant increase on the start of 2007 with a rise of almost 15% between January and December 2007, while over the same period, the numbers on the Live Register in Westmeath rose by almost 7%.

Of the three major towns which make up the Midlands Gateway, Athlone has fared best having ended the year with just less than 1% of a rise the in numbers signing on. There was a rise of 9.8% over the year in Mullingar and Tullamore's Live Register number rose by over 17%.

Males, over the age of 25 have accounted for the largest rise in Live Register figures. In Offaly, they account for 62% while in Westmeath they make up 59% of the register. The number of males on the Live Register in Offaly increased by 21.7% from January to December 2007, while the number of females increased by 13.4%. In Westmeath the number of males increased by 5.25% while the number of females decreased by 1.7% over the same period.

Live Register

| | Jul 07 | Aug 07 | Sept 07 | Oct 07 | Nov 07 | Dec 07 |
|------------------------|---------|---------|---------|---------|---------|---------|
| Offaly | 3208 | 3256 | 3066 | 3044 | 3136 | 3282 |
| <i>% of population</i> | 4.53% | 4.59% | 4.33% | 4.30% | 4.43% | 4.63% |
| Westmeath | 4357 | 4353 | 4001 | 3917 | 3909 | 4102 |
| <i>% of population</i> | 5.49% | 5.49% | 5.04% | 4.93% | 4.93% | 5.17% |
| National | 174,593 | 174,206 | 160,652 | 157,449 | 161,722 | 170,376 |
| <i>% of population</i> | 4.12% | 4.11% | 3.79% | 3.71% | 3.81% | 4.02% |

Source: Central Statistics Office

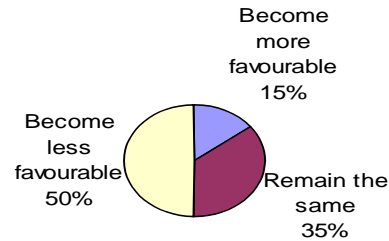
* The Live Register is not designed to measure unemployment as it includes seasonal and part-time workers who are entitled to claim benefits, however it does give a useful indication of the numbers not in full-time employment.

Business and Consumer Sentiment

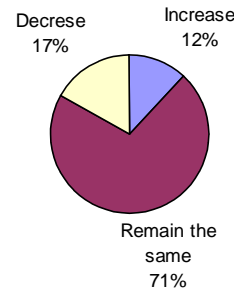
Business Sentiment

Despite their awareness of the economic slowdown, business leaders in the Midlands Gateway are generally optimistic about the prospects for their businesses in the coming year. Our survey of business sentiment in the Midlands Gateway Region reveals that a slight majority (50%) of business leaders expect the business environment to become less favourable next year, though a large portion (35%) expect a stable environment with 36.5% expecting an increase in turnover. Despite fears for unemployment levels, only 17% said they expected to their staff levels to decrease in the next twelve months. In terms of the main concerns of the businesses surveyed, the most frequently cited issues were the prospect of increased costs and an economic downturn showing that inflation is the main threat to the business community.

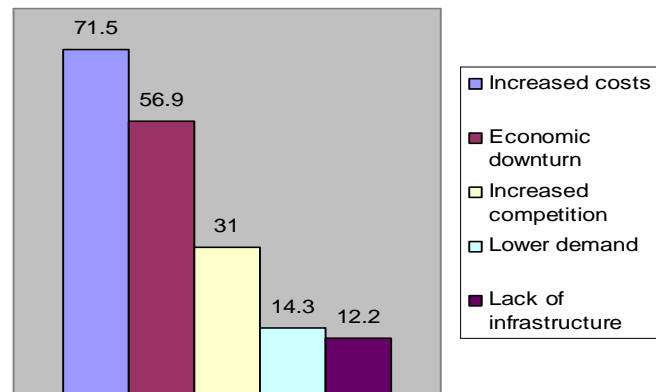
How will the general business environment develop over the next 12 months?



Over the next 12 months, do you expect your number of employees to increase, stay the same or decrease?



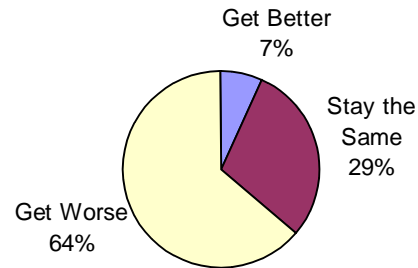
What do you consider to be potential risks to your business over the next 12 months?



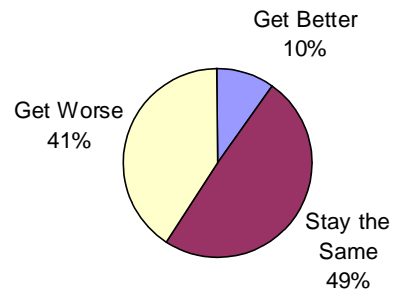
Consumer Sentiment

The results of our first consumer sentiment survey shows that confidence levels in the Midlands Region are in line with national trends with 64% of respondents indicating that they feel the economic outlook is going to deteriorate in 2008. Most respondents felt their financial situation would remain stable as the year progresses though 40% expect their financial situation to deteriorate. On the jobs front however, consumer sentiment in the Midlands Gateway is less pessimistic than at national level – 68% of respondents in the Midlands expect unemployment to rise, while a similar survey carried out by the ESRI reported that at national level, 80% expect an increase in unemployment. Despite fears for the economy, consumers' propensity to spend on big ticket items has not been impacted with only 20% feeling that it is a bad time to make major purchases.

How do you think the economic situation will develop over the next 12 months?



How do you think the financial situation of your household will change over the next 12 months?



In view of the economic situation do you think it's a good time to buy "big ticket" items?

