



Comhshaol, Oidhreachta agus Rialtas Áitiúil  
**Environment, Heritage and Local Government**



## **Construction industry Indicators**

**Issue 16**

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# Construction indicators

## Introduction

The availability of good and robust data is important for carrying out analysis of the construction sector, given its growth and importance over the past decade. Gross investment in the building and construction sector accounted for over 70% of total investment in the economy and 22% of GNP in 2007. New residential construction alone accounted for 11.5% of GNP compared with almost 13% in 2005 and 2006. Those proportions will have shrunk dramatically by the end of 2009.

This is number sixteen in the series of *Construction Indicators*, prepared for the Department of the Environment, Heritage and Local Government (DEHLG)<sup>1</sup>. The purpose of this report is to bring the reader up to date on current levels of activity and trends in the sector. The latest available quarterly and monthly data are presented in graphic form with a brief commentary. This publication also contains a short overall commentary on emerging trends and issues.

The quality and quantity of data on the construction sector has been an issue for some time. In this regard the first results from the CSO's new Quarterly Survey of Construction (QSC) were published in August 2007<sup>2</sup>. As this is a relatively new Survey and the results are considered to be experimental by the CSO, we have not yet included it in the *Indicators* series. The DEHLG, with the assistance of the mortgage lending agencies and the CSO, is currently developing a mix-adjusted house price index. Both series will be included in this report in due course.

The indicators presented in this report cover the following:

- Gross fixed capital formation
- Construction employment
- Construction earnings
- Wholesale prices for construction materials
- Construction cost and tender price inflation
- Planning permissions
- Registrations, a proxy for housing starts
- Commencement notices
- Dwellings completed
- Housing loans (value and number)
- House prices
- Private housing rents
- Construction Purchasing Managers' Index
- Construction confidence

The construction industry is known to be affected by seasonal patterns, and some of the above series are seasonally adjusted by the CSO. Where data have not been seasonally adjusted, we have tested for seasonality and where it is present carried out our own seasonal adjustment<sup>3</sup>.

Sources of data include the Housing Section of the DEHLG, the CSO, Homebond, Premier Guarantee, Bruce Shaw Partnership Davis Langdon PKS, Irish Bankers Federation (IBF), permanent-tsb/ESRI, Ulster Bank and Eurostat. The source for each indicator is acknowledged. This publication appears in electronic form on a quarterly basis. It is distributed via the Department's website: [www.environ.ie](http://www.environ.ie)<sup>4</sup> and is available on [www.dkm.ie](http://www.dkm.ie).

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<sup>1</sup> This report is produced by DKM Economic Consultants. DKM was given editorial independence by the DEHLG to prepare its views, analysis, forecasts and economic commentary on data and statistical trends in the construction sector. The views expressed herein are DKM's views and do not necessarily coincide with the views of the Department.

<sup>2</sup> See [www.cso.ie](http://www.cso.ie)

<sup>3</sup> Using the Tramo-Seats software via the Demetra interface developed by Eurostat.

<http://forum.europa.eu.int/irc/dsis/eurosam/info/data/demetra.htm>

<sup>4</sup> Previous issues are available at

<http://www.environ.ie/en/Publications/StatisticsandRegularPublications/ConstructionIndustryStatistics/>

## Construction indicators

### A prolonged run of dismal performances by all construction indicators with no sign of a recovery anytime soon

The most recent set of *Construction Indicators* illustrates how the construction industry has been relentless in its readjustment, which has come about after several years of unsustainable growth. As the market correction unfolds, almost each performance indicator has continued to record a sharp downward adjustment from its respective record level at the height of the boom over two years ago.

Firstly, overall investment levels in the economy, from the gross fixed capital formation (GFCF) measure, were down by almost 15% in the year to Q3'08. Within the total, investment in building and construction (76% of GFCF) was down by 21%. The significant fall off in total residential investment of -26.5% (not seasonally adjusted - nsa), was the main factor responsible, although non-residential building investment recorded a decline of 7% yoy. Machinery and equipment recorded an exceptional increase (+18% yoy) albeit from a low base, while there was a substantial drop in transfer costs, reflecting reduced transactions in the property market. Overall the volume of building and construction investment looks set to decline by more than 20%, on average, in 2008.

The construction employment situation is perhaps the cause of greatest concern. The latest Quarterly National Household Survey (QNHS) suggests that 32,600 jobs were lost in construction between the peak in Q1'07 and Q3'08. Looking ahead, construction job losses look set to increase further given trends in the Live Register (LR) since Q3'08. If an estimated 75% of the 65,000 males who joined the LR since September 2008 had previously worked in construction, this would imply a further 49,000 became unemployed since September 2008, bringing the total jobs lost in construction by end January 2009 to around 82,000 since the peak. This would imply construction employment of around 200,000 at the end of January, a trend which is consistent with the monthly Construction Employment Index, itself down 23% from the peak. Other variables are adjusting accordingly, most notably average weekly earnings in the sector which experienced their first annual decline in a decade in Q3'08 at -1.3%.

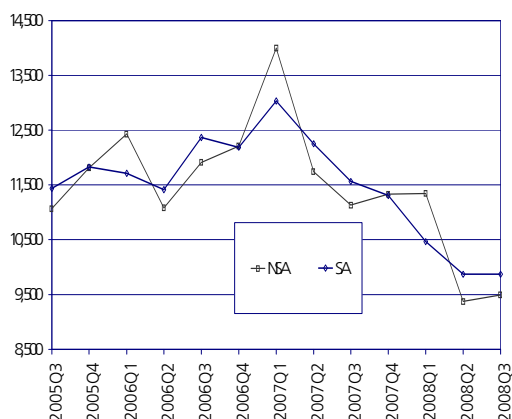
The volume of new work continues to diminish in the face of increased uncertainty and increasing unemployment. There has been a notable fall off in housing production levels as demonstrated by the dramatic slide in registrations and commencements. The trend in planning permissions also deteriorated further with only 15,293 units in total granted planning permission in Q3'08 - the lowest level since Q1'03. The fact that value and number of mortgage loans paid out fell in 2008 by more than half their corresponding levels in 2007 provides further evidence of a weakening housing market.

Falling house prices are, if anything, compounding the difficulties already faced by the market. The entire country has been affected by the blanket reduction in the value of residential (and non-residential) property which has resulted in many FTBs facing negative equity on their mortgages. Average house prices nationally have lost 16% of their value in the past two years while house prices in the capital have lost 18% in a shorter timeframe. Moreover the most striking implication of the tsb/ESRI house price data is the 20% reduction in average FTB prices which have been declining at an accelerating pace since September 2008. Such a phenomenon of rapidly deteriorating property prices tends to have devastating effects on an economy as potential buyers and investors hold off buying in anticipation of a much reduced price in the future, thereby adding to the scale of the downturn. Other factors that have not helped the current situation have been the difficulties securing credit for mortgages as well as for private non-residential building projects. A combination of the above measures has contributed to the dramatic reduction in activity and employment levels. Consequently, confidence levels are at an all time low with very few of those respondents in the Ulster Bank confidence survey expecting an improvement anytime soon.

There are few positives to be taken from the substantial declines in construction activity but it is worth noting that public sector construction is proving rather resilient. Despite the Taoiseach's announcement that only €300 million will be cut from the 2009 Exchequer capital provision at Budget time, there remains approximately €8.44 billion in Exchequer funding allocated to the capital programme for 2009. Although this figure is down 12% from the record high of €9.6 billion in 2008, it remains up almost €500 million on 2007 expenditure (c. €8 billion). Given the reductions in tender prices – down 15% over the past two years – and with construction costs moderating, there has never been a better time to build the much needed infrastructure required to boost our competitiveness and add to the productive potential of the economy. Government should press on immediately and progress construction projects as soon as possible. This would also protect construction jobs which are being lost at a rate of 700 per week. If action is not forthcoming quickly, the prospects for the construction industry are very bleak, with every risk that the industry could contract to well below €20bn by the end of 2009 from €40bn at the peak in 2007.

# Construction indicators

**Figure 1: Gross domestic fixed capital formation**  
(Quarterly, constant 2006 chain-linked prices)



Source: CSO; National Accounts

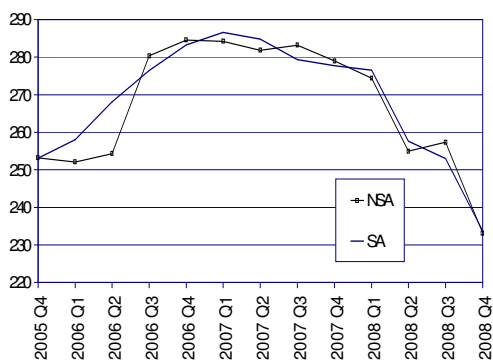
## Pace of downward investment trend decelerates

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
nsa €m.	11,740	11,133	11,331	11,343	9,375	9,493
sa €m.	12,254	11,562	11,310	10,462	9,869	9,870
% change (qoq, sa)	-6.0%	-5.6%	-2.2%	-7.5%	-5.7%	0.0%
% change (yoy, sa)	7.4%	-6.5%	-7.2%	-19.7%	-19.5%	-14.6%

The Quarterly National Accounts for Q3 2008 show that total investment in the economy (as measured by gross capital fixed formation, GFCF) fell by almost 15% in the year leading to Q3 2008, although lower than the 20% annual declines recorded in the previous two quarters. In absolute terms though the level was unchanged from Q2 and before that, the last time investment in the economy was at this level was in Q1 2004 (in constant 2006 prices). The year-on-year decline in new housebuilding activity for six successive quarters is largely responsible for the reduction in overall investment.

In fact, the acceleration in the decline in investment in new dwellings saw levels fall by one-third in Q3 2008 on that of the previous year. This contributed to the significant fall off in total residential investment (-26.5% nsa), which wasn't quite as large due to a modest positive growth in the RM&I category (+2.2%). Non-residential building investment recorded a decline of 7% yoy, its largest decline since Q3 2003. Overall non-residential investment activity (including machinery and equipment but excluding transfer costs) was down by 12.3% in Q3 2008. On this basis the full GFCF figure for 2008 looks set to come in around €40bn. (current prices), down from €50bn in 2007.

**Figure 2: Construction employment**  
(000s, sa)



Source: CSO; QHNS

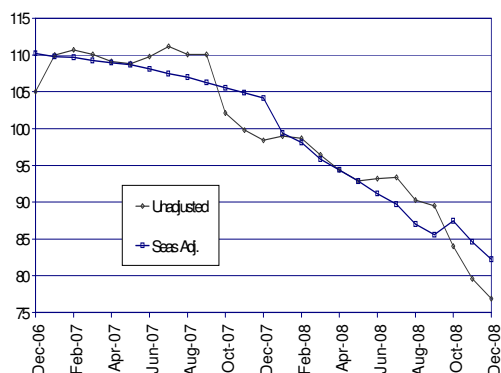
## Construction employment in Q4 down 52,800 or 18% from the peak (Q1'07)

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
nsa €m.	283.2	279.0	274.4	255.0	257.3	233.1
sa €m.	279.4	277.7	276.5	257.6	253.0	233.8
% change (qoq, sa)	-1.9%	-0.6%	-0.4%	-6.8%	-1.8%	-7.6%
% change (yoy, sa)	1.1%	-2.0%	-3.5%	-9.6%	-9.4%	-15.8%

The contraction in the housing market began to take its toll on employment in the construction sector in 2007, with the severity of it becoming apparent in the first half of 2008 and culminating in a substantial decline of 6.8% (sa) in Q2 2008 on the previous quarter. Over 27,000 jobs were lost in the previous twelve months. Having moderated to just 1.4% in Q3, data just published for Q4 shows a quarterly rate of decline of 7.6% which was in fact the largest quarterly decrease in 2008. Overall, figures for Q4 indicate a loss of almost 53,000 jobs (sa) since the peak in Q1 2007.

Looking ahead, the construction employment situation looks set to deteriorate further as the difficulties spread into the non-residential construction sector. Over the last four months, there have been further significant increases in the numbers becoming unemployed in construction as indicated by the Live Register (LR) performance. If an estimated 75% of the 66,000 males who joined the LR since October 2008 had previously worked in construction, this would imply a further 50,000 became unemployed since October 2008, bringing the total jobs lost in construction by end February 2009 to around 103,000 since the peak in Q1 2007.

**Figure 3: Construction employment index**  
(2000=100)



Source: CSO

## .....while employment in larger firms continues to plummet - down 23.3% from the peak in Oct'06

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
nsa	93.4	90.3	89.5	84	79.6	76.9
sa	89.7	87.0	85.6	87.5	84.6	82.2
% change mom, sa	-1.6%	-3.0%	-1.7%	2.2%	-3.3%	-2.8%
% change yoy, sa	-16.5%	-18.7%	-19.5%	-17.1%	-19.4%	-21.0%

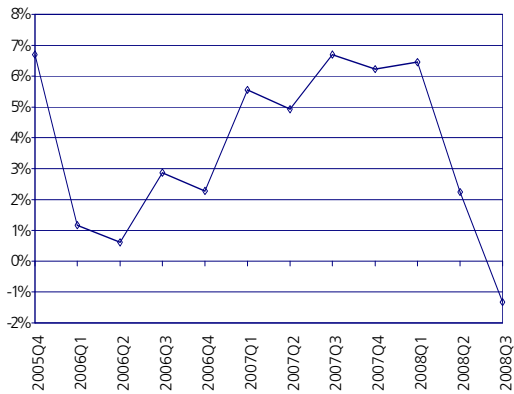
The monthly construction employment index (CEI), which is based on a survey of firms with five or more persons, revealed yet another marked contraction in the final months of 2008. The 3.3% monthly decrease in November was in fact the largest monthly decrease since the index began over twenty years ago. With this index more up to date than the QNHS (Figure 2), the latest figures that construction employment could fall to the 200,000 level before long

These figures provide further worrying evidence of the pace at which labour is being shed in the construction sector. A combination of weakening demand and confidence, difficulty in shifting current stock and the stringent credit markets have led to liquidity issues in the industry and an inevitable response from employers of cutting labour to reduce their cost base.

\*The Construction Employment Index is a monthly record of employment levels across 1,000 firms with 5 or more persons, as opposed to the QNHS which is a quarterly record of total employment from household surveys.

# Construction indicators

**Figure 4: Average weekly earnings in construction**  
(% change yoy, sa)



Source: CSO

## Average construction earnings continue to readjust downwards in Q3'08

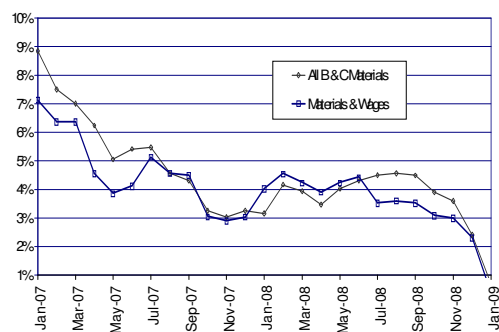
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Euro, sa	804.2	815.6	833.9	844.6	822.3	804.8
% change qoq, sa	1.4%	1.4%	2.2%	1.3%	-2.6%	-2.1%
% change yoy, sa	4.9%	6.7%	6.2%	6.5%	2.2%	-1.3%

Average weekly earnings in the construction sector continued to slide in the third quarter of 2008. As a result of the sharp quarterly reductions in Q2 and Q3, construction earnings suffered their first annual decline in a decade. Moreover, seasonally adjusted figures show that approximately €40/week has been wiped off the average construction wage since the beginning of the year.

In contrast, earnings in the distribution and business services sector increased by 0.8% (nsa) in year leading up to Q3'08. Similarly, public sector weekly earnings (excluding health) increased in Q3'08 but by a much faster 2.9%. Despite construction earnings moving contrary to the distribution and earnings sector, earnings remained much higher in the construction industry (€810.21 nsa) by a margin of approximately €95 per week. The public sector increase saw the average weekly wage rise to €945.18, thus far exceeding the aforementioned industries.

There is likely to be further scope for construction earnings to fall further as the market correction is not yet over.

**Figure 5: Wholesale price indices for building and construction materials**  
(% change yoy)



Source: CSO

## Sharp decline in building materials inflation towards 0%...

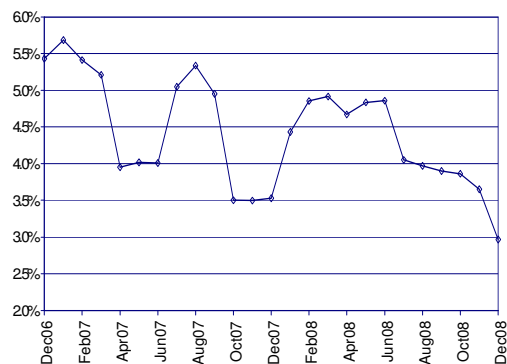
	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
All B&C Materials, nsa	148.9	149.0	148.2	147.8	146.7	144.4
% change yoy, nsa	4.6%	4.5%	3.9%	3.5%	2.4%	0.7%
B&C Mat's & Wages nsa	161.0	161.1	160.5	160.3	159.6	158.2
% change yoy, nsa	3.6%	3.5%	3.1%	3.0%	2.3%	0.4%

The annual inflation in building and construction materials has fallen sharply since August 2008 from 4.6% to 0.7% in Jan'09. Correspondingly, the inflation in materials and wages in the building and construction sector fell back to 0.4%.

Intuition would suggest that the cost of materials would fall proportionately with the severe reduction in activity levels in the construction industry. However, while the average is still marginally positive, building products like some concrete (-1.6%) and timber (-6%) products, bituminous emulsions (-22%) and electrical fittings (-3.7%) all recorded declines over the twelve months to Jan'09. Conversely, a number of products are still reporting inflation as high as 6-8%, notably structural steel, stone, sand and gravel and cement.

Given the current state of the industry and the very weak demand, it can only be a matter of time before the annual growth rates turns negative.

**Figure 6: Construction cost inflation**  
(% change yoy, nsa)



Source: SCS, Bruce Shaw, Davis Langdon PKS.

## ...while construction inflation measured by SCS could follow

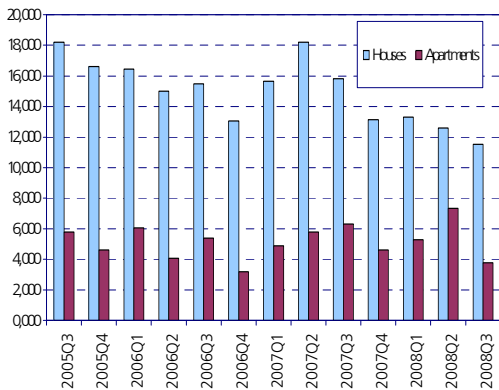
	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
SCS Const. Cost Index	303.1	303.7	303.7	303.7	303.5	302.0
Cost Inflation yoy	4.1%	4.0%	3.9%	3.9%	3.7%	3.0%

The Society of Chartered Surveyors' (SCS) measure of construction inflation has now been declining since the middle of 2008 right through to the end of the year. In fact, for the months of November and December, this measure recorded 2 consecutive monthly declines in construction costs for the first time since 1998.

The most recent figures from the SCS showed a further substantial fall in tender prices in the second half of 2008: down by 7.6% between June'08 and Dec'08 following a decline of 3.1% between Dec'07 and June'08 – translating into a decline of 10.5% for the year as a whole. Overall tender prices in the construction sector are down by almost 15% since the peak in June'07 and are back to where they were in the second half of 2000. This reflects the dramatic fall off in all sectors of construction – residential and commercial building in particular. The current situation, however, whereby contractors are bidding at or below cost in order to secure a share of the ever diminishing market cannot be sustainable, however, The SCS expects a further reduction in tender prices again in 2009 but at a slower rate.

# Construction indicators

**Figure 7: Planning permissions: houses and apartments**  
(quarterly, nsa)



Source: CSO

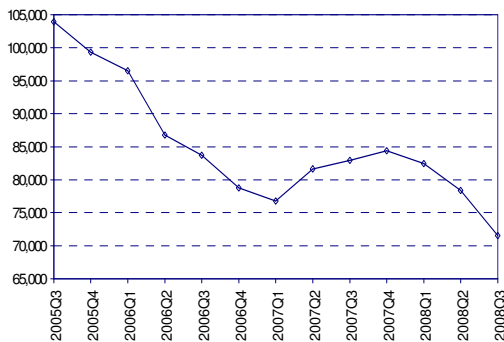
## Planning permissions in Q3'08 at lowest level since Q1'03

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
<b># Houses</b>						
nsa	18,201	15,838	13,135	13,301	12,598	11,532
% change yoy nsa	21.2%	2.3%	0.6%	-15.0%	-30.8%	-27.2%
<b># Apartments</b>						
Nsa	5,787	6,300	4,598	5,281	7,344	3,761
% change yoy nsa	41.7%	16.7%	43.8%	8.1%	26.9%	-40.3%
<b>Total Units</b>						
nsa	23,988	22,138	17,733	18,582	19,942	15,293
% change yoy nsa	25.6%	6.0%	9.1%	-9.5%	-16.9%	-30.9%

The total number of residential units granted planning permission in Q3'08 is down a massive 30.9% on the same quarter in the previous year to just over 15,000 - the lowest level since Q1'03. This is essentially a reduction of almost 7,000 units, over 60% of which represent houses. Apartments recorded the largest decline in percentage terms with over 40% fewer units granted planning permission compared with last year.

With the number of houses granted planning permission down over 13% since the beginning of the year, there is every risk that further reductions in the number of planning permissions will be recorded over the coming months, with the total number falling back towards 10,000 per quarter at its lowest point.

**Figure 8: Total residential planning permissions**  
(four quarters, running total, nsa)



Source: CSO

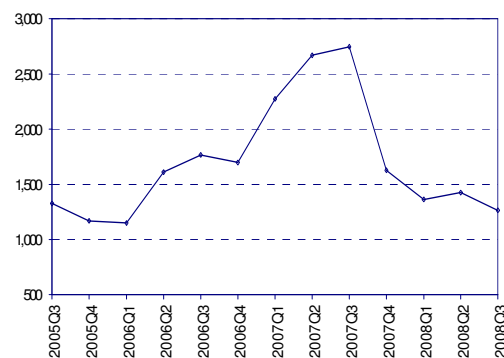
## ...as the annual number of units granted permission drops again in Q3'08

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
nsa	81,660	82,915	84,397	82,441	78,395	71,550
% change yoy	6.4%	1.5%	1.8%	-2.3%	-4.9%	-8.7%

The 12-month running total of residential units granted planning permission declined by 8.7% yoy in Q3'08 signalling what appears to be an accelerating downward trend. The current level of 71,550 units implies that the 12 mrt for Q3 is at its lowest level since Q2'02 and it is highly likely that the downward spiral will continue over the coming quarters given the unprecedented scale of the current downturn.

With the exception of major urban hubs, planning permissions will remain rather subdued by historical standards until there are clear signs that the stock of unsold inventory is shifting. As there is no evidence to suggest that this process has started, it is likely that the numbers could continue to fall over the remainder of 2009 at least.

**Figure 9: Floor area for new non-residential construction**  
(quarterly, 000s sq. metres, nsa)



Source: CSO

## Planning permission for agricultural buildings down almost 90% in the year to Q3'08

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
nsa	2,668	2,747	1,625	1,362	1,425	1,265
% change yoy, nsa	65.5%	55.7%	-4.2%	-40.1%	-46.6%	-53.9%

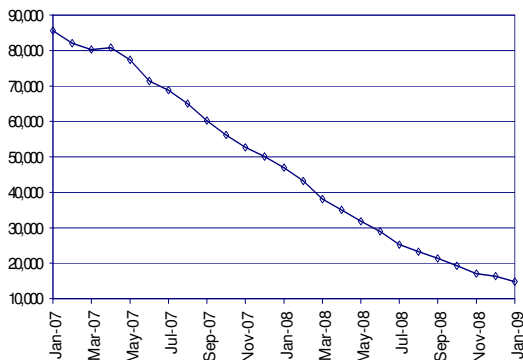
The total floor area granted for non-residential construction is significantly down on the previous year having fallen by 53.9% in the year leading up to Q3'08. The figure stood at 1,265,000 sqm in Q3'08, having been more than double that one year previously.

Looking at the breakdown, the sharpest reduction is for agricultural buildings (-88%) reflecting the Dec'08 deadline for grants under the various farm improvement schemes. The second largest decline was for industrial building (-49%) while commercial building was down by 14% - both a reflection of the dramatic fall off in confidence in the industry and the difficulties securing funding for projects.

Although it accounts for a relatively small proportion of the overall amount it is worth noting that the floor space planned for hotels and restaurants increased by in excess of 56% in Q3'08.

# Construction indicators

**Figure 10: Registrations**  
(12-month running total)



Source: Homebond, Premier Guarantee, DKM estimate

## Registrations plummet to 16,000 mark in 2008...

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
12 mrt *	23,244	21,371	19,326	17,074	16,376	14,842
% change mom	-7.9%	-8.1%	-9.6%	-11.7%	-4.1%	-9.4%
% change yoy	-64.3%	-64.5%	-65.6%	-67.6%	-67.3%	-68.4%

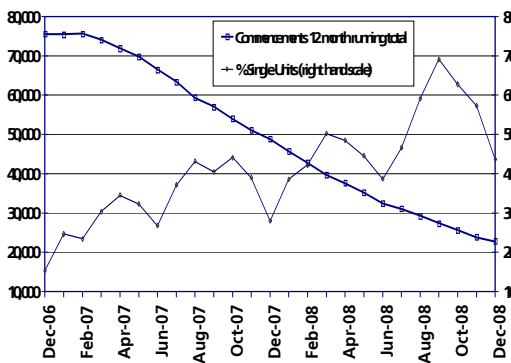
The latest published figures for registrations (recorded by Homebond & Premier Guarantee) show that just 12,676 were recorded in 2008 - a figure which is almost incomparable with the 67,000 recorded at the peak in 2006 whilst figures for Jan'09 suggest that monthly registrations fell to a mere 241 units.

After our adjustment\* the annual total for 2008 becomes a mere 16,376, compared with an estimated 50,000 units in 2007. Clearly, the severity of the reduced registrations is a result of builders cutting supply in the face of a rapidly contracting market, the plunge in house prices and the high level of unsold housing stock that remains to be cleared.

It does appear that the reaction from builders has been greater than anticipated with the result that the published figure for registrations this year could be less than 5,000.

\* Our adjusted figure for total housing registrations is derived by adding an estimate for one-off houses, based on the proportion of one-offs in the planning permissions data to the registrations figure (based on Homebond and Premier Guarantee data), assuming a six month lag between permissions and registrations.

**Figure 11: Total residential commencements**  
(12-month running total)



Source: DEHLG

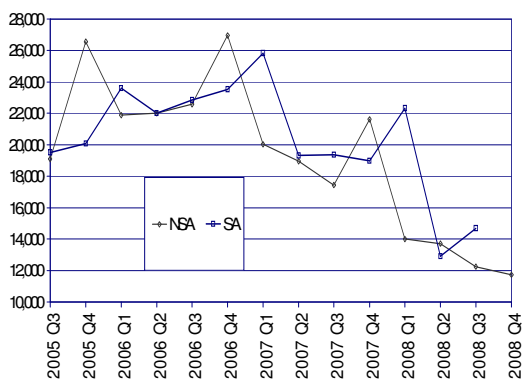
## ... commencements down 53% in 2008

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
12 mrt	31,106	29,313	27,448	25,740	23,890	22,852
% of single units	46.7%	59.1%	69.1%	62.8%	57.4%	43.7%
GDA 12 mrt	8,808	8,391	7,759	7,642	7,500	7,056
GDA as% of nat tot	28.3%	28.6%	28.3%	29.7%	31.4%	30.9%

As with registrations, residential commencements have experienced a continuing reduction ever since they peaked in July'06. Total commencements in 2008 were at 22,852, over 50% below the corresponding total for 2007. Looking at the running 12 month total, it has been down by more than 50% since June'08. A continuation of this trend would see total commencements down to around 11,500 by the end of 2009. As commencements exclude public sector units, we have to add on an estimated 5,000 public sector units, subject to the Exchequer capital provision being sufficient to deliver this amount this year. This would bring total commencements on the year to around 16,500. At this point in time with no data yet published for 2009 this is only an indicative estimate. However the current severe contraction in housebuilding activity combined with the lack of confidence amongst buyers suggests that any signs of a recovery are unlikely to emerge any time soon.

Single units as a % of the total have been falling for three months now since Sept'08 and represented almost 44% in Dec'08 compared with 47.5% for the full year. Of the annual total of 10,856 single units, Cork County provided 1,155 of them, Donegal 977, Galway 840, Mayo 771 and Kerry and Wexford around 530 each.

**Figure 12: Total dwellings completed**  
(Number, quarterly)



Source: DEHLG, based on ESB residential connections

## True level of housebuilding in 2008 much lower than 51,724..

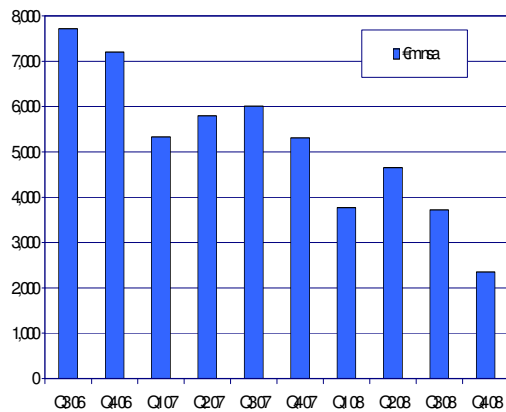
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Total Completions, nsa	17,427	21,622	14,010	13,726	12,250	11,728
% change qoq, sa	-2.0%	17.7%	-42.2%	13.8%	NA	NA
% change yoy, nsa	-19.4%	-19.8%	-30.0%	-27.6%	-29.7%	-45.7%

The total completions figure published for 2008 is 51,724. However this figure, as it is based on ESB connections, is an overestimate of the true level of housebuilding in 2008. In fact in the current climate it might be more a proxy for actual sales rather than actual housebuilding. We make this claim as estate houses and single units do not tend to be connected for electricity until a transaction takes place. With apartments the relationship is more difficult as many blocks can be connected when completed but may not be sold for some time. This would imply that the 51,724 is even an overestimate of actual transactions. There is the further complication that, in the current market, units sold and connected for electricity may have been built in the previous year, a trend which can typically happen in a downturn/slowdown, following the peak. The level of unsold stock at around 35,000 new units is testament to this. Thus we suggest that the figure of 51,724 units is not a reliable measure of actual housebuilding for last year.

So what is? There is no comprehensive measure of the actual number of units built. Our own estimates suggest that it was more in the region of 40,000 to 45,000 in 2008. At this stage we have little data on which to base our estimate for completions in 2009 but our previous estimate of 25,000 in the *Annual Construction Review and Outlook* last September now looks over optimistic. Our analysis of registrations above suggests that completions this year could be 23,000 or lower. Connections, on the other hand, could well be closer to 40,000 again this year as the unsold stock is cleared.

# Construction indicators

**Figure 13: Value of housing loans paid out**  
(€m quarterly)



Source: Irish Bankers Federation

## Value of loans paid out down 56% in 2008...

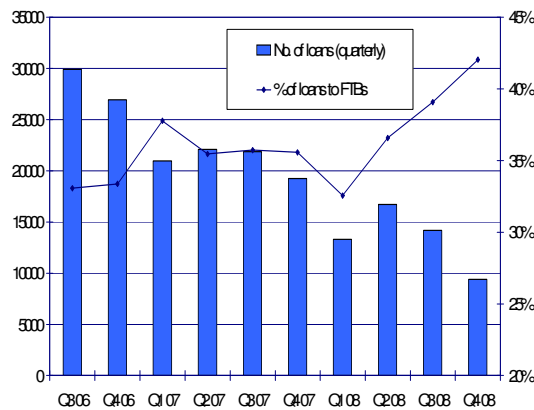
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
€m. nsa *	5,798	5,308	3,770	4,656	3,723	2,352
% change yoy, nsa	-16.2%	-26.3%	-29.3%	-19.7%	-38.1%	-55.7%
Avg. loan value, nsa €'000s	262.5	274.8	283.5	278.9	262.0	249.8

\* (excluding re-mortgages and top-up loans)

Data from the Irish Bankers Federation (IBF) shows that the value of mortgage lending fell by 55.7% (yoy) to €2,352 million in Q4'08 – down from almost €8bn at the peak (Q3'06). The value of loans paid out to first time buyers (FTB's) was down by approximately 46% on the previous year while loans to existing owner purchasers declined by 55% over the same period.

It is clear that there has been a dramatic reduction in this series over the past two years and this is due primarily to the tighter lending restrictions imposed by the banks but also as a result of the reduction in house prices which is showing no signs of abating anytime soon. With lending restrictions likely to stay tight for some time yet, notwithstanding the recent funding injection by Government, and with house prices continuing to fall, this series is likely to keep on falling throughout 2009 at least.

**Figure 14: Total number of housing loans paid out**  
(Number, quarterly)



Source: Irish Bankers Federation

## ...also reflected in the number of loans paid out – down 51%

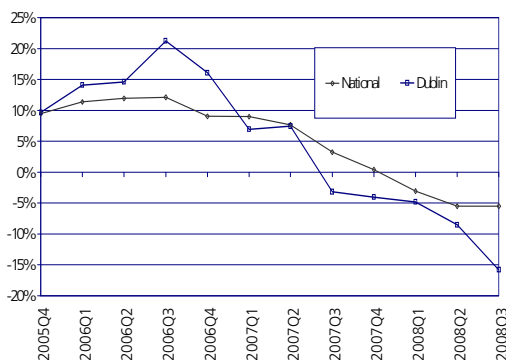
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
nsa	21,878	19,264	13,299	16,694	14,208	9,415
% change yoy, nsa	-26.8%	-28.5%	-36.6%	-24.4%	-35.1%	-51.1%

\* (excluding re-mortgages and top-up loans)

Not surprisingly, the series for the number of loans paid is displaying the same trends as the value of loans series. The decline in the number of loans paid is accelerating, having reached an annual rate of 51% in Q4'08 compared with an annual decline of 35% in the previous quarter. Less than 10,000 mortgages were taken out in Q4'08 compared with over 30,000 at the peak. This is yet another illustration of the dramatic fall off in buyer activity and transactions.

Notwithstanding the notable downward trends in the number of loans paid out, it is worth pointing out that under the government recapitalisation scheme, both Bank of Ireland and Allied Irish Bank are required to make around €2 billion available in credit to mortgages to prevent the industry from collapsing completely. Assuming that the average first time buyer mortgage is around €230,000, this would enable in excess of 8,000 first time buyers purchase their first home, whilst also shifting some of the unsold inventory. However buyers need to be confident about making major purchases and current consumer sentiment indices at the moment suggest otherwise.

**Figure 15: New house prices**  
(% change, yoy)



Source : DEHLG.

## DEHLG house price data continues to decline nationally – albeit at a much faster pace in Dublin

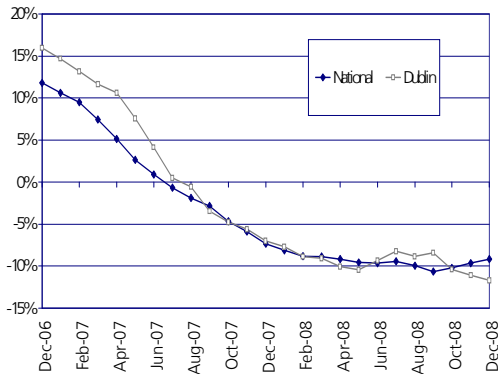
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
National (€) nsa	331,947	319,214	314,333	311,113	313,678	301,680
% change qoq, nsa	3.4%	-3.8%	-1.5%	-1.0%	0.8%	-3.8%
% change yoy, nsa	7.7%	3.2%	0.4%	-3.1%	-5.5%	-5.5%
Dublin (€) nsa	426,900	412,324	402,346	397,697	390,544	347,233
% change qoq, nsa	2.2%	-3.4%	-2.4%	-1.2%	-1.8%	-11.1%
% change yoy, nsa	7.4%	-3.2%	-4.1%	-4.8%	-8.5%	-15.8%

New house price data for Q3'08 indicate that residential properties nationwide are continuing to loose value. This trend continues despite the annual rate of decline in national new house prices levelling off somewhat in Q3 at -5.5% (nsa). New house prices in Dublin suffered a much more dramatic decline having lost 15.8% of their value over the previous twelve months, leaving the average price of a new house in the capital standing at €347,233 – some €45,000 more expensive than the national average.

According to the DEHLG series, average house prices across the State peaked at €331,947 in Q2'07 suggesting that approximately 10% has been wiped off the value of new house prices in a matter of 15 months. Similarly Dublin house prices peaked in Q2'07 at €426,900 on average but by Q3'08 had fallen back by 18.6% - almost double the national average percentage decline. The average price for a new house in Dublin stood at €347,233 compared to a national average of €301,680 indicating a price differential of 15%, having been 29% at the peak (Q2 2007).

# Construction indicators

**Figure 16: House prices**  
(% change, yoy)



Source : permanent-*tsb*/ESRI

## National house prices down 9.4% on average in 2008...

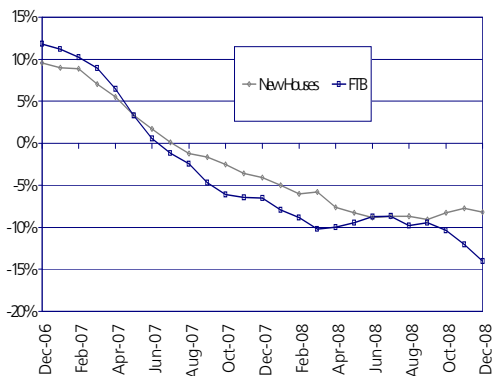
	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
National index, nsa	122.4	121.3	120.0	119.0	118.4	117.3
% change mom, nsa	-0.2%	-0.9%	-1.1%	-0.8%	-0.5%	-0.9%
% change yoy, nsa	-9.4%	-9.9%	-10.6%	-10.2%	-9.6%	-9.1%
Dublin Index nsa	125.2	124.2	123.2	120.0	119.0	116.6
% change mom, nsa	-0.6%	-0.8%	-0.8%	-2.6%	-0.8%	-2.1%
% change yoy, nsa	-8.2%	-8.8%	-8.4%	-10.4%	-11.1%	-11.7%

National house prices have been falling now for two years since they peaked in Jan'07 and are already down by 15.9%. Similarly the average price of a house in Dublin has dropped by 18.3% since it peaked in April 2007. In 2008 alone, house prices on average fell by 9.4% nationally and by 9.5% in Dublin.

Looking at the most recent trends, the annual decline nationally has decelerated since Sept'08 to 9.1% in Dec'08 but has accelerated in Dublin to 11.7% in Dec'08 from 8.4% in Sept'08. The average house price nationally stood at €261,573 in Dec'08 and was €351,096 in Dublin. Despite prices falling somewhat faster in Dublin, the average price of a house in the capital is still over one-third (34%) higher than the average across the country as a whole – compared with a margin of 40% at the peak two years ago.

The key factor now impacting on house prices is the increase in unemployment and concerns about job security, which is damaging confidence further but also increasing concerns about the mortgage arrears and repossessions. Thus we have not reached the bottom yet and further price reductions seem inevitable during 2009 at least.

**Figure 17: House prices**  
(% change, yoy)



Source : permanent-*tsb*/ESRI

## ...while FTB house prices report record falls in value...

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
New index, nsa	125.6	125.1	124.6	124.0	123.9	123.0
% change mom, nsa	-0.2%	-0.4%	-0.4%	-0.5%	-0.1%	-0.7%
% change yoy, nsa	-8.7%	-8.7%	-9.1%	-8.3%	-7.7%	-8.2%
FTB Index, nsa	124	122.5	121	118.5	116.2	113.2
% change mom, nsa	-0.4%	-1.2%	-1.2%	-2.1%	-1.9%	-2.6%
% change yoy, nsa	-8.7%	-9.8%	-9.4%	-10.4%	-12.0%	-14.0%

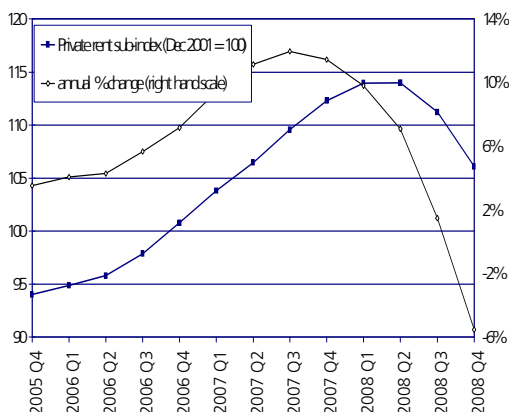
The average price of new houses in Ireland dropped by 7.7% on average in 2008 and by 13% since their peak in Feb'07. The year-on-year decline has been at a steady 8% since Oct'08.

Perhaps the most striking feature of the *tsb*/ESRI data is the rapid pace of acceleration in the decline in FTB house prices. FTB prices are already down 20% on average from their peak in March'07 but the pace of decline in the latter months of 2008 is striking, increasing from an annual rate of -9.4% in Sept'08 to -14% by Dec'08. The average FTB price was €224,153 in December, which is equivalent to just over 5 times average earnings.

Interestingly similar trends are reported for house prices in the commuter belt, which we do not cover here. The average decline to date from their peak is 23% and was 17% in Dec'08.

Once again the increase in unemployment and concerns about job losses will discourage FTBs from entering the property market. Moreover with rents continuing to fall, the renting option may look more favourable for the foreseeable future until there is evidence that house prices have stabilised.

**Figure 18: CPI private housing rents sub-index**  
(December 2001=100)



Source : CSO.

## Private rents only back to early 2007 levels...

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
CPI Rents Index	109.6	112.3	114.0	114.0	111.2	106.1
% change, qoq	2.9%	2.5%	1.5%	0.0%	-2.5%	-4.6%
% change, yoy	12.0%	11.4%	9.8%	7.1%	1.5%	-5.5%

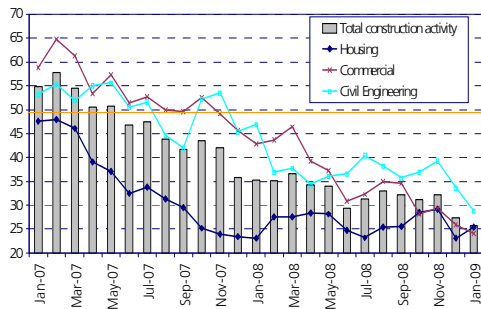
The CSO's Private Rents sub-index value fell for the second successive quarter in Q4'08. As this measure is not seasonally adjusted, it is the annual growth rates that are more relevant. Here it can be seen that private rents fell 5.5% in the year to Q4'08. Despite the reduction of 4.6% in Q4, private rents are only back to early 2007 levels – whereas average house prices are back to mid'05 levels. This may suggest that rents have further to fall this year.

The drop in the private housing rents Index for Q4 appears to be somewhat underestimated when the Q4 Daft Rental Report is taken into account in which rents have reportedly fallen by 6% qoq on average across the country. Furthermore, given the excess supply in the rental market, it is somewhat surprising to discover that rents haven't recorded a greater reduction than the CPI's measure of 5.5% throughout the year. In this regard, the Daft National Rent Index points to an overall reduction of almost 12% yoy in December which has seen the average rent nationwide fall from over €1,000 in Q1'08 to €885 by the end of the year.

Again the reduction in jobs and possibly the return of net outward migration will exacerbate the excess supply situation, resulting in better value for tenants during 2009.

# Construction indicators

**Figure 19: Construction Purchasing Managers' Index (PMI) (monthly, sa)**



Source: Ulster Bank

## Irish construction confidence even more negative ...

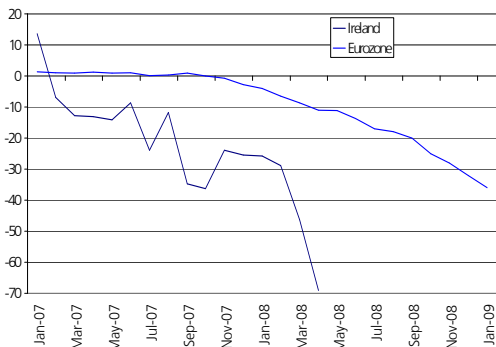
	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
<b>Total construction</b>	<b>33.0</b>	<b>32.2</b>	<b>31.2</b>	<b>32.1</b>	<b>27.4</b>	<b>25.7</b>
Housing	25.4	25.5	28.6	29.2	23.1	25.4
Commercial	35.0	34.6	28.2	29.4	25.9	24.1
Civil engineering	38.2	35.8	36.9	39.3	33.7	28.8

Confidence in the construction sector reported two successive monthly lows at the turn of the year as the index continued to plunge deep into more negative territory i.e. below 50. Civil engineering trends and weakening commercial activity are largely responsible for this latest downturn.

The extent of the downturn is evident from the Ulster Bank PMI survey with less than 10% of respondents reporting increases in activity in all 3 categories for Jan'09. Such figures do not come as a surprise given that the construction employment index continues with its dramatic decline. On the contrary however, construction costs are decreasing as are tender rates but clearly not by enough to restore confidence levels in the market. Coupled with this further drop in confidence, only 1 in 5 believes that circumstances will change for the better by January 2010.

*\*The Ulster Bank PMI is a seasonally adjusted monthly index designed to measure the overall performance of the construction economy by tracking output, new orders, employment and prices. A reading above 50 indicates an increase in activity; a reading below fifty indicates a contraction in activity.*

**Figure 20: Construction confidence**



Source: Eurostat

## While EU confidence descends further into negative territory

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Eurozone (sa)	-18	-20	-25	-28	-32	-36

Data on construction confidence in Ireland from the Eurostat survey has not been updated since April 2008. However, given the performance of other indicators quoted in this report, we might expect the series to have continued its dramatic plunge into negative territory. The confidence index experienced a downward trend since the end of '06, declining at an accelerating pace since February of this year.

The EU measure of construction confidence fell into negative territory in November 2007 and has been declining ever since, descending at a much more rapid rate in recent months. The global credit crisis and the associated uncertainty that has gripped the European economy will have contributed to the loss in confidence across the EU. It will require a major turnaround of events if the confidence measure is to emerge into positive territory anytime soon.

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This confidence indicator is a composite index based on firms' order books and employment expectations. Given the high degree of variability, caution is needed in interpreting the results.

*\*The latest data for Ireland relates to April 2008 only as there was a temporary discontinuation of the Business, Consumer and Building Surveys in Ireland in May.*

## Construction indicators

Indicator	Frequency	Source	Unit	Seasonally adjusted	
				Yes/No	By
1 Estimates of fixed investment in B&C	Quarterly	CSO	€m	Yes	CSO
2 QNHS construction employment	Quarterly	CSO	Number	Yes	CSO
3 Construction employment index	Monthly	CSO	Index	Yes	DKM
4 Average weekly earnings in construction	Quarterly	CSO	€	Yes	DKM <sup>1</sup>
5 Wholesale price index for B&C materials	Monthly	CSO	Index	No	DKM <sup>2</sup>
6 Capital goods price index for B&C	Monthly	CSO	Index	No	DKM <sup>2</sup>
7 SCS construction cost index	Monthly	SCS	Index	No	
8 Bruce Shaw tender price index	Annual	BS	Index	No	
9 Bruce Shaw construction cost index	Annual	BS	Index	No	
10 Planning permissions	Quarterly	CSO	Number	No	(3)
11 Floor area for non-residential new construction	Quarterly	CSO	Sq.mtrs.	No	(3)
12 Total registrations (incl. est. for one-offs)	Monthly	DKM est.	Number	No	(3)
13 Dwelling completions	Quarterly	DEHLG	Number	No	DKM
14 Total value of housing loans paid out	Quarterly	DEHLG/IBF	€m	Yes	DKM
15 Total number of housing loans paid out	Quarterly	DEHLG/IBF	Number	Yes	DKM
16 Average loan value (based on drawdowns)	Quarterly	DEHLG/IBF	€000	Yes	DKM
17 National average new house prices	Quarterly	DEHLG	€000	Yes	DKM
18 Dublin average new house prices	Quarterly	DEHLG	€000	Yes	DKM
19 Permanent TSB national house price index	Monthly	ptsb/ESRI	Index	No	(3)
20 Permanent TSB Dublin house price index	Monthly	ptsb/ESRI	Index	No	(3)
21 Permanent TSB new house price index	Monthly	ptsb/ESRI	Index	No	(3)
22 Permanent TSB FTB house price index	Monthly	ptsb/ESRI	Index	No	(3)
23 CPI private housing rents sub-index	Quarterly	CSO	Index	No	(3)
24 Ulster Bank purchasing managers' index (PMI)	Monthly	Ulster Bank	Index	Yes	NTC Econ.
25 EU construction confidence index	Monthly	Eurostat	Index	Yes	Eurostat
26 Construction confidence index for Ireland	Monthly	Eurostat	Index	Yes	Eurostat

- 
- 1) Seasonally adjusted average weekly average earnings calculated using average earnings per hour (sa) and average hours worked (sa).
  - 2) Seasonal pattern rejected because of problem with the reliability of the data.
  - 3) Unadjusted data only presented and denoted nsa (not seasonally adjusted).