Comhshaol, Oidhreacht agus Rialtas Áitiúil
Environment, Heritage and Local Government

DKM
ECONOMIC CONSULTANTS

Construction industry Indicators

Issue 18

Prepared for

the **Department of the Environment, Heritage and Local Government**

September 2009

DKM Economic Consultants Ltd.
6 Grand Canal Wharf,
South Dock Road,
Ringsend,
Dublin 4.
Telephone: 353 1 6670372
Fax: 353 1 6144499
E-mail: info@dkm.ie
Website: www.dkm.ie

Construction indicators

Introduction

The availability of good and robust data is important for carrying out analysis of the construction sector, especially at a time when the industry is experiencing a major adjustment such as the one which is underway at present. Gross investment in the building and construction sector accounted for 76% of total investment in the economy and almost 19.5% of GNP in 2008. New residential construction alone accounted for 7.3% of GNP compared with 11.2% in 2007 and approximately 13% in 2005 and 2006. Given the nature of the downturn and the direction of the most recent indicators, this proportion looks set to fall further to around 3% in 2009. According to the recently published ***Construction Industry Review 2008 and Outlook 2009-2011*** construction output in 2009 will represent around 14.5% of GNP, compared with 23.8% at the peak in 2007.

This is number eighteen in the series of *Construction Indicators,* prepared for the Department of the Environment, Heritage and Local Government (DEHLG)[1]. 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[2]. 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. In addition, the CSO, in conjunction with the DEHLG, is currently developing a mix-adjusted house price index which will take account of different property, location and purchaser characteristics. 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[3].

Sources of data include the Housing Division 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**[4] and is available on **www.dkm.ie**.

[1] 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.
[2] See www.cso.ie
[3] Using the Tramo-Seats software via the Demetra interface developed by Eurostat. http://forum.europa.eu.int/irc/dsis/eurosam/info/data/demetra.htm
[4] Previous issues are available at http://www.environ.ie/en/Publications/StatisticsandRegularPublications/ConstructionIndustryStatistics/

Construction indicators

Latest indicators suggest that the construction recession has intensified over recent months

The most recent set of *Construction Indicators* provides an accurate snapshot of the very depressed state of the construction industry, which has now been contracting for more than two years. Virtually all indicators continue to weaken as the economic recession makes its mark, not just in regard to residential construction, but also in respect of the volume of public and private non-residential construction. As a result the current prognosis has become increasingly pessimistic in terms of output volumes and with construction costs now in decline, this comes as a mere consolation to an industry that is currently in the midst of the most severe downturn in thirty years.

The lack of construction investment channelled into the economy, as measured under Gross Fixed Capital Formation (GFCF), will prove to be a major contributory factor to the negative economic growth rates expected in 2009. The volume of new residential investment, which accounted for less than one-fifth of overall GFCF in Q2 2009, declined at an accelerating rate yoy in the second quarter (-55.8%). Other building & construction also declined in yoy terms (-17.8%), while investment in machinery and equipment increased in Q2 (+10.9%, supported by purchases of aircraft) and expenditure on improvements also increased (+4.1%), albeit at the slowest yoy rate in 2 years. In Q2 2009, total building and construction investment declined to 13.2% of GNP from 21.2% in Q2 2008.

The latest figures released from the Quarterly National Household Survey (QNHS) indicate that construction employment fell by 12.9% (sa) in Q2 2009 from the previous quarter, generating a total reduction of 35.4% yoy. The implications of the figures are that the construction industry shed a total of 115,000 jobs since the peak in Q2 2007 or 161,000 including an estimate for indirect jobs. Construction does appear to account for the largest number of job losses across the economy, accounting for two-third of all direct job losses over the past two years. In terms of the Live Register, the latest figures for September 2009 show that 183,600 (sa) additional people joined the Register over the course of the previous year, which represented an slight increase (+600) on the previous month of August. As construction projects finish up, and with the decline in new orders, construction employment can be expected to decline further.

The most recent housing data show that all supply indicators have continued to record dramatic declines over recent months. *Planning permissions* for houses and apartments recorded a yoy decline of -35.7% in Q2 2009, resulting in 7,111 fewer units with planning permission compared with the total in Q2 2008. As of Q2 2009, the total number of residential units with planning permission had fallen to around 56,000 units in the previous twelve months - a little over half the corresponding figure recorded at the peak in Q2 2005. *Registrations* continued declining in August 2009 (-70% yoy), with just 5,407 units (exc. one-offs) registered in the previous 12 months. Similarly, *commencements* nationwide were running at just 11,204 in the 12 months to August 2009, a reduction of 64% on the previous twelve months. Single units dominate accounting for around 70% of the total. Overall, the supply side is expected to continue to perform poorly until confidence and signs of house price stability return to the market. The most recent 2009 Annual Construction Industry Review and Outlook (CIRO) document forecasts 17,000 completions this year and just 10,000 in 2010.

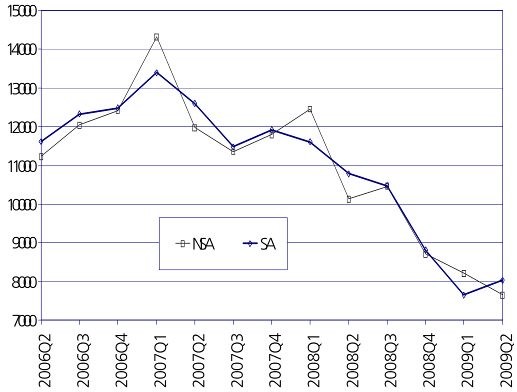
The value of loans paid out remains at an exceptionally low level despite modest pick up in Q2’09. It is the combination of reduced buyer activity and low consumer confidence as well as falling property prices which has led to the overall contraction in mortgage lending activity compared with its peak in Q3’06. With almost 50% of the total loans in Q2 2009 (6,678 excluding re-mortgages and top-up loans) paid out to first-time buyers (FTBs), the good news is that the average FTB loan is rapidly approaching €200,000 in Q2’09 compared with an average national loan value of €229,100.

House prices, both nationally and in Dublin, have continued to fall in August, continuing their downward trend now for about 2½ years. Permanent tsb/ESRI data suggests that since their respective peaks in February and April 2007 national house prices fell by 24.4% in August, while Dublin house prices declined by 28.6%. With many potential homebuyers holding off on their purchases and adopting a wait-and-see approach, further price falls seem inevitable. There is the added problem of the existing overhang of unsold properties, estimated in the recently published 2009 CIRO at 136,000 units (new and existing) on *average*. This figure represents the overhang, i.e. an estimate over and above what is considered as the ‘normal’ level of vacant units (i.e. estimated at 6% of stock), and is equivalent to around four years of current housing demand. The unsold stock level is likely to be considerably more in some rural areas and in areas which benefitted from tax breaks during the boom years.

Latest data from the Ulster Bank Purchasing Managers Index, which measures confidence/activity levels in the construction sector, reports that while such levels remained extremely weak in August 2009, they had in fact improved somewhat from the record low at the beginning of the year. The commercial sector fared better than both civil engineering and the housing sector in recent months, with the data suggesting that January 2009 is most likely to have been the month that the overall PMI measure bottomed out. However, it is difficult to conclude that the decline in construction is easing when set against the decline in new orders and the increase in job losses. The 2009 CIRO forecast that volume of construction output would contract by 38% in 2009 following a 16% decline in 2008. Thus signs of any recovery would seem to be a long way off.

Construction indicators

Figure 1: Gross domestic fixed capital formation
(Quarterly, constant 2007 chain-linked prices)



Source: CSO; National Accounts

Investment in fixed assets down 24.1% year-on-year in Q2'09

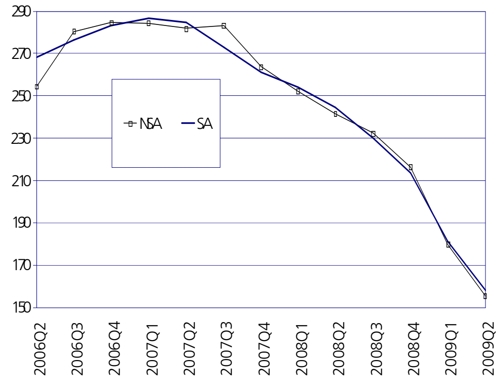
	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
nsa €m.	12,463	10,132	10,461	8,711	8,217	7,659
sa €m.	11,578	10,585	10,714	8,813	7,606	8,039
% change (qoq, sa)	-2.8%	-8.6%	1.2%	-17.7%	-13.7%	5.7%
% change (yoy, sa)	-13.4%	-15.0%	-8.0%	-26.0%	-34.3%	-24.1%

CSO Quarterly National Accounts for Q2'09 show that total investment in the economy (as measured by gross fixed capital formation, GFCF) fell 24.1% (yoy) to €8,039 million (sa) in Q2'09 – a slight improvement on the decline of -34.3% (yoy) in Q1'09. The bulk of the overall decline in GFCF has come from residential investment - a sector which now accounts for approximately one-fifth of all investment - which declined by 55.8% (yoy) in Q2'09. Contrary to this, investment in machinery and equipment (M&E), which accounts for 31% of GFCF, managed a 10.9% (yoy) increase in the latest quarter, although heavily influenced by a volatile aircraft component. The decline was 43% (yoy) excluding aircraft.

Investment in the improvements/maintenance market continued its strong performance in this latest quarter, having increased by 4.1% (yoy) in Q2'09. Improvements account for roughly 12% of total investment and are continuing to provide the economy with some respite while overall investment falls.

Latest figures from Ulster Bank's PMI Index for Aug'09 indicate that construction activity is still contracting sharply although there can be some solace found in the fact that the index was at its highest level since Nov'07. Despite this however, the latest CIRO concluded that the construction recession is deepening and that any recovery is unlikely until after 2011.

Figure 2: Construction employment
(000s, sa)



Source: CSO; QHNS

Two-thirds of job losses in last two years were in construction

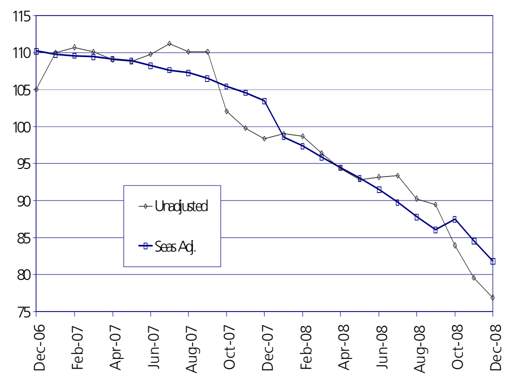
	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
sa (000s)	254.1	244.7	230.0	213.4	181.5	158.0
nsa (000s)	252.1	241.4	232.3	216.3	179.9	155.4
% change (qoq, sa)	-2.8%	-3.7%	-6.0%	-7.2%	-14.9%	-12.9%
% change (yoy, sa)	-11.3%	-14.1%	-15.7%	-18.3%	-28.6%	-35.4%

The numbers employed in the construction sector reached a historic high of 272,800 (sa) in Q2 2007. Just two years later however, the numbers directly employed in construction had fallen to 158,000. This is a reduction of almost 115,000 direct jobs or 161,000 jobs including an estimate for indirect jobs created in firms supplying the construction sector. The annual rate of decline accelerated for the eighth quarter in a row to 35.4% in Q2 2009.

Thus the highest job losses across the whole economy have been in construction, which accounted for 66% of total jobs lost in the economy over the past two years. The numbers employed in construction look set to decline much further over the coming quarters as volumes of new orders in construction continue to fall sharply due to the recession, with some projects being postponed or cancelled altogether due to difficulties securing project finance.

The prospects for construction employment look bleak in the absence of any stimulus for construction. The recently published 2009 CIRO suggested that total direct employment would fall to 150,000 by Q4 2009 but even this figure now looks optimistic. If the rate of decline recorded in Q2 (-12.9%) was to be repeated in Q3 and Q4, total direct employment would fall closer to 120,000 by Q4 2009.

Figure 3: Construction employment index
(2000=100)



Source: CSO

…while employment in larger firms was down 23.3% in Dec'08 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%

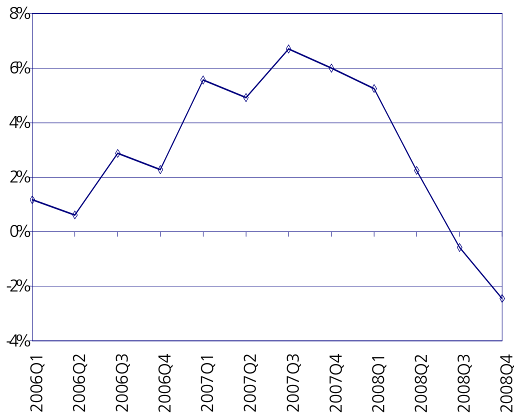
The monthly construction employment index (CEI), which is based on a survey of firms with five of more persons, revealed yet another marked contraction in the final months of 2008. The 3.3% monthly decrease in November was in fact the largest monthly decrease since the index began over twenty years ago.

These figures provide further worrying evidence of the pace at which labour is being shed by larger firms 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, reduced incomes 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.*
This series was discontinued by the CSO in December 2008, thus explaining why it has not been updated in 2009.

Construction indicators

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



Average construction earnings fell by just 2.4% during 2008 – the equivalent of a €20/week reduction

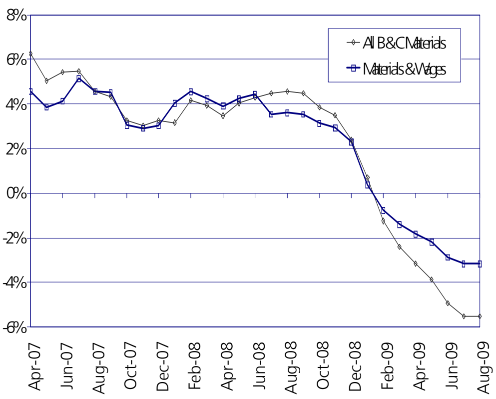
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Euro, sa	815.6	832.1	835.0	822.3	810.9	811.7
% change qoq, sa	1.4%	2.0%	0.4%	-1.5%	-1.4%	0.1%
% change yoy, sa	6.7%	6.0%	5.3%	2.2%	-0.6%	-2.4%

Average weekly earnings (sa) in the construction sector remained almost stagnant in Q4'08, following quarterly declines in Q2 and Q3. Overall weekly earnings fell by 2.4% during 2008 – this is in contrast to the year-end position of +6% at end of 2007 and +6.7% at end of 2005. As a result of this year-on-year decrease, average construction earnings now stand at €822.31 per week (not sa); down from €842.29 in Q4 2007 – a decline of €20 per week.

In contrast, average weekly earnings in the Public Sector (excluding Health) rose by 3.2% in the year to December 2008. At an average of €945.18 per week, earnings in this sector were €123 more per week than in the construction sector. More recent data for Q1 2009 show the annual rate of hourly earnings, including irregular bonuses, fell by 11.1% in the financial sector but rose by 5.9% in the industrial sector.

The Irish economy is undergoing a period of transition with wage levels adjusting in an effort to restore competitiveness. Competition in the badly hit construction industry has intensified having suffered on several fronts and wage levels have had to adjust accordingly. Earnings look set to decline further over the coming months as firms continue to reduce costs in an effort to remain competitive.
The CSO is currently working on a new construction earnings series.

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



Source: CSO

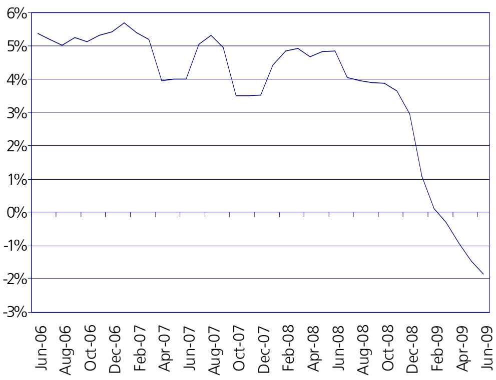
Building & construction materials deflation stabilises at 5.5% in last two months

	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
All B&C Materials, nsa	142.2	141.6	141.5	140.7	140.7	140.7
% change yoy, nsa	-2.4%	-3.1%	-3.9%	-4.9%	-5.5%	-5.5%
B&C Mat's & Wages nsa	156.8	156.4	156.4	155.9	155.9	155.9
% change yoy, nsa	-1.4%	-1.8%	-2.2%	-2.9%	-3.2%	-3.2%

Annual inflation for building and construction materials has been slowing ever since the highs of 10% reached during 2006 but it was not until Feb'09 that this measure finally turned negative. In the five months that followed, this measure experienced an accelerating decline, reaching -5.5% in July of this year, but was unchanged in Aug'09. Similarly, building and construction materials/wages turned negative in Feb'09 and has since accelerated downwards, albeit at a slower rate, to reach -3.2% in July, and again was unchanged in Aug'09. Whether this is an indication of building and construction prices stabilizing remains to be seen. As demand for construction weakens further over the next twelve months, further price reductions cannot be ruled out.

Looking at some of the main components of the building and construction materials index, the prices for structured steel and reinforcing metal were down by almost 25% yoy while the prices for bituminous emulsions were down by almost 16%. Only two groups of building materials – cement and stone, sand and gravel - recorded price increases in yoy terms, of 8% and 4.2% respectively.

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



Source: SCS, Bruce Shaw, Davis Langdon PKS.

…while construction inflation, as measured by SCS, is down by more than 2% in July

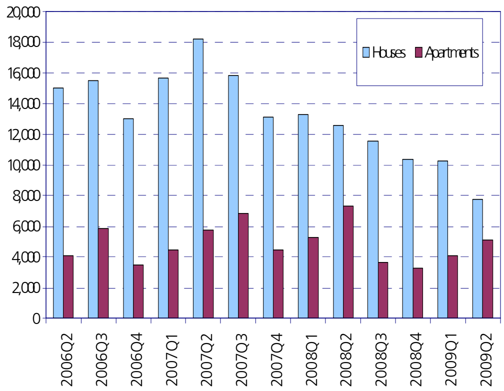
	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
SCS Cost Index	298.5	297.8	297.4	296.9	296.4	296.4
Cost Inflation yoy	0.1%	-0.3%	-0.9%	-1.5%	-1.9%	-2.2%

Construction cost inflation, as measured by the Society of Chartered Surveyors' (SCS) index, reached a record low in yoy terms since the index began in 1993. The index declined by more than 2% in July'09 and only turned negative for the first time in Mar'09. Given the extent of the downturn in the industry and with building and construction materials prices down by 5.5%, the lower SCS rate of decline suggest that labour costs, the other significant element in construction costs, are falling by a lesser rate. Assuming the split between labour and materials is 60/40, this would suggest that labour costs were actually unchanged in the year to June'09.

As construction costs decline, they have yet to catch up with the decline in tender prices. The most recent data for the SCS tender price index suggests that construction tender prices fell by 17.3% in the first half of 2009 compared with the first half of 2008. By the end of June 2009, tender prices had fallen by 23% on average from their peak in the first half of 2007, returning tender prices to 1999 levels. With some projects experiencing reductions in excess of the average of 23%, the reduction to date represents good value for clients and should encourage more rather than less construction investment in much needed public sector infrastructure at this point in time.

Construction indicators

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



Source: CSO

Annual rate of decline in units granted planning accelerates in Q2'09

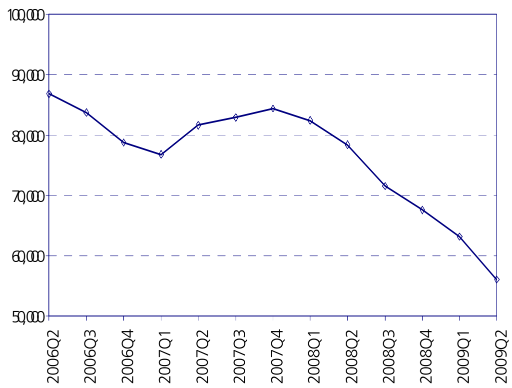
	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
# Houses						
nsa	13,301	12,598	11,532	10,375	10,256	7,739
% change yoy nsa	-15.0%	-30.8%	-27.2%	-21.0%	-22.9%	-38.6%
# Apartments						
Nsa	5,281	7,344	3,761	3,392	3,921	5,092
% change yoy nsa	8.1%	26.9%	-40.3%	-26.2%	-25.8%	-30.7%
Total Units						
nsa	18,582	19,942	15,293	13,767	14,177	12,831
% change yoy nsa	-9.5%	-16.9%	-30.9%	-22.4%	-23.7%	-35.7%

The number of houses granted planning permission fell again in Q2'09 to 7,739, with the annual rate of decline accelerating to -38.6% (yoy). The number of apartments granted planning also declined at an accelerating rate in yoy terms, having fallen by 30.7% in Q2'09 versus Q2'08. Overall the 12,831 units granted planning permission represented a decline of 35.7% on the corresponding number in Q2'08.

The Mid-East was the only region in which the number of residential planning permissions increased in the first half of 2009: +56.1% on 1H'08. In contrast, the Mid-West region recorded the greatest decline - a reduction of 49.2% over the same period.

The number of one-off houses granted permission was 2,238 in Q2 2009 or 4,981 in the first half of 2009. This total represents 18% of the total number of units granted planning in the first half of the year. The majority are planned in the Border (21% of total), South-West (17%) and West (15%) regions.

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



Source: CSO

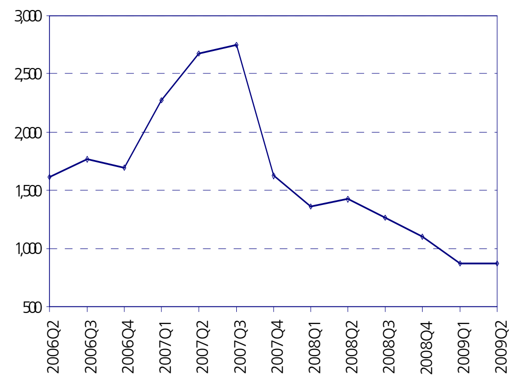
...while the total number of units granted planning falls to 56,068

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
nsa	82,441	78,395	71,550	67,584	63,179	56,068
% change yoy	7.4%	-4.0%	-13.7%	-19.9%	-23.4%	-28.5%

The 12-month running total of residential units granted planning permission continued to decline in Q2'09, falling to 56,068 – a little over half the corresponding figure recorded at the peak in Q2'05. This figure is the lowest ever recorded over the 10-year old dataset. Until signs emerge that the stock of unsold inventory is beginning to shift, planning permissions are likely to remain subdued over the coming quarters.

In terms of the unsold stock the recently published 2009 CIRO estimated the oversupply of residential units (new and existing) - over and above what is considered as the 'normal' level of vacant units (i.e. 6% of stock) – at 136,000 units on average, which is equivalent to around four years of current housing demand. The unsold stock level is likely to be considerably more in some rural areas and in areas which benefitted from tax breaks during the boom years. On this basis, the number of planning permissions may not have bottomed out yet.

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



Source: CSO

Non-residential floor are granted permission remains below 900sq. metres for second quarter in a row

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
nsa	1,362	1,426	1,265	1,103	868	873
% change yoy, nsa	-40.1%	-46.6%	-53.9%	-32.1%	-36.3%	-38.8%

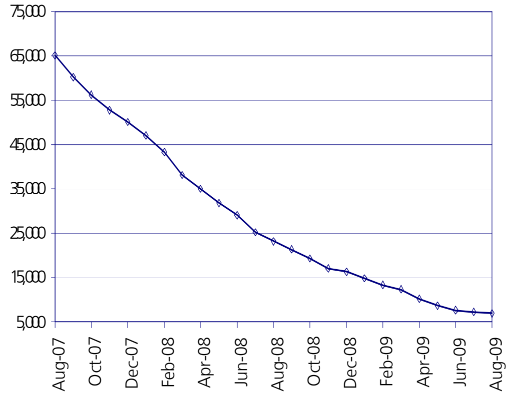
Total floor area planned for non-residential construction was 873,000m^2 in Q2'09. Of this, 426,000m^2 (49%) was for Commercial buildings, 161,000m^2 (18.5%) for Government buildings (incl. health and education) and 158,000m^2 (18%) was for Agriculture buildings, while Industrial buildings accounted for 59,000m^2(6.7%).The total floor area planned decreased by 38.8% in comparison with the same quarter of 2008.

Looking in more detail at the breakdown for the first six months of 2009, the types of buildings recording the highest levels of floor area were buildings for Trade and Administration buildings for other economic activities (31% of total), Offices (15%), buildings for Agriculture, Forestry and Fishery (14%) and buildings for Health and Welfare (9%) and Industrial buildings (9%). The only building categories registering an increase in the total floor area in 1H'09 compared with 1H'08 were Health and Welfare (+39.5%), Mining, Energy and Water (+25%).

The quarterly total of 873,000 sq. metres represents the second quarter in a row in which the total fell below 900,000 sq. metres and compared with 2.7m sq. metres at the peak in Q3'07.

Construction indicators

Figure 10: Registrations
(12-month running total)



Source: Homebond, Premier Guarantee, DKM estimate

Only 2,678 registrations in first eight months of 2009

	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
12 mrt *	12,304	10,232	8,640	7,676	7,268	6,894
% change mom	-8.1%	-16.8%	-15.6%	-11.2%	-5.3%	-5.1%
% change yoy	-67.7%	-70.8%	-72.9%	-73.6%	-71.2%	-70.3%

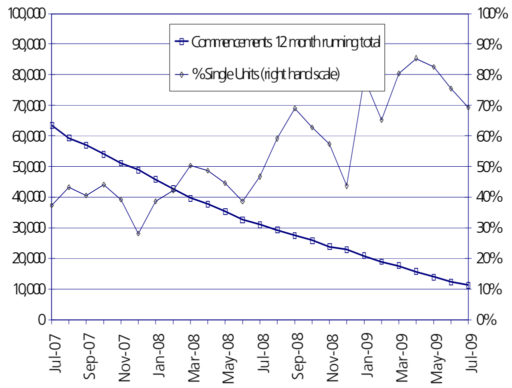
The latest published figures for registrations (recorded by Homebond & Premier Guarantee) show that only 2,678 units were registered in the first eight months of 2009 - down 73% on the same period in 2008. The total in the twelve months to Aug'09 was 5,407.

Registrations are made after commencements and exclude all builders who are not registered with the national guarantee/insurance Homebond and Premier Guarantee schemes as well as one-off housing and public sector units.

Adjusting the total* for the number of one-offs units not captured in the registrations, the total is down by 70% (yoy) in the 12 months to Aug'09 on the same period last year. The adjusted figure amounts to 3,457 in the first eight months or 6,894 in the 12 months to August. Based on these trends the prospects for new building activity over the next 12 months are very bleak (see completions below).

** 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

Single units dominate, accounting for almost 70% of total commencements in the past 12 months

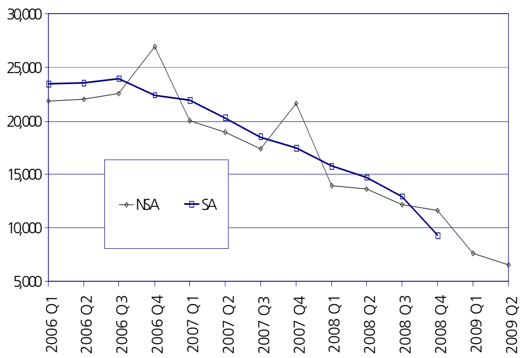
	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
State 12 mrt	18,987	17,600	15,761	13,916	12,278	11,204
% of single units	65.2%	80.4%	85.3%	82.5%	75.4%	69.2%
GDA 12 mrt	5,483	5,306	4,931	4,034	3,464	3,080
GDA as% of nat tot	24.1%	20.0%	24.7%	14.6%	22.8%	34.9%

Commencements capture the number of units (excluding public sector) for which the builder has commenced preliminary and other site works in advance of proceeding to construction. There were 11,204 units commenced in the 12 months to July'09 - a 64% reduction on the corresponding total in the 12 months to July'08. The number of single units commenced was 7,612, 68% of the annual total compared with 69.2% in the month of July alone and an average of just 33.7% over the full year 2007. This implies that single units have been dominating commencements over the past twelve months as the number of multi-unit developments has experienced a sharp reduction.

Trends in the GDA show that commencements totalled just over 3,000 in the 12 months to July'09, approximately one-third of which represented single units.

In terms of completed units, assuming a 12-month build period, the total number of completions in 2009 would correspond with the total number of commencements in 2008, which was 23,000 units. Assuming a 9-month build period, the corresponding total for completions would be around 17,000. However, given difficulties securing project finance, the likelihood is that a number of these may not proceed to construction this year, implying that total completions could be closer to 17,000 units or even lower.

Figure 12: Total dwellings completed
(Number, quarterly)



Source: DEHLG, based on ESB residential connections

Proxy for completions down by 51.5% year-on-year in Q2'09

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
Total Completions, nsa	14,010	13,726	12,250	11,738	7,711	6,768
% change qoq, sa	-9.7%	-6.7%	-23.3	-28.1%	N/A	N/A
% change yoy, nsa	-30.0%	-27.6%	-29.7%	-45.7%	-45.0%	-50.7%

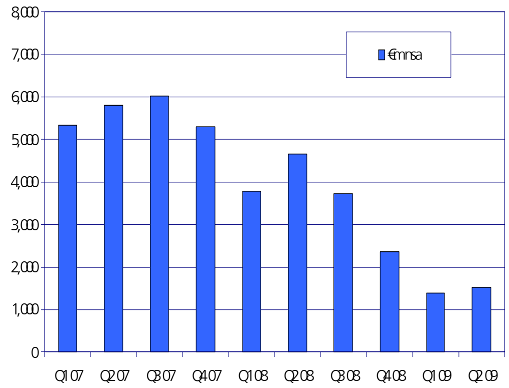
The proxy for total completions, ESB residential connections, fell in Q2'09 to their lowest level recorded since Q1'95, almost 15 years earlier. Total quarterly completions (i.e. connections) were down 50.7% to 6,651 compared to levels in Q2 the previous year. This translates to a 75% reduction from the peak level of almost 27,000 completions recorded in Q4'06.

Based on the figures for Q1 and Q2 and including the figure for July (2,354), they suggest that completions totaled almost 17,000 in the first seven months of 2009. This is most definitely an overestimate of the true level of housebuilding, taking trends in commencements, registrations and construction employment into account so far this year. The likelihood is that some of these 17,000 units were built in 2008 or 2007 and have only been connected for electricity this year, following a transaction/sale. Approximately 13,000 of these 17,000 represent houses and 6,000 of these represent estate/scheme houses, a large proportion of which may have been completed in previous years and could even have been hanging over since 2006/07.

As a result, this data series is no longer a reliable measure of the number of units built in a given year. Returning to the comments made under commencements above, we expect the actual level of new build this year to be around 17,000 in the full year, falling to around 10,000 in 2010.

Construction indicators

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



Source: Irish Bankers Federation

The value of loans paid out remains at an exceptionally low level despite modest pick up in Q2'09

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
€m. nsa*	3,770	4,656	3,723	2,352	1,388	1,530
% change yoy, nsa	-29.3%	-19.7%	-38.1%	-55.7%	-63.2%	-67.1%
Avg. loan value, nsa €'000s	283.5	278.9	262.0	249.8	252.0	229.1

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

The latest data from the Irish Banking Federation show the value of mortgage lending increased by 10.2% (qoq) in Q2'09. Despite this marginal growth however, the value of such loans (excluding re-mortgages and top-up loans) remained considerably down year-on-year, by 67.1% compared with the Q2'08 figure and by 65% in the fist six months of 2009 on the same period in 2008. It is the combination of reduced buyer activity and low consumer confidence as well as falling property prices which has led to the overall contraction in mortgage lending activity compared with its peak in Q3'06. The quarterly value of mortgage lending has declined from €7.7 billion at the peak in Q3'06 to €1.5 billion in just under 3 years.

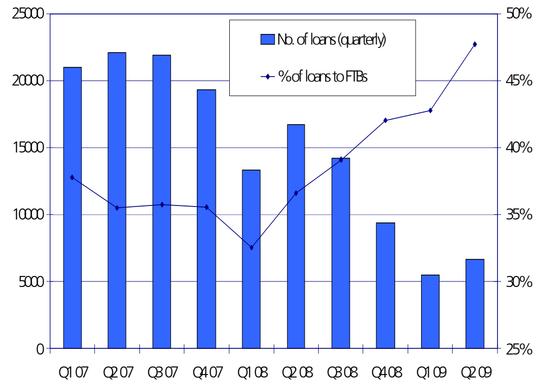
The value of lending to investors was just €226 million in Q2'09 while lending to mover purchasers and FTB's was down by 63% (yoy) and 57% (yoy) respectively.

Whether the value of housing loans has bottomed out will depend on the impact of the National Assets Management Agency (Nama) and whether it succeeds in delivering an expansion in lending again. However, with further house price reductions expected, potential buyers may continue to postpone their purchases until a later date.

.

The average FTB loan rapidly approaches €200,000 in Q2'09 compared with an average national loan value of €229,100.

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



Source: Irish Bankers Federation

…yet almost 50% of loans were paid to FTB's in Q2'09

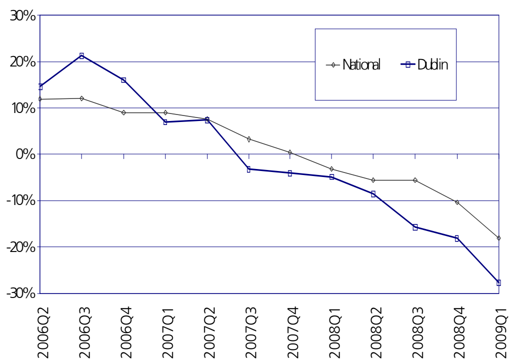
	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
nsa	13,299	16,694	14,208	9,415	5,508	6,678
% change yoy, nsa	-36.6%	-24.4%	-35.1%	-51.1%	-58.6%	-60.0%

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

In line with the value of loans above, the number of housing loans paid out in Q2'09 also increased compared with Q1, according to IBF data. The number of loans drawn down in Q2'09 amounted to 6,678 (excluding re-mortgages and top-up loans), representing an increase of 21.2% in the quarter but a decline of 60% on the same period in the previous year - the largest annual decline recorded by IBF data to date.

There was a notable quarterly increase in the number of loans paid out to mover purchasers (+20%) and FTB's (+35%) in Q2'09 while loans to investors were down (-10%). .

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



Source : DEHLG.

The average price of new houses nationwide down over 23% in less than 2 years

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09
National (€) nsa	314,333	311,113	313,678	301,680	282,023	255,029
% change qoq, nsa	-1.5%	-1.0%	0.8%	-3.8%	-6.5%	-9.6%
% change yoy, nsa	0.4%	-3.1%	-5.5%	-5.5%	-10.3%	-18.0%
Dublin (€) nsa	402,346	397,697	390,544	347,233	329,625	290,402
% change qoq, nsa	-2.4%	-1.2%	-1.8%	-11.1%	-5.1%	-12.8%
% change yoy, nsa	-4.1%	-4.8%	-8.5%	-15.8%	-18.1%	-27.7%

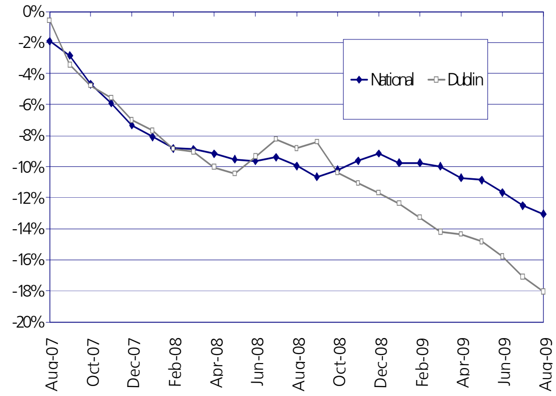
New house price data for Q1'09 confirms that the average price of residential properties has continued to decline at an accelerating rate year-on-year, a trend that has been characteristic of the previous 2 years. According to this index, 18% has been wiped off the value of average new house prices across the State in the year to Q1'09 while Dublin house prices have been more affected, having fallen by almost 28% over the same timeframe.

The latest quarterly decline in the average price for new houses has also reached record levels both nationwide and in Dublin having declined by as much as 9.6% and 12.8% respectively in Q1'09 on the preceding quarter.

The DEHLG quarterly house price series, which is based on loan approvals, tends to lag the ptsb/ESRI monthly house price index (based on loan payments), suggesting that further declines are likely to continue to be experienced over the coming quarters.

Construction indicators

Figure 16: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

Dublin house prices down 29% from their peak but still 30% higher than the average national house price…

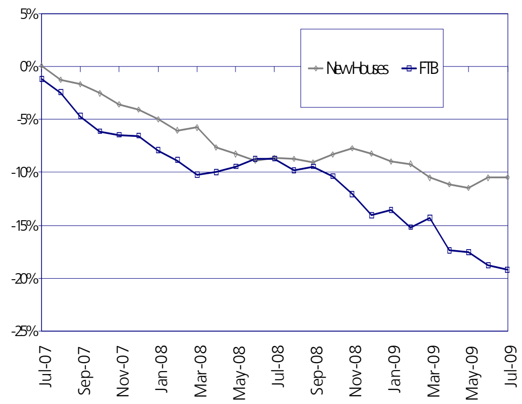
	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
National index, nsa	113.7	111.5	110.0	108.3	107.1	105.5
% change mom, nsa	-1.0%	-1.9%	-1.3%	-1.5%	-1.1%	-1.5%
% change yoy, nsa	-10.0%	-10.7%	-10.9%	-11.7%	-12.5%	-13.0%
Dublin index nsa	111.1	109.9	107.5	106.1	103.8	101.8
% change mom, nsa	-1.2%	-1.1%	-2.2%	-1.3%	-2.2%	-1.9%
% change yoy, nsa	-14.2%	-14.3%	-14.8%	-15.8%	-17.1%	-18.0%

The monthly rate of decline in average house prices across the State was 1.5% in August 2009, the same as that recorded two months earlier in June. Average house prices continued to fall in yoy terms also, reaching 13%, the highest annual rate of decline since house prices started to decline in yoy terms in July 2007. The culmination of such a decline has meant that 24.4% has been wiped off the value of national house prices since they peak in January 2007.

Dublin house prices, which peaked in April 2007, had lost almost 29% of their value by August 2009. Although the peak in Dublin house prices came 3 months after national house prices peaked, the rate of decline has been much faster in the capital and reached 18% yoy in August compared with 13% nationally.

In absolute terms, average house prices across the State in August stood at €235,260 while average house prices in Dublin were 30.4% higher at €306,795. Based on average earnings of around €40,000, these prices translate into 5.9 times earnings using the national average price and 7.7 times using Dublin prices. With price to earnings ratios likely to be closer to 3.5 or 4 in a 'normal' market, this suggests that further adjustment in prices is inevitable.

Figure 17: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

…while average FTB house prices fell below €200,000 for the first time since October 2003

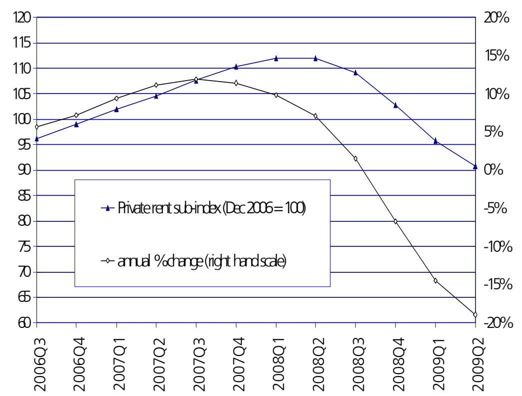
	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
New index, nsa *	120.7	118.4	115.3	112.9	112.6	112.5
% change mom, nsa	-0.6%	-1.9%	-2.6%	-2.1%	-0.3%	-0.1%
% change yoy, nsa	-9.2%	-10.5%	-11.1%	-11.5%	-10.5%	-10.4%
FTB Index, nsa *	109.1	108.8	104.3	102.8	101.1	100.2
% change mom, nsa	-2.8%	-0.3%	-4.1%	-1.4%	-1.7%	-0.9%
% change yoy, nsa	-15.2%	-14.3%	-17.4%	-17.6%	-18.8%	-19.2%

The average price of a new house in Ireland fell by 8.5% in the seven months to July 2009 bringing the year-on-year decline to -10.4%. The monthly decreases have slowed somewhat in July to -0.1% following a record monthly decline of -2.6% in April. In absolute terms, the average price of a new house in Ireland stood at €243,719, down 20% from the peak of €306,328 in February 2007.

Similarly, the monthly decline in the average price of a FTB house slowed considerably in July (-0.9%) compared to the record decline of -4.1% in April 2009. Despite this however, this measure has continued to decline much faster than the new house price index with average prices having dropped by 19.2% (yoy) in July 2009. The average price paid by FTB's in July fell below €200,000 for the first time since Oct'03 and was some 18.6% below the national average new house price in the same month and 29% lower than what FTB's were paying in March 2007 (€279,795).

* Data for August is not available due to small sample size.

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



Source : CSO.

Private housing rents fell by 11.7% in first half of 2009

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
CPI Rents Index	112.0	112.0	109.3	102.9	95.8	90.8
% change, qoq	1.5%	0.0%	-2.4%	-5.9%	-6.9%	-5.2%
% change, yoy	9.8%	7.0%	1.5%	-6.7%	-14.5%	-18.9%

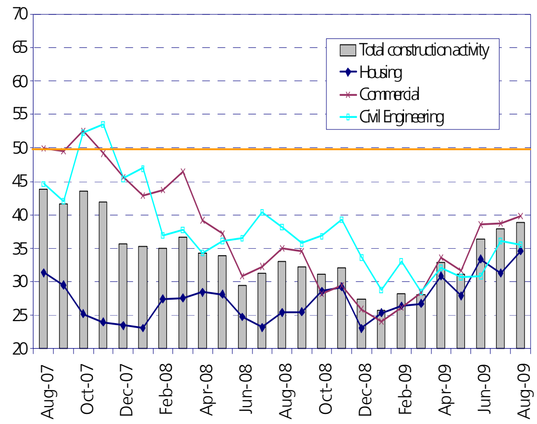
The CSO's Private Rents sub-index fell for the fourth successive quarter in Q2'09 having peaked one year previously in Q2'08. Overall, private rents have fallen by approximately 18.9% since their peak in Q2'08.

Although there was a quarterly reduction of 5.2% in Q2'09, this was in fact slower than the previous quarterly reduction of 6.9% in Q1. Nonetheless, this translates into an overall reduction of 11.7% in private rents between Q4'08 and Q2'09.

The Daft Rental Report for Q2'09 shows that rents have typically fallen nationwide by between 15% and 20% from their peak at the beginning of 2008. The number of properties available at any one time to rent has experienced a considerable increase and the consequence of this has been increased competition amongst landlords for tenants resulting in the reduction in rents which has been recorded to date. This contrasts with previous years during which an excess demand for rented accommodation was pushing up rents. To illustrate the pace of this adjustment, there were approximately 23,400 properties available to rent nationwide in August 2009 compared with almost four times fewer (6,200) in August 2007.

Construction indicators

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



Source: Ulster Bank

PMI suggests that the decline in construction is easing?

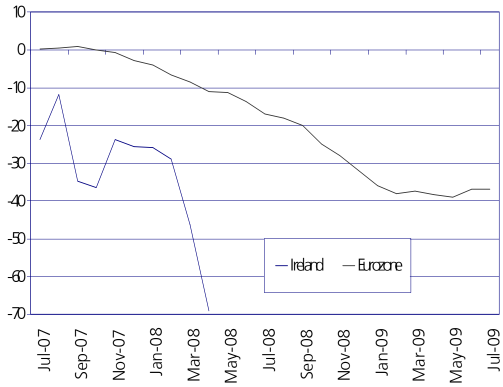
	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Total construction	28.1	32.9	31.1	36.3	37.9	38.8
Housing	26.7	30.9	27.9	33.4	31.3	34.6
Commercial	28.3	33.6	31.7	38.5	38.7	39.8
Civil engineering	28.5	32.1	30.7	30.9	36.1	35.5

The overall performance of the construction economy, as reported by Ulster Bank's PMI*, recorded yet another significant contraction in August 2009. There are some positives to be taken from these latest figures however, in that August recorded the slowest contraction in approximately 20 months (since November 2007). Each of the three composite measures recorded considerable declines in July and August and while the commercial sector recorded the lowest contraction, the housing sector was the worst affected.

However, it is difficult to conclude that the decline in construction is easing when set against the decline in new orders and the increase in job losses. The recently published Construction Industry Review 2008 and Outlook 2009-2011forecast that volume of construction output would contract by 38% in 2009 following a 16% decline in 2008 (see www.environ.ie).

**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 the restoration of construction confidence levels may take some time yet

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Eurozone (sa)	-38	-37	-38	-39	-37	-37

Data on construction confidence in Ireland, as measured by Eurostat, 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 2006, declining at an accelerating pace since February of 2008.

Construction confidence levels in the EU have remained relatively constant at a very low point during 2009 so far. Contributing to such low confidence levels is the fact that almost every Western European country is expected to record a contraction in construction output volumes this year. It may take approximately 18 months before these EU trends begin to display any meaningful positive adjustments given that most countries are not expected to see a recovery in residential output volumes until 2011.

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[1]
5	Wholesale price index for B&C materials	Monthly	CSO	Index	No	DKM[2]
6	Capital goods price index for B&C	Monthly	CSO	Index	No	DKM[2]
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).
* These series were discontinued in December 2008.
** This series was discontinued in April 2008.