A further deterioration in the prospects for construction across the Euroconstruct region

Ireland expected to record the strongest decline in construction output volumes across the Euroconstruct area in 2008, followed by Spain

Ireland's housebuilding rate tumbles from 21 units per 1,000 of the population in 2006 to 10 units in 2008

Imperative that government does not renege on its commitments in the National Development Plan

Friday 13th June 2008: Delegates at the Euroconstruct conference in Rome today will be informed of a further deterioration in the prospects for construction output across the Euroconstruct Region compared with the forecasts presented at the last conference just seven months ago. Comprising 19 Western, Central and Eastern European countries, the total volume of construction output across the region is forecast to decline by 0.3% this year. The outlook for 2009 has also been revised downwards, with an almost unchanged output level forecast for next year (+0.2%). The forecasts for 2010 of +1.6% suggest the timing of the modest recovery is now postponed one year until 2010.

Looking at the composition of the forecasts, the prospects for the 15 member countries in Western Europe are revised sharply downwards in 2008 as construction output is projected to decline by almost 1% in 2008. In contrast, volumes in the Eastern European construction market are expected to expand at a faster rate this year (+9.7%) than projected previously.

The downward revisions are attributed to the series of economic events which have triggered the slowdown in the international economy, notably the housing downturn in the US and the subsequent sub prime crisis, the contraction in international financial markets and the rise in inflation in the world's major economies. As a result, each of the 19 Euroconstruct member countries records either more modest growth in 2008 or a decline in volumes compared with 2007, with the exception of Portugal, Switzerland, Poland and the Slovak Republic, where growth in construction volumes is projected to accelerate this year. The weaker economic forecasts for the Euroconstruct area as a whole is expected to lead to a decline in the total number of dwellings built across the 19 countries, from 2.64 million in 2007 to 2.26 million in 2008, a decline of 14%.

According to Annette Hughes of DKM Economic Consultants, the Irish member of Euroconstruct, "2007 represented the end of the phase of expansion in the construction market that had gone on since 1999. That phase culminated in the 2006 peak, when construction in the Euroconstruct area grew faster than total GDP (3.8% as against 3.0%). Starting in 2007 the cycle entered its slowdown phase, losing more than one percentage point of growth (2.7%) and becoming more aligned with the rate of expansion of the overall GDP (2.8%). It looks like that slowdown phase is set to continue resulting in a period of contraction in output in 2008."

Looking at the performance of the member countries, Ireland and Spain stand out as the two countries expected to record the largest contraction in construction output in 2008. Having held premier league positions over the past decade in the Euroconstruct rankings, both countries have moved into the relegation zone in 2008. The sharpest contraction in construction output volumes in 2008 is projected for Ireland at 17.7%, with Spain a distant second, where volumes are projected to fall by 5.9%. Only three other countries are expected to record output declines of very modest proportions in 2008, namely Italy, Denmark and the UK. In 2009, output is projected to contract in a total of six Western European countries, including Ireland and Spain.

The value of output in the Irish construction sector is estimated at approximately €37 billion in 2007, equivalent to 23.5% of GNP. The corresponding volume growth in construction output was 1.7%. This much lower growth, compared with previous years, represents the start of a new phase of the construction cycle during which growth is likely to be more modest and/or negative in some years, as the industry and economy adjust to the prospects of much lower housing supply over the medium term.

In Ireland, as in Spain, the very negative forecast for 2008 is dominated by the sharp contraction in new private housebuilding. According to Annette Hughes, "The rate of housebuilding in the Irish construction sector is expected to tumble from 21 units per 1,000 of the population in 2006 to just 10 units in 2008, but will still be ahead of the average of 5 units across Western Europe. There are remarkable similarities with the housing market in Spain, where the rate of housebuilding is also expected to fall from 17 units in 2006 to 10 units in 2008. Both markets are characterized by a downward spiral with respect to house prices, housing supply, mortgage lending and consumer sentiment, while the level of unsold stock in both markets is at a high level. As a result new developments are being postponed. But the new residential market in Spain is almost eleven times bigger than the equivalent market in Ireland - the total number of units built in Spain this year is forecast at 470,000 compared with 43,000 in Ireland.

Record levels of non-residential building to date in Ireland and the slowdown in economic growth in 2008 and 2009 are likely to weaken the demand for private non-residential building activity over the medium term. According to Annette Hughes, author of the Euroconstruct report for Ireland "It is thus possible that the public sector could be the key driver of construction over the medium term. With a public capital programme of the order €13.7 billion this year, this level of investment could make a substantial contribution to sustaining activity levels in the construction sector, while the housing adjustment unfolds and activity levels in the non-residential sector become more subdued. It is thus imperative that Government does not renege on its commitments to social and productive infrastructure in the National Development Plan, and that projects are brought to the construction stage as quickly as possibly, especially at a time when tender prices are falling, implying there are opportunities for real value for money. This will have the added bonus of maintaining economic activity during the downturn and delivering additional capacity for when the economy recovers."

The **Summary Report** of all papers read at the Euroconstruct conference and the **All Countries Report** containing detailed analyses and forecasts for the construction sector of each of the 19 member countries, can be ordered from DKM Economic Consultants http://www.dkm.ie/index.php?page=order-reports

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