



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



Construction industry Indicators

Issue 14

Prepared for **PPP, Construction Policy and NDP
Coordination Unit**

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

August 2008

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, given its growth over the past decade and its importance. 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.

This is number fourteen 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 2007². 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 adjustment³.

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.ie⁴ 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

Construction employment down 18,000 as most indicators decline

What is evident from the Q2 construction statistics that are available is the significant deterioration in most of the indicators over the second quarter of the year. Perhaps the most pronounced is the sharp reduction in construction employment reported in the recent QNHS. Despite surprisingly modest reductions in construction employment since Q2 2007, the impact of the contraction in residential construction has begun to show up in the employment numbers. Total employment declined by 6.5% alone in Q2'08 and by 9.4% over the previous twelve months. These percentages translate into a loss of 26,800 jobs in the year, of which almost 18,000 of them were lost in Q2'08 alone.

The trend is more negative in the monthly *Construction Employment Index*, which implies that larger firms are shedding workers at a much more rapid rate than smaller firms and the self-employed. One explanation may be that some workers being laid off in the bigger firms are either finding work in the smaller firms, working mostly in the repair and maintenance sector, or are becoming self-employed themselves.

Given the employment trends, it is perhaps no surprise that there was a slight reduction in hours worked in Q1'08, which resulted in a moderation in average weekly earnings growth for construction workers. Nonetheless, inflation in construction earnings has remained relatively high at above 6% since Q3'07 and accelerated slightly in Q1'08 to 6.6%.

More generally, the deteriorating economic outlook, the credit crunch and the difficulty obtaining funds are all affecting construction confidence. Although the latest Construction Purchasing Managers' Index (PMI) from Ulster Bank has been in negative territory for over one year now, much of the present difficulties appear to be in the housing sector. Activity in the commercial and civil engineering sectors were up in July compared with June according to the PMI Index, and the civil engineering sector was up for the third month in a row. This provides some relief in an otherwise very negative climate and reinforces the importance of continuing with the infrastructure commitments in the National Development Plan.

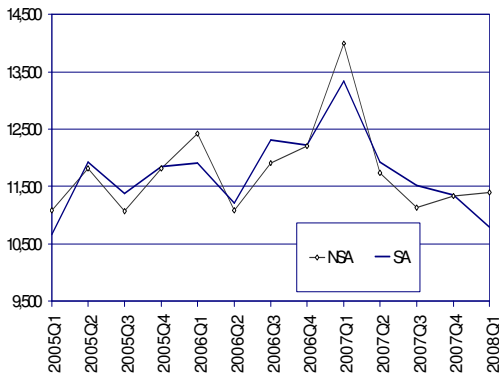
On the housing front, most of the available indicators report that there is still downward momentum in the housing market. Mortgage lending, both by value and number of loans, shrank for six quarters in a row in Q1'08, while the decline in both measures accelerated in each of the last six quarters. The other proxy for sales, albeit new sales only, ESB connections, was down by 29% in the first six months of the year on the same period in 2007. Average house prices in July were 12.3% below their peak at the beginning of the year (ptsb/ESRI data), while the average first-time buyer house price nationally had dropped by €34,300 to €245,539 at the end of July. Moreover, some industry observers suggest that the overhang of unsold new stock is around 35,000 units across the country. Against that background and given the deteriorating economic and credit environment, housebuilders continued to reduce their registrations and connections over recent months. Total registrations (adjusted for one-offs) were down to just over 12,000 in the first seven months of 2008 (-67% year to date), while there were only around 15,400 commencements in the first six months (-52% year to date). As housebuilders adopt a 'wait and see' attitude, the number of dwellings actually built this year could be around 40,000 and could be significantly lower, at around 25,000, next year.

One positive implication of recent trends is the reduction in tender prices which is generating good value for money on projects. However, the cost environment has not similarly improved, with construction cost inflation running at above 4% since the beginning of the year. Inflation in oil based building materials in particular has remained stubbornly high since October 2007 as is construction earnings inflation, referred to earlier.

Overall investment in the economy fell 5% in Q2 compared with Q1, mostly on the back of the housing downturn. It remains to be seen whether the Government will introduce any measures in, or before, the Budget in order to stem the contraction in housebuilding and restore confidence amongst buyers and builders. New housebuilding accounted for close to 13% of GNP at the top of the housing boom in 2005/2006 and looks set to fall to around 5% of GNP this year, with adverse consequences for the rest of the economy which relies on housebuilding transactions.

Construction indicators

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



Source: CSO; National Accounts

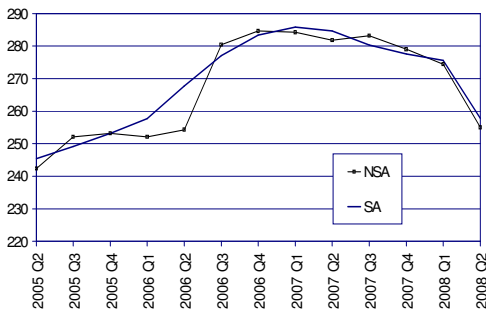
Q1 figures show total investment down almost 5% in the quarter

	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
nsa €m.	12,210	13,999	11,740	11,133	11,331	11,392
sa €m.	12,224	13,341	11,930	11,517	11,358	10,796
% change (qoq, sa)	-0.7%	9.1%	-10.6%	-3.5%	-1.4%	-4.9%
% change (yoy, sa)	3.2%	12.0%	6.4%	-6.5%	-7.1%	-19.1%

Total investment in the Irish economy (as measured by Gross Fixed Capital Formation, GFCF) fell by 19.1% (sa) in the year to Q1 2008, according to the CSO's Quarterly National Accounts release and by 5% in the quarter. The main cause of the decline in total investment is the significant contraction in new residential construction. Investment in new dwellings fell sharply for the fourth quarter in a row: by 30.4% (yoy, nsa) in Q1 of this year, following a 23% decline yoy in Q4'07. However, the residential repair and maintenance sector continued to perform strongly, growing by 9.6% over the same period. Overall, investment in residential construction contracted by 25% in Q1'08 compared with the same period in 2007.

The deteriorating economic outlook has also impacted on non-residential construction activity, which had previously provided some positive momentum in the construction sector. Non-residential construction output recorded its first annual decline since Q3'03 after falling by 3.8% yoy (nsa) in Q1'08. Total investment in the construction sector was 18% lower (nsa) in Q1 2008 than a year previously. Economic gloom also weighed heavily on manufacturing firms with investment by them down by 12.4% yoy in Q1 '08.

Figure 2: Construction employment
(000s, sa)



Source: CSO; QHNS

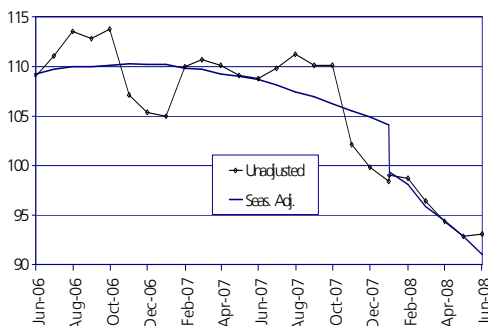
Q2 records a sharp fall in construction employment with 26,800 persons out of work in previous twelve months

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Thousands sa	285.8	284.6	280.3	277.6	275.6	257.8
Thousands nsa	284.2	281.8	283.2	279.0	274.4	255.0
% change qoq, sa	0.8%	-0.4%	-1.5%	-1.0%	-0.7%	-6.5%
% change yoy, sa	10.9%	6.3%	1.2%	-2.0%	-3.6%	-9.4%

Following surprisingly modest reductions in construction employment since Q2 2007, the impact of the contraction in residential construction has begun to show up in the employment numbers. Total employment declined by 6.5% alone in Q2'08 and by 9.4% in the previous twelve months. These percentages translate into a loss of 26,800 jobs in the year, of which almost 18,000 of them were lost in Q2'08 alone. This is a phenomenal reduction in one quarter alone and undoubtedly reflects the sharp contraction in new housebuilding in Q2'08 (-27.6% yoy). According to the CSO the construction sector recorded the largest decline the number of male employees.

Current employment of 257,800 (sa) persons is back to the employment level which prevailed in Q1'06. The figures could have been higher but for the decline in the number of non-nationals working in the sector over the past twelve months (-7,000), which we assume have sought work elsewhere. Nonetheless, further significant employment reductions can be expected over the remainder of the year based on evidence from the housing data and confidence surveys coming through (see below). The deteriorating economic situation and the difficult credit environment are also key contributory factors.

Figure 3: Construction employment index
(2000=100)



Source: CSO

...while larger firms have shed one in six employees

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
nsa	99.0	98.7	96.4	94.4	92.9	93.1
sa	99.4	98.1	95.9	94.4	92.9	91.1
% change mom, sa	-4.6%	-1.3%	-2.3%	-1.5%	-1.6%	-1.9%
% change yoy, sa	-9.5%	-10.6%	-12.3%	-13.4%	-14.5%	-15.8%

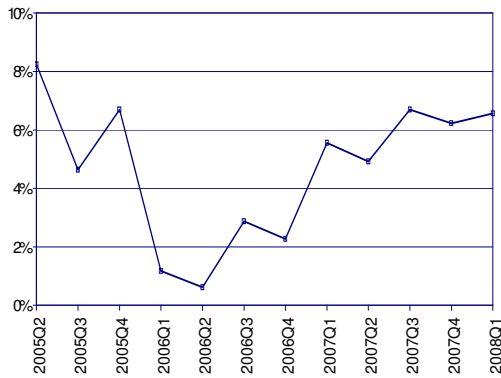
The CSO's Construction Employment Index (CEI)* has declined each month since it peaked in October 2006. Construction firms with 5 or more employees shed almost 16% of their workforce in the year to June 2008 or 17.4% since its peak. Employment according to the latest QNHS for Q2'08 was 10% below its peak in Q1'07. While still a lower rate of decline than in the CEI, the figures suggest that larger firms (with 5 or more employees) are shedding workers at a much more rapid rate than smaller firms and the self-employed.

We understand from the CSO that the larger firms covered in the CEI represent approximately 30% of the persons employed in the QNHS. Both series are consistent with each other when the numbers employed in larger firms are stripped out of the QNHS for comparison with the CEI. The implication is that employment in firms with less than 5 persons is not declining by as much. One explanation may be that workers being laid off in the bigger firms are either finding work in smaller firms, working on smaller contracts possibly in the repair and maintenance sector, or are becoming self-employed.

*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

A reduction in hours worked leads to a moderation in average weekly earnings growth

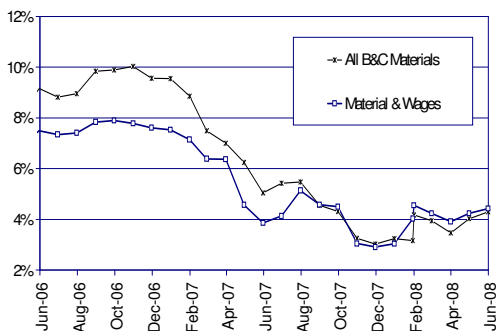
	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Euro, sa	785.0	793.4	804.2	815.6	833.9	845.4
% change qoq, sa	2.7%	1.1%	1.4%	1.4%	2.2%	1.4%
% change yoy, sa	2.3%	5.6%	4.9%	6.7%	6.2%	6.6%

Average weekly earnings in the construction sector* in Q1 increased by 1.4% (sa) on the previous quarter. The continued strong growth of average weekly earnings in the construction sector is something of a puzzle, given the current downturn and job losses in the sector. The latest increase in average weekly earnings comes in spite of a slight decline (-0.1% qoq, sa) in average hours worked per week. In other words, average earnings per hour grew by 1.5% qoq. On an annual basis inflation in construction earnings has been above 6% since Q3 2007 and accelerated slightly in Q1 to 6.6% (sa).

Latest data from the CSO on average weekly earnings in other sectors show the distribution and business services sector average (of €722.79 in March 2008, +4% yoy) remains considerably below the earnings of employees in the construction sector. However, earnings in both of these sectors fall well behind the average weekly earnings of public sector employees, which reached €941.01 in March, albeit the public sector recorded the slowest annual growth in earnings (+3.6% yoy).

* Data for firms with 10 or more employees.

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



Source: CSO

High commodity prices push construction inflation over 4% in June

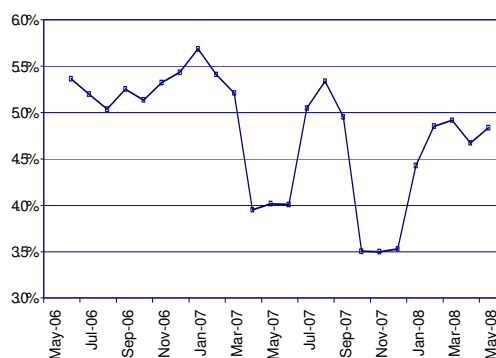
	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
All B&C Materials, nsa	143.4	144.9	145.7	146.2	147.2	148.0
% change yoy, nsa	3.2%	4.2%	3.9%	3.5%	4.0%	4.3%
B&C Mat's and Wages, nsa	157.6	158.5	159.0	159.3	159.9	160.5
% change yoy, nsa	4.0%	4.6%	4.2%	3.9%	4.2%	4.4%

Inflation for building and construction materials has eased considerably from highs of close to 10% at the peak of the construction boom in late 2006. However, in spite of the sharp fall-off in construction activity, a sustained increase in global commodity prices has put renewed upward pressure on the price of construction materials in recent months. Having dipped to an annual rate of 3% in November of last year, construction materials inflation reached 4.3% in June '08.

The Capital Goods index (which covers materials and wages) also saw annual inflation increase from 2.9% (a four-year low) in November '07 to 4.4% in June '08.

Annual inflation in June'08 was particularly strong for commodities such as oil based products (bituminous emulsions, +23.1%), which have remained stubbornly high since October 2007, and metals (structural steel and reinforcing metals, +21.7%), which have risen strongly since February 2008.

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



Source: SCS, Bruce Shaw, Davis Langdon PKS.

...while the SCS measure of construction inflation has been over 4% since January

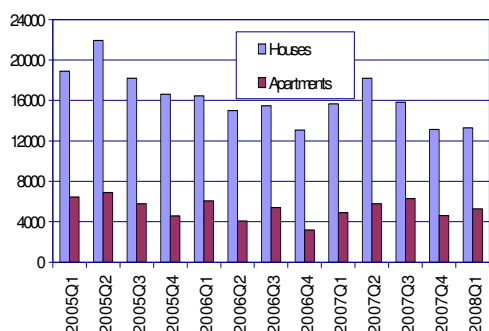
	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
SCS Const. Cost Index	293.3	297.0	298.2	298.7	300.2	301.3
Cost Inflation yoy	3.5%	4.4%	4.9%	4.9%	4.7%	4.8%

The Society of Chartered Surveyors' (SCS) measure of construction inflation has consistently hovered slightly below 5% in recent months (up to May'08). However, as discussed in our previous *Construction Indicators* report, construction firms are being forced to absorb these higher costs due to the emergence of a more competitive construction market as demand in the sector weakens.

In contrast, the SCS tender price index fell by 7.4% in the first half of 2008 compared with a year earlier, when the index peaked. This data would suggest that excellent value is being obtained on major construction projects being put out to tender in the current environment. However the upward trend in building materials price inflation and construction earnings growth suggests that profit margins are being squeezed for either contractors or sub-contractors or both.

Construction indicators

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



Source: CSO

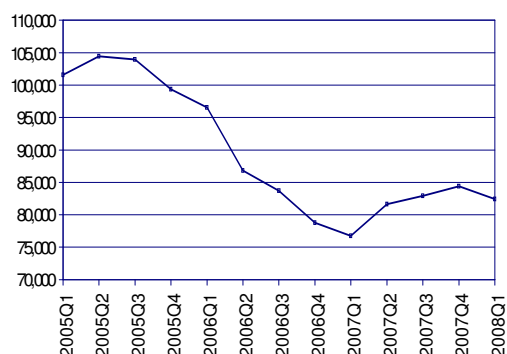
Drop in residential planning permissions evidence of deterioration in developers' confidence...

	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
# Houses						
nsa	13,054	15,654	18,201	15,838	13,135	13,301
% change yoy nsa	-21.4%	-4.9%	21.2%	2.3%	0.6%	-15.0%
# Apartments						
nsa	3,197	4,884	5,787	6,300	4,598	5,281
% change yoy nsa	-30.4%	-19.5%	41.7%	16.7%	43.8%	8.1%
Total Units						
nsa	16,251	20,538	23,988	22,138	17,733	18,582
% change yoy nsa	-23.4%	-8.8%	25.6%	6.0%	9.1%	-9.5%

The total number of residential units granted planning permissions in Q1 '08 was 9.5% lower than the same period a year earlier. Within the total, the number of houses granted permission fell by 15%, while permissions for apartment units continued to increase, albeit at a much slower pace than in previous quarters.

This trend is not surprising given the reduction to date in commencements and registrations. The current market characteristics in terms of weak demand, falling house prices and the tightness of credit are generating a 'wait and see reaction' amongst some developers. While apartments are holding up well and we would expect apartments to figure prominently in good urban locations close to public transport nodes, the prospects for houses will be heavily influenced by the apparent build up of unsold stock, both of new and second-hand units.

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



Source: CSO

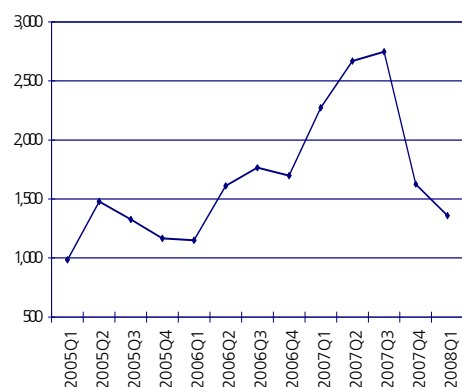
...as the 12 month running total resumes its downward trajectory

	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
nsa	78,755	76,769	81,660	82,915	84,397	82,441
% change yoy	-5.9%	-2.5%	6.4%	1.5%	1.8%	-2.3%

The 12 month running total for residential units granted planning permission resumed its downward trajectory in Q1 of this year, following something of a resurgence through the latter half of 2007. The upward surge in residential planning permissions towards the end of 2007 had been seen as a sign of underlying confidence in the long-term prospects for the housing market. However, the relentless slew of negative economic news over the first half of this year would appear to have adversely affected developers' confidence in the prospects for a housing recovery any time soon.

With over 82,000 units in the planning pipeline and with the annual rate of commencements running at 32,515 in the year to June or around 38,515, including an estimate for public sector units, this pipeline is equivalent to approximately two years supply of new units. However, in the current market as registrations and commencements weaken further, the potential supply in the pipeline may be closer to three years.

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



Source: CSO

The non-residential sector, previously the bulwark of the industry, records a dramatic decline

	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
nsa	1,697	2,272	2,668	2,748	1,626	1,359
% change yoy, nsa	45.4%	97.4%	65.5%	55.8%	-4.2%	-40.2%

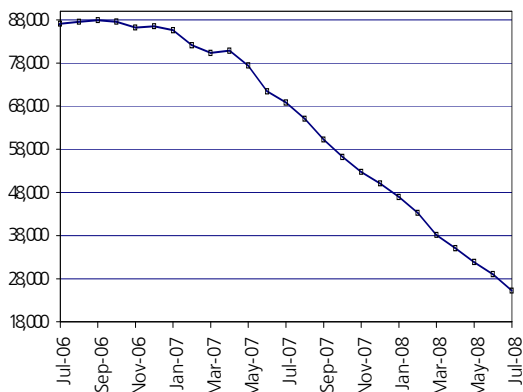
Q1 figures show a dramatic fall in the level of new non-residential floor space granted planning, with the total down over 40% on the same period in '07.

This decline can be partly explained by the return of agricultural permissions to more normal levels following exceptionally strong activity in this sector during the past 18 months in response to various EU Directives and other compliance factors. New agricultural floor area granted permission fell by 72% yoy in Q1'08.

Permissions for commercial (-6% yoy) and industrial (-16.9% yoy) new-build were also down in the first quarter of the year, as the deteriorating economic climate began to take its toll on business confidence. Retail sales figures have slumped massively in the first half of the year, with the CSO reporting a 4.8% drop in the volume of retail sales in the year to May'08. It needs to be noted, however, that the level of floor area granted planning permission reach an extraordinary level in 2007 (9.3m sq.m) - some 120% above the average floor space granted permission over period 2001-2005.

Construction indicators

Figure 10: Registrations
(12-month running total)



Source: Homebond, Premier Guarantee, DKM estimate

Registrations data show the extent of the contraction in new housing supply...

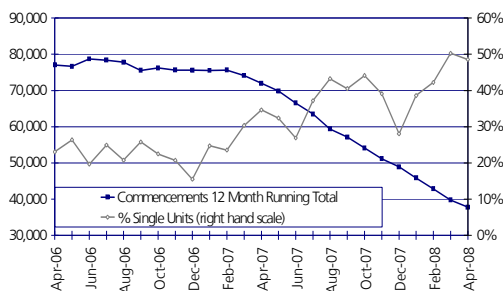
	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
12 mrt	43,243	38,131	35,049	31,847	29,036	25,233
% change mom	-7.8%	-11.8%	-8.1%	-9.1%	-8.8%	-13.1%
% change yoy	-47.3%	-52.5%	-56.6%	-58.9%	-59.3%	-63.3%

In response to market conditions, with prices falling and transactions activity weakening, builders have responded by cutting potential supply dramatically. Just 543 units were registered (unadjusted) in the month of July '08, compared with 3,458 units in the same month last year. Looking at the twelve month running total, and taking our adjusted figures (*), suggests that registrations (at 25,233) have fallen by 63.3% on the twelve months position in July 2007. These figures exclude public sector activity, which delivered 6,671 newbuild units last year.

The sharp contraction in supply is no surprise given the current downturn in housing transactions. Builders/developers appear to be adopting a 'wait and see' approach as they wait for the build up of unsold housing stock to clear before commencing new schemes. Thus housing supply is likely to remain well below 'normal' levels in 2008 and 2009.

* 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

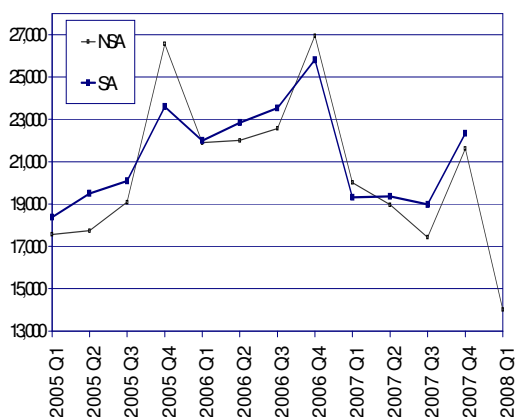
...which is confirmed by a similar downward trend in commencements

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
12 mrt	45,824	42,840	39,734	37,738	35,245	32,515
% of single units	38.6%	42.2%	50.3%	48.6%	45.5%	38.7%
GDA 12 mrt	13,791	12,529	11,323	10,844	10,110	8,908
GDA as % of nat tot	30.1%	29.2%	28.5%	28.7%	28.7%	27.4%

Total commencements (which exclude public sector units) for the first six months of the year were down 51.5% on the same period in 2007. The annual rate of decline each month has been around 50% since October 2007. The 12-month running total in June was 51% below the corresponding figure in June'07. Adding an estimated 6,000 public sector units would suggest commencements at around 38,515 at the end of June. Assuming a nine month lag between commencements and completions, this would imply completions around the 43,000 mark for 2008.

The proportion of commencements accounted for by single units has fallen sharply since March 2008 with only 6,735 single units commenced in the first six months of 2008, a 25% reduction on the number in the same period of 2007. The counties accounting for the largest proportions of single units are: Cork (11%), Donegal (9%), Galway (7.5%) and Mayo (7%).

Figure 12: Total dwellings completed
(Number, quarterly)



Source: DEHLG, based on ESB residential connections

Completions fall by almost 29% in first half of 2008

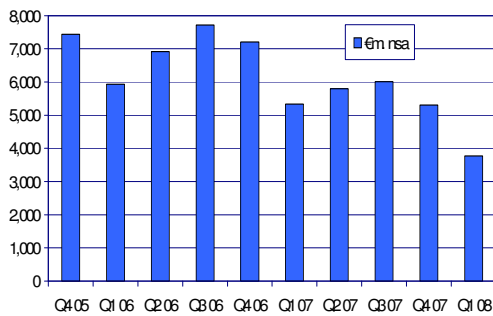
	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Total Completions, nsa	20,018	18,960	17,427	21,622	14,010	13,726
% change qoq, sa	-25.2%	0.3%	-2.0%	17.7%	-42.2%	NA
% change yoy, nsa	-12.2%	-15.2%	-19.4%	-19.8%	-30.0%	-27.6%

Further evidence of the dramatic contraction in housing supply is provided by the completions data for Q2'08. Based on the assumption that ESB connections represent a reasonable proxy for completed units, total completions in Q2 were down almost 28% on the same period of 2007. This represents the second annual decline of around 30%. Total completions in the first six months were at 27,736 units, almost 29% below H1 2007.

As ESB connections record actual sales of new units, the total ESB connections could well exceed 43,000 units in 2008. However, taking account of the trend in commencements and registrations to date and the extent of unsold stock, the total number of units actually built in 2008 could well be closer to 40,000. This issue will be explored in the forthcoming *Annual Construction Industry Review and Outlook* from the DEHLG. At this stage the trend in commencements would suggest the level of new build next year will only be 25,000, although ESB connections/sales could be significantly higher.

Construction indicators

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



Source: Irish Bankers Federation

Mortgage market shrinks by 29% as banks tighten lending conditions...

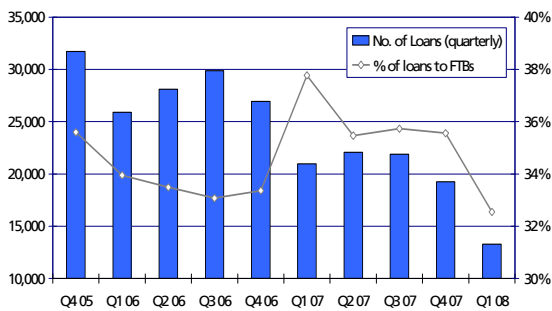
	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
€m. nsa	7,202	5,332	5,798	6,011	5,308	3,770
% change yoy, nsa	-3.1%	-10.2%	-16.2%	-22.1%	-26.3%	-29.3%
Avg. loan value, nsa €'000s	267.4	254.3	262.5	274.8	275.5	283.5

Data from the Irish Bankers Federation (IBF) show that the value of mortgage lending in Q1 2008 dropped 29.3% (nsa) on the previous quarter in Q1 2007. The negative yoy trend commenced in Q4 2006 and has accelerated in each quarter since, culminating in a decline of 29.3% to €3.8 billion in Q1 2008, exactly half of the value of loans at the peak in Q3 2006 (€7.7 billion nsa).

The downturn in the housing market has coincided with a global credit squeeze. According to the Central Bank, the latest Bank Lending Survey (BLS) for July showed a tightening of credit standards in Q1 and Q2 2008 and anticipates a continued tightening of credit in Q3 2008. Banks have also been forced to pass on the higher costs of credit to consumers with margins on "Tracker" mortgages increasing along with the rate on variable mortgages. The net result is that annual growth in residential mortgages hit a 16 year low in June '08, at 10.2% compared with 28.1% at the peak in March 2006.

Surprisingly, the average loan value in Q1 2008 increased to €283,500, equivalent to virtually 100% of the average national new house price in Q1 2008 (€283,733), using ptsb/ESRI data or 91% of the average new house price in Q1 2008 according to the DEHLG (€311,113).

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



Source: Irish Bankers Federation

...while activity in mortgage markets falls by over a third

	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
nsa	26,930	20,966	22,086	21,878	19,264	13,299
% change yoy, nsa	-15.0%	-19.0%	-21.4%	-26.8%	-28.5%	-36.6%

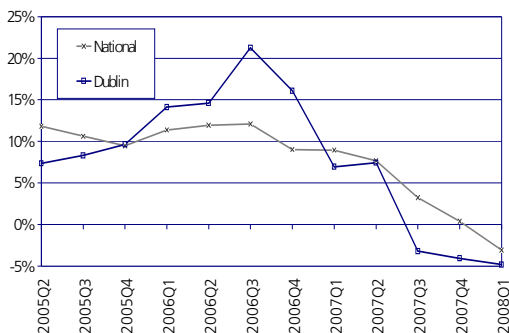
Mortgage market activity in Q1 2008 dropped almost 37% on the same period one year ago, based on IBF data (excluding re-mortgages and top-up loans). As with the value of loans above, the yoy rate of decline in new loans advanced has accelerated over the last six quarters.

While the number of loans to each category of purchasers has fallen significantly in the year to Q1 2008, the first-time buyer (FTB) segment would appear to be the hardest hit by the downturn. Loans to FTBs in Q1 2008 fell by 37% (nsa) on the previous quarter, and by over 45% on a year previously, leaving the share of loans to FTBs at 32.6% compared with 37.8% one year earlier.

While the confidence of first time buyers has clearly been knocked by the recent downturn in the market, activity amongst mover purchasers and in the residential investment sector has similarly weakened.

Given the prospects of further price falls over the coming months, the continued tightening of credit and expectations regarding general economic activity, it is likely that the mortgage lending market will weaken further over the coming months.

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



Source : DEHLG.

DEHLG data show first yoy decline in national new house prices in Q1'08

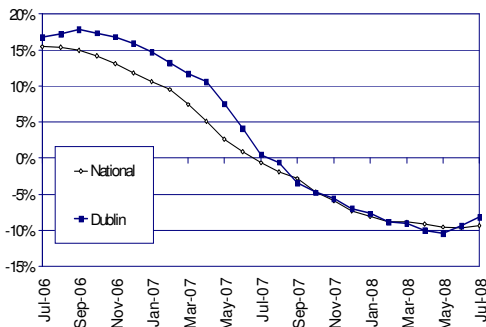
	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
National (€) nsa	313,087	320,969	331,947	319,214	314,333	311,113
% change qoq, nsa	1.3%	2.5%	3.4%	-3.8%	-1.5%	-1.0%
% change yoy, nsa	9.0%	9.0%	7.7%	3.2%	0.4%	-3.1%
Dublin (€) nsa	419,330	417,800	426,900	412,324	402,346	397,697
% change qoq, nsa	-1.5%	-0.4%	2.2%	-3.4%	-2.4%	-1.2%
% change yoy, nsa	16.1%	7.0%	7.4%	-3.2%	-4.1%	-4.8%

The DEHLG data, as a quarterly series, tends to lag the ptsb/ESRI monthly house price index. The latest data from the DEHLG show new house prices in decline across the country. In Q1 prices nationally fell by 3.1% yoy. In Dublin the rate of house price inflation has swung dramatically since it peaked at over 20% in Q3'06 at over 20%, entering negative territory just a year later in Q3'07. The rate of decline in new house prices reached -4.8% in Dublin in Q1 of this year.

Average new house prices in Dublin were 27.8% higher than average new house prices across the State in Q1 2008. That percentage was 37.7% at the peak of the market in Q3 2006 (using DEHLG data).

Construction indicators

Figure 16: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

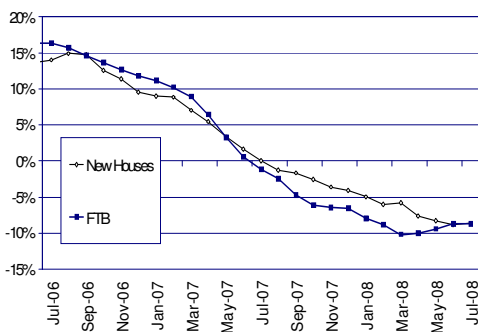
National house price declines over 12% from peak...

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
National index, nsa	127.2	126.3	124.9	123.4	122.6	122.4
% change mom, nsa	-0.8%	-0.7%	-1.1%	-1.2%	-0.6%	-0.2%
% change yoy, nsa	-8.8%	-8.9%	-9.2%	-9.5%	-9.7%	-9.4%
Dublin Index nsa	129.7	129.5	128.3	126.2	126.0	125.2
% change mom, nsa	-1.1%	-0.2%	-0.9%	-1.6%	-0.2%	-0.6%
% change yoy, nsa	-8.9%	-9.1%	-10.0%	-10.4%	-9.4%	-8.2%

House prices have been falling consistently month on month since early 2007, with year on year declines nationally around 9% for the last six months. National house prices have now fallen by over 12%, on average, since their peak in early 2007, according to ptsb/ESRI data. In Dublin, where the rate of inflation initially dropped more rapidly from a higher base, the trajectory of the series has mirrored the national trends over recent months.

Average house prices in July stood at €272,946 nationally and €377,316 in Dublin. Thus average new house prices in Dublin were 38% higher than average new house prices across the State in July 2008. That percentage was the same at the peak of the market in March 2007 (using ptsb/ESRI data).

Figure 17: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

...while the average price paid by FTBs has dropped 12% since March 2007

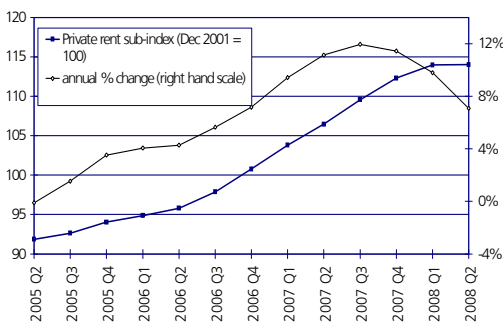
	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
New index, nsa	132.9	132.3	129.7	127.5	125.8	125.6
% change mom, nsa	-0.4%	-0.5%	-2.0%	-1.7%	-1.3%	-0.2%
% change yoy, nsa	-6.0%	-5.8%	-7.6%	-8.3%	-8.8%	-8.7%
FTB Index, nsa	128.6	126.9	126.2	124.7	124.5	124.0
% change mom, nsa	-1.0%	-1.3%	-0.6%	-1.2%	-0.2%	-0.4%
% change yoy, nsa	-8.9%	-10.2%	-10.0%	-9.4%	-8.7%	-8.7%

Average new house prices in July 2008 had fallen 8.7% yoy, and by 11.2% from their February 2007 peak, according to the ptsb/ESRI house price index. The average price paid for a new house in July'08 was €272,099 – a drop of €34,000 on the Feb'07 peak.

Average FTB house prices in June 2008 had fallen 8.7% yoy, and by 12% from their March 2007 peak, according to the ptsb/ESRI house price index. The average price paid by a FTB in June'08 was €246,529 – a drop of €34,230 on the March'07 peak.

The housing market shows no signs of bottoming out yet. Despite the house price reductions, prospective first-time buyers appear to be holding out for further price reductions. Buyers are further discouraged by the difficult lending environment and by the prospect that ECB rates could resume their upward trend as well as by the uncertain economic outlook.

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



Source : CSO.

Rental growth moderating but remains at a high level

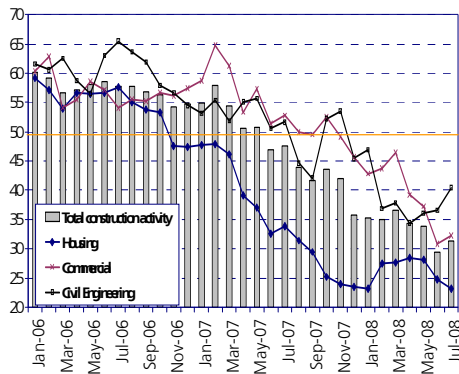
	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
CPI Rents Index	103.8	106.5	109.6	112.3	114.0	114.0
% change, qoq	3.0%	2.6%	2.9%	2.5%	1.5%	0.0%
% change, yoy	9.4%	11.1%	12.0%	11.4%	9.8%	7.1%

The CSO's Private Rents sub-index value was unchanged in Q2'08 compared with Q1'08. As the data is not seasonally adjusted the yoy trends are more relevant. The latter show a moderation in rental growth to 7.1% in Q2'08, from 9.8% in Q1'08 and compared with 12% at the peak (Q3'07).

However, this moderating trend contrasts with the latest Daft.ie Rental Report for Q2'08 which showed that rents fell on average 2.2% in Q2'08 and are now 1.8% lower than one year ago. Daft.ie also reported that the supply of available rental accommodation has more than doubled over the last twelve months, with the result that rents have fallen further. These trends have yet to appear in the CPI index.

Construction indicators

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



Source: Ulster Bank

PMI still well in negative territory as confidence is damaged by ongoing economic uncertainty and the credit squeeze

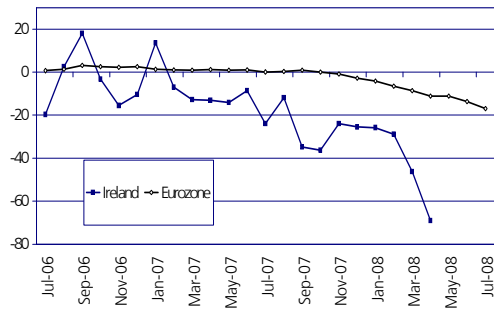
	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Total construction	35.0	36.6	34.3	33.9	29.4	31.3
Housing	27.5	27.6	28.4	28.1	24.8	23.2
Commercial	43.7	46.4	39.2	37.3	30.8	32.3
Civil engineering	36.9	37.8	34.4	36.1	36.6	40.4

Still well in negative territory (i.e. below 50), all components of the Ulster Bank PMI* contracted further when compared with their levels one year ago, while the overall index declined by 34% year-on-year. However, housing is the only sector which contracted in July'08 compared with June'08. The PMI readings for measuring activity in the commercial and civil engineering sectors were up by 4.7% and 10.6% respectively in the month. In fact, activity in the civil engineering sector was up for the third month in a row in July (+10.6%).

However, of more concern are the leading indicators which suggest that the volume of new business orders is falling at record rates, with adverse implications for construction employment. Key factors damaging sentiment amongst construction companies and developers in the sector at present remain the credit market situation plus the deteriorating economic outlook.

**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

Above negative trends in construction confidence are replicated in the Eurostat measure

	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
Ireland (sa)	-23.9	-25.5	-25.8	-29	-46.3	-69
Eurozone (sa)	-1	-3	-4	-7	-9	-11

Data on construction confidence in Ireland from the Eurostat survey is not available for May or June*. 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 had been on a downward trend since the end of '06, but has seen an acceleration in the rate of decline since February of this year.

The Eurozone measure of construction confidence also continued its decline into negative territory in April, although at a much gentler pace than in Ireland. The observations for May, June and July for the Eurozone are marginally weaker again.

Each individual component of the Irish confidence index was looking rather downbeat in April. The expectations for prices and employment were particularly bleak.

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 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).