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DKM
ECONOMIC CONSULTANTS

Construction industry Indicators

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Construction indicators
Introduction

The availability of good and robust data is important for carrying out analysis of the construction sector, given its growth 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 fifteen 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. The DEHLG, with the assistance of the mortgage lending agencies and the CSO, is currently developing a mix-adjusted house price index. Both series will be included in this report in due course.

The indicators presented in this report cover the following:

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

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

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

Deepening recession in construction most likely to gather momentum in 2009

Confidence levels in the construction sector are at an all time low as the economic recession takes its toll on an already very vulnerable sector. While the initial problems emerged in the new housebuilding sector early in 2007, they quickly spread to the non-residential construction sector as the full effects of the economic slowdown and the global financial crisis began to unfold. The volume of new work continues to weaken right across the sector, with the possible exception of public sector construction, and the pace of employment losses is accelerating. Construction companies, sub-contractors and suppliers are faced with rising costs while the very competitive market is driving down tender levels. As a result, in the current environment, companies remain pessimistic about the future outlook for the sector.

It is evident from the most recent set of *Construction Indicators* that the majority of them have experienced a sharp deterioration over recent months. Perhaps the indicator that stands out most is the Construction Employment Index (CEI) which recorded its lowest level in September 2008 for ten years. The CEI in September was 22% below its peak in October 2006. Similarly, construction employment as measured by the more comprehensive household based QNHS Survey was 11% below its peak (Q1'07) in Q3 2008. In absolute terms the sector recorded 32,600 job losses in just 21 months. Looking ahead, construction employment is set to decline even further, given the substantial increase (+58%) in the numbers on the Live Register in October, with over 70% of the increase accounted for by males. This is a clear indication that the construction sector is continuing to cut jobs at a rapid pace. Construction earnings appear to be responding as the annual growth in average earnings moderated sharply in Q2 2008 to 2.1% from 6.6% in Q1 2008.

The continuing decline in gross fixed capital formation in Q2'08 is to some extent driving the widespread weakness across the economy. Falling levels of residential construction investment are hitting household spending and depressing overall consumption expenditure. Non-residential investment levels are also declining due mostly to the weak performance of investment in machinery and equipment as companies hold off on plans to invest in capital equipment. Gross investment in building and construction, which accounted for almost a quarter of GNP over recent years, looks set to collapse to 18% of GNP this year and even less again in 2009. Although expenditure by Government is projected to rise this year (+4%), the weak external environment is not helping prospects for our exports. As a result the volume of GNP is expected to decline by around 2% this year and by a further 3.5% in 2009.

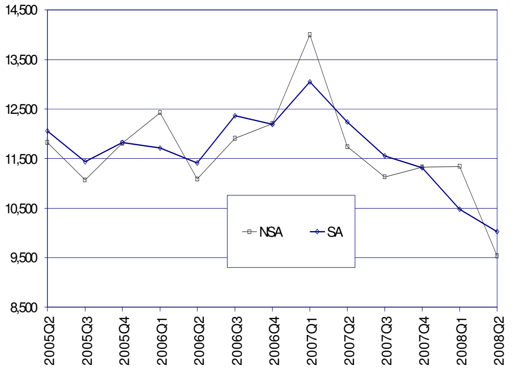
Looking at the housing market all indicators continue to decline. The value of mortgages extended to buy properties in Q3'08 fell to half of the level recorded at the peak (Q3'06) while the number of loans advanced was down 52% from the peak when over 30,000 loans were paid out. Despite the sharp contraction in mortgage lending, the number of loans issued to FTBs represented a record 39% of the total in Q3 2008. House prices have fallen for nineteen consecutive months, with the latest drop leaving them 14% below the peak in January 2007 or by 21% in real terms. Thus the market has already lost more than three years of the gains in the run up to the peak, when real house prices increased by 19%. With the current recession likely to deepen in 2009 and unemployment expected to rise, it is likely that house prices have further to fall. While the continued downward trend in house prices together with the Mortgage Interest Relief changes in the Budget for FTBs and recent reductions in mortgage rate are substantially helping housing affordability, it is the ability to raise a mortgage in the current credit environment which is the key determinant of affordability. With confidence at an all time low and further price reductions expected, transactions are likely to remain fairly subdued over the next six months at least.

Against that background housebuilders are cutting production levels. An interesting development in the planning permission data is the increasing share of apartments in the total (37% in Q2), while the number of houses granted planning permission fell to their lowest level for 4½ years in Q2 2008. In the current year, while ESB connections (the proxy for completions) look set to come in at around 52,000, the number of units actually built in 2008 is more likely to be closer to 45,000. This is because we suspect, given the unsold inventory in the market, that a proportion of transactions this year were for properties which were built in 2007 and even in the peak year 2006. Trends in registrations and commencements suggest that production levels will fall sharply next year to 25,000 or less, although it is possible that ESB connections could be around 40,000.

Despite the extent of bad news on the construction sector, the one sector that is growing is public sector construction. The Budget has allocated €8.74 billion for the capital programme in 2009 to fund core capital investment priorities, including projects in the transport, environment, education and health areas. Although this allocation is almost 9% below the record level in 2008 (€9.6 billion), it is well up on the 2007 level (c. €8 billion).

Construction indicators

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



Source: CSO; National Accounts

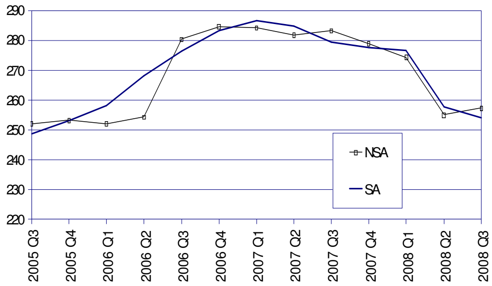
Investment continues to plunge in Q2 as all components are down

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
nsa €m.	13,999	11,740	11,133	11,331	11,345	9,533
sa €m.	13,048	12,239	11,556	11,315	10,478	10,031
% change (qoq, sa)	7.1%	-6.2%	-5.6%	-2.1%	-7.4%	-4.3%
% change (yoy, sa)	11.4%	7.2%	-6.5%	-7.1%	-19.7%	-18.0%

CSO Quarterly National Accounts for Q2 2008 show that total investment in the economy (as measured by gross fixed capital formation, GFCF) fell by 18% in the year to Q2 2008 and decreased by 4.3% on the previous quarter. It is mostly the reduction of activity in the new housebuilding sector that continues to be largely responsible for the fall in total investment. As a result transfer costs (costs associated with transfer of land and buildings) have plummeted to just €517m. in Q2 from a peak of €1,211m. in Q4 2006. In contrast, investment in the improvement of dwellings held up well in Q2, increasing by 17.9% yoy in Q2 2008.

The value of total residential investment, which started its decline in Q4 2006, fell by 22.6% yoy (nsa) in Q2 2008. Unlike previous quarters, non-residential construction investment didn't compensate for such a decline in investment as it too fell for the second quarter in a row, by as much as 13.3% yoy (nsa) in Q2. The economic downturn appears to have impacted severely on investment in machinery & equipment, where the rate of decline accelerated for the third quarter in a row, to 30.5% (nsa) in Q2 2008.

Figure 2: Construction employment
(000s, sa)



Source: CSO; QHNS

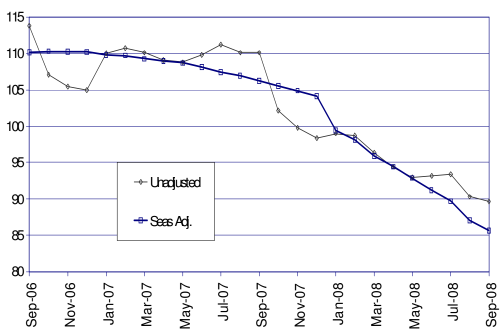
Construction employment in Q3 down 32,600 or 11% from the peak (Q1'07)

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
nsa €m.	281.8	283.2	279.0	274.4	255.0	257.3
sa €m.	284.8	279.4	277.7	276.5	257.6	254.0
% change (qoq, sa)	-0.6%	-1.9%	-0.6%	-0.4%	-6.8%	-1.4%
% change (yoy, sa)	6.2%	1.1%	-2.0%	-3.5%	-9.6%	-9.1%

The contraction in the housing market began to take its toll on employment in the construction sector in 2007, with the severity of it becoming apparent in the first half of 2008 and culminating in a substantial decline of 6.8% in Q2 2008 on the previous quarter. Over 27,000 jobs were lost in the previous twelve months. Data just published for Q3 shows the quarterly rate of decline moderated to just 1.4%, which corresponded to a loss of 25,000 jobs over the previous twelve months.

Looking ahead, construction employment is set to get even worse as the difficulties spread into the non-residential construction sector. In the twelve months leading up to September 2008, there was a 58% increase in the number of people claiming unemployment benefit, culminating in a record deterioration in the labour market in October. Although the Live Register doesn't solely account for construction employment, the fact that males made up over 70% of the monthly increase in October is a clear indication that the construction sector is continuing to cut jobs at a fast pace. Thus the Q4 QNHS numbers, which cover the September-November quarter, are likely to report further weakness in the numbers employed.

Figure 3: Construction employment index
(2000=100)



Source: CSO

…while employment in larger firms is down 22% from peak (Oct'06)

	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
nsa	94.4	92.9	93.2	93.4	90.3	89.6
sa	94.4	92.9	91.2	89.7	87.0	85.7
% change mom, sa	-1.5%	-1.6%	-1.8%	-1.6%	-3.0%	-1.6%
% change yoy, sa	-13.4%	-14.5%	-15.7%	-16.5%	-18.7%	-19.4%

The monthly construction employment index (CEI - based on a survey of firms with five or more persons engaged) has been falling now for eighteen months. Since January 2008 alone, the index has fallen by in excess of 10% yoy each month and the rate of decline has consistently accelerated each month, reaching 19.4% in September 2008. While it is difficult to compare this index with the QNHS above (the latter is a household based survey) trends in both suggest that larger firms are shedding workers at over twice the rate of firms across the industry as a whole.

We understand that the larger firms covered in the CEI represent about 30% of persons employed in the QNHS. The remaining 70% are therefore in smaller firms, employing less than 5 persons. Thus the firms which have grown significantly during the boom years are more likely to have to shed labour now in an effort to reduce their cost base, while smaller firms may be holding off or may be carrying out work in the renovation market.
**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.*

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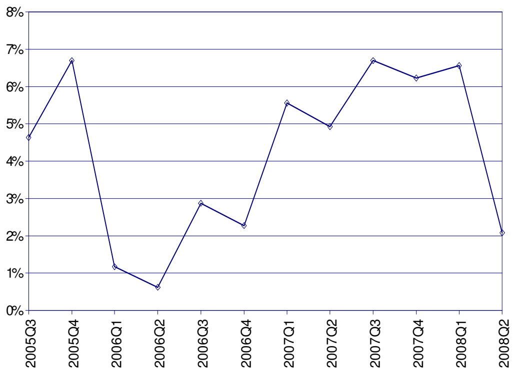
Figure 4: Average weekly earnings in construction
(% change yoy, sa)



Source: CSO

Annual earnings growth in construction moderates to 2% in Q2'08

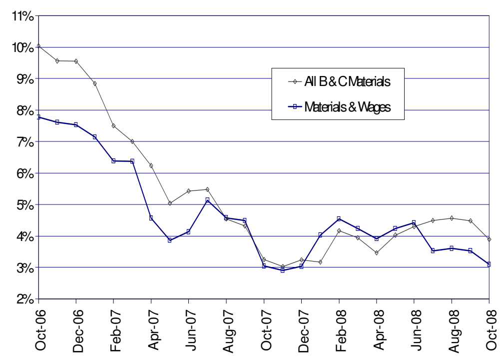
	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Euro, sa	793.4	804.2	815.6	833.9	845.4	821.0
% change qoq, sa	1.1%	1.4%	1.4%	2.2%	1.4%	-2.9%
% change yoy, sa	5.6%	4.9%	6.7%	6.2%	6.6%	2.1%

Average weekly earnings in the construction sector* in Q2 declined by 2.9% (sa) on the previous quarter, reflecting a 2.1% drop in the number of hours worked and a 0.8% decline in average earnings per hour. In the context of the current downturn, it is no surprise that the annual rate of earnings growth moderated significantly to 2.1% (sa) in Q2 2008 from over 6% in the preceding three quarters.

Despite the slowdown in the annual growth in average weekly earnings in the construction sector (2.1% nsa), earnings in the distribution and business services sector (+0.7% nsa), and in the public sector (+1.7% nsa) increased in the year to June. However, average weekly earnings are still much higher for construction employees (€817.41 nsa) than for employees in the distribution and business services sector (€732.40 nsa) but are lower in construction compared with public sector workers (€942.81 excluding Health) .

* Data for firms with 10 or more employees.

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



Source: CSO

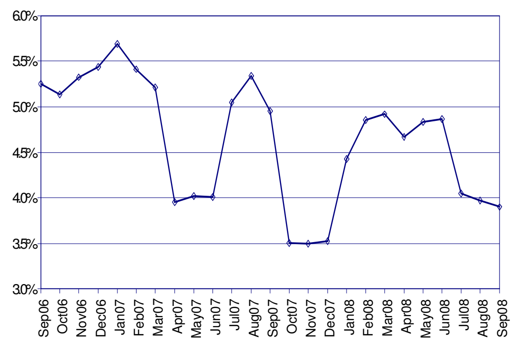
Building and construction materials inflation at lowest level (3.9%) for six months

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
All B&C Materials, nsa	147.2	148.0	148.9	148.9	149.0	148.2
% change yoy, nsa	4.0%	4.3%	4.5%	4.6%	4.5%	3.9%
B&C Mat's and Wages, nsa	159.3	160.5	161.0	161.0	161.1	160.5
% change yoy, nsa	4.2%	4.4%	3.5%	3.6%	3.5%	3.1%

Despite a modest pick up to 4.6% in August 2008, the highest level for twelve months, the annual inflation in building and construction materials fell to just below 4%, for the first time in six months, in October 2008. Two years previously the annual rate had peaked at 10%. The price for steel remains stubbornly high, increasing at in excess of 20% per annum for the last five months, while the inflation for oil based products, such as bituminous emulsions, has come down somewhat, from almost 30% three months ago to 22% in October.

The composite index for materials and wages tends to follow closely the B&C materials index although since June 2008, the materials and wages index has been below the B&C index, signaling that wages have been increasing by less than B&C materials. The most recent data show B&C materials and wages increasing at an annual rate of 3.1% in October, the lowest rate for ten months.

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



Source: SCS, Bruce Shaw, Davis Langdon PKS.

…while the SCS measure of construction inflation is also 3.9%, its lowest level for 9 months

	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
SCS Const. Cost Index	300.2	301.3	302	303.1	303.7	303.7
Cost Inflation yoy	4.7%	4.8%	4.9%	4.1%	4.0%	3.9%

The Society of Chartered Surveyors' (SCS) measure of construction inflation has dropped for the third month in a row to 3.9% in September 2008. The index figure was unchanged in September on the previous month. Despite this recent drop in construction inflation, construction firms continue to face declining tender price inflation, leaving them to absorb most of the higher construction costs arising from increases in building and construction materials as well as labour.

Overall, tender prices have been falling since 2007, reflecting a more competitive market and a reduced workload. While the SCS data is only up to the end of June 2008 and shows tender prices down by 7.4% in the year to June, other indices from Davis Langdon PKS and Bruce Shaw suggest tender price inflation this year will be down by around 8% to 10% on average, with some projects coming in at up to 20% below 2007 levels. While this is good news for construction clients, offering them value for money, it generates significant problems for firms in a climate where costs are continuing to rise by around 4%.

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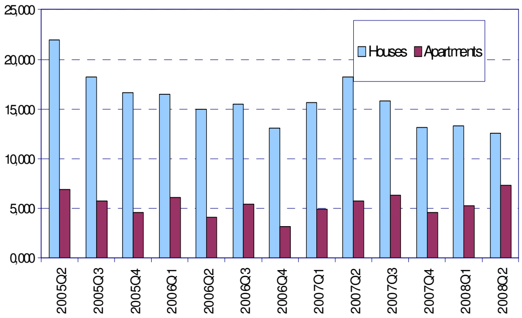
Figure 7: Planning permissions: houses and apartments
(quarterly, nsa)



Source: CSO

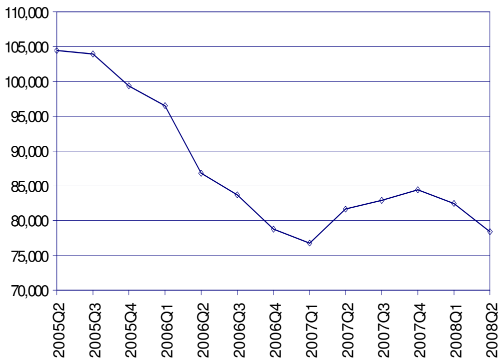
Number of houses granted permission reaches lowest level for 4½ years

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
# Houses						
nsa	15,654	18,201	15,838	13,135	13,301	12,598
% change yoy nsa	-4.9%	21.2%	2.3%	0.6%	-15.0%	-30.8%
# Apartments						
Nsa	4,884	5,787	6,300	4,598	5,281	7,344
% change yoy nsa	-19.5%	41.7%	16.7%	43.8%	8.1%	26.9%
Total Units						
nsa	20,538	23,988	22,138	17,733	18,582	19,942
% change yoy nsa	-8.8%	25.6%	6.0%	9.1%	-9.5%	-16.9%

The number of residential units granted planning permissions in Q2 2008 was 16.9% lower than in the same period the previous year. The overall position reflects a substantial (-30.8%) drop in the number of houses granted permission, while the number of apartments granted permission increased strongly, up 26.9% on the same period in 2007. The number of apartments have continued to increase strongly now for five successive quarters, and in Q2 2008 were at their highest level since Q4 2004.

It is likely that housing permissions may drop even further given the sizable stock of unsold housing inventory and the sustained lack of confidence in the market amongst builders and potential buyers.

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



Source: CSO

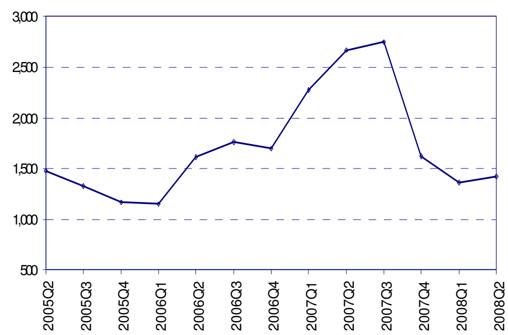
…while the annual total of units granted permission declines for second quarter in a row

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
nsa	76,769	81,660	82,915	84,397	82,441	78,395
% change yoy	-2.5%	6.4%	1.5%	1.8%	-2.3%	-4.9%

The 12-month running total of residential units granted planning permission appears to have resumed the downward trend which commenced in Q3 2005 and lasted until Q1 2007. Having increased throughout 2007, the total started to decline again in Q1 2008 and reached its lowest level for five quarters in Q2 2008 (78,395). The current level of around 78,000 is equivalent to the number of units actually built in 2007.

The economic pessimism that has been widespread in the media, especially throughout the second-half of 2008, is negatively impacting on the already frail confidence of developers. With the exception of the main urban areas, they are likely to continue to reduce their applications for planning permissions until such time as their unsold inventories are cleared and there is evidence of house price bottoming out and confidence returning to the market - likely to be the second half of next year at least.

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



Source: CSO

Substantial decline in agricultural buildings granted planning permission

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
nsa	2,272	2,668	2,747	1,625	1,362	1,426
% change yoy, nsa	97.4%	65.5%	55.7%	-4.2%	-40.1%	-46.6%

The total square metres of non-residential building granted planning permission fell substantially in Q1 and Q2 2008. Overall in the first half of 2008, the total amount of non-residential buildings granted planning fell by 43.6% on the same period in 2007.

The sharp reduction is mostly explained by the substantial decline in agricultural building space (-78%) in the first half (H1) of 2008, reflecting the end 2008 deadline for the various grant schemes associated with investment in farm buildings - estimated by Teagasc at close to €1.5 billion over the period 2007-2008. Much of this building would have obtained planning permission in 2006/2007.

Looking at the data for H1 2008, all of the other main categories of non-residential building (industrial, commercial, public sector) are down compared with the corresponding levels in H1 2007. Given the current domestic economic situation, it is likely that the total floor space granted permission will reveal another marked contraction, falling closer to the 1 million square metres per quarter in the next few quarters, which was the average space per quarter granted planning permission from 2000-2005.

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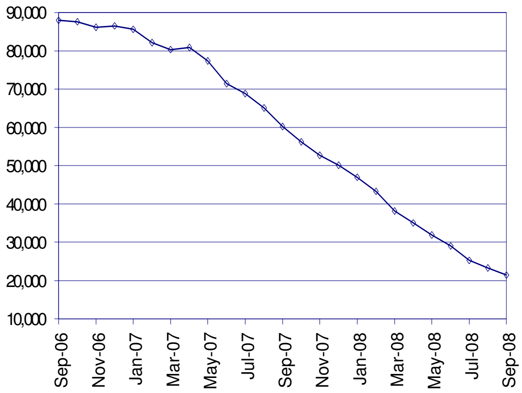
Figure 10: Registrations
(12-month running total)



Source: Homebond, Premier Guarantee, DKM estimate

Registrations continue their steep decline

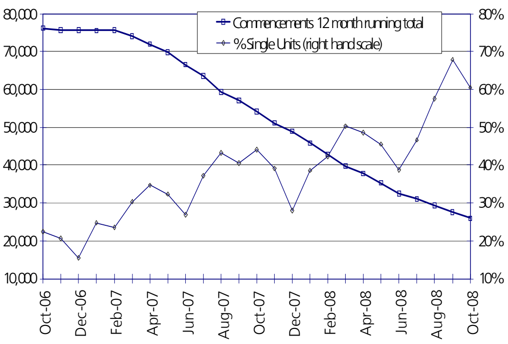
	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
12 mrt	35,049	31,847	29,036	25,233	23,244	21,371
% change mom	-8.1%	-9.1%	-8.8%	-13.1%	-7.9%	-8.1%
% change yoy	-56.6%	-58.9%	-59.3%	-63.3%	-64.3%	-64.6%

Total registrations (recorded by Homebond and Premier Guarantee) recorded yet another sharp contraction in September 2008, following a reduction of 8.1% on the previous month. These figures show that total registrations* yoy have been declining at an accelerating pace for each of the 18 months leading up to September 2008, having dropped from a peak of 88,000 in September 2006 to the most recent figure, two years on, of 21,371.

This drop of over 75% in two years is a consequence of builders continuing to cut supply in the face of decreasing prices, weak consumer sentiment and a lack of activity in the mortgage market. As a leading indicator of housebuilding activity, the year-end position is expected to come in at around 17,000 registrations. Allowing for around 5,000 public sector completions implies total completions next year of around 22,000 as against our previous projection of 25,000. The last time housebuilding was at this level was in 1992/93.

** 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

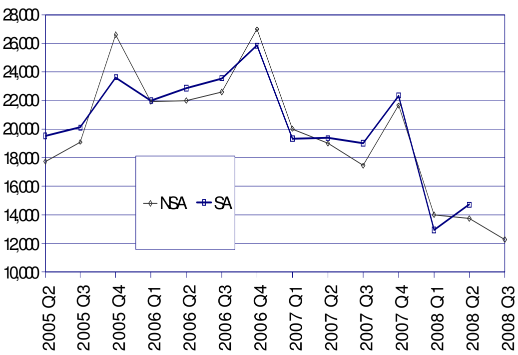
…sharp downward trend also reflected in the commencements

	May-08	Jun-08	Jul-08	Aug-08	Sept-08	Oct-08
12 mrt	35,245	32,515	31,054	29,333	27,545	25,918
% of single units	45.5%	38.7%	47.0%	57.0%	68.0%	61.0%
GDA 12 mrt	10,110	8,908	8,808	8,391	7,759	7,653
GDA as % of nat tot	28.7%	27.4%	28.4%	28.6%	28.2%	29.5%

As with the registrations series, there has been a dramatic reduction in residential commencements since March 2007. Commencements precede registrations implying that in a weakening market commencements will always be higher than registrations. As with registrations, commencements also exclude public sector units. Thus based on the year to October total commencements, including an estimate of 5,000 public sector units, stood at 31,000 compared with around 60,000 for the year to October 2007.

Due to the declining market, single units, as a percentage of overall commencements have become an increasingly dominant proportion of the overall total. In October alone, single units accounted for 61% of total commencements or 45% of the annual total to October 2008. In absolute terms this translates to 11,647 single units commenced compared with 17,000 one-off units granted planning permission in the year to June 2008. Of the 11,647 units, only 1,600 of them were commenced in the Greater Dublin Area, which corresponded to 21% of all commencements in the GDA in the year to October 2008. The GDA accounted for 29.5% of the national twelve month total in October, which corresponded to 7,653 commencements.

Figure 12: Total dwellings completed
(Number, quarterly)



Source: DEHLG, based on ESB residential connections

Connections overestimating completions at this juncture..

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Total Completions, nsa	18,960	17,427	21,622	14,010	13,726	12,250
% change qoq, sa	0.3%	-2.0%	17.7%	-42.2%	13.8%	NA
% change yoy, nsa	-15.2%	-19.4%	-19.8%	-30.0%	-27.6%	-29.7%

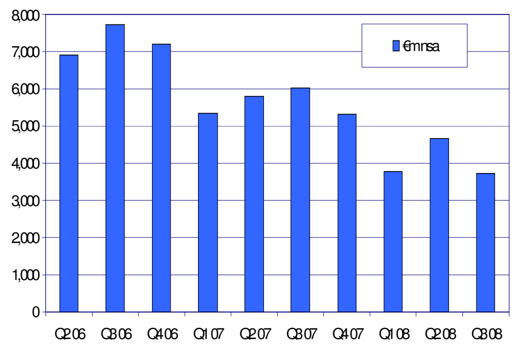
Total completions in Q3 fell to their lowest level recorded in a third quarter since Q3 1999, nine years earlier. In yoy terms total completions were down 29.7%. Based on monthly data, available up to October, total completions (i.e. connections) were down 31.5% to 43,513 units on the same period in 2007.

It is important to recognise that the data above relates to ESB connections, which in the current climate are a better proxy for sales/transactions rather than actual completed units. We suspect that a proportion of those transactions were properties which were built in 2007 and even in the peak year 2006. We believe that there is an unsold stock of approximately 35,000 new properties, a number of which we suspect are included in the sales figures for 2008 to date but may have been built before 2008. Thus our estimate of actual completions/housebuilding output in 2008 is around 45,000.

The weakening trend in both registrations and commencements suggests that housebuilding will be much lower in 2009. Our projection in the *Annual Construction Review and Outlook* was 25,000 completions for next year, although our analysis of registrations above suggests it could be lower at around 22,000. Connections, on the other hand, could well be in excess of 40,000 next year.

Construction indicators

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



Source: Irish Bankers Federation

The value of housing loans in Q2'08 down 52% from the peak (Q3'06)…

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
€m. nsa *	5,798	6,011	5,308	3,770	4,656	3,723
% change yoy, nsa	-16.2%	-22.1%	-26.3%	-29.3%	-19.7%	-38.1%
Avg. loan value, nsa €'000s	262.5	274.8	275.5	283.5	278.9	262.0

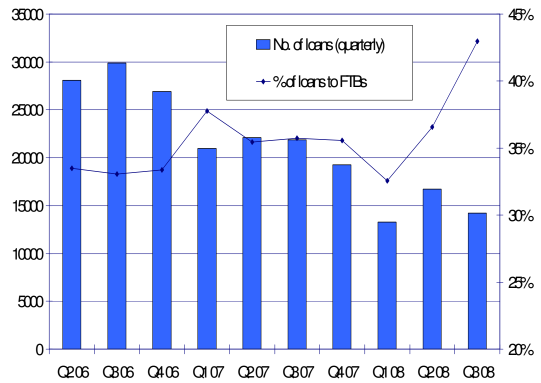
* (excluding re-mortgages and top-up loans)

Data from the Irish Bankers Federation (IBF) shows that the value of mortgage lending fell to its lowest level in Q3 2008 since the IBF series commenced (Q1 2005), and to less than half of the level recorded at the peak (Q3 2006). Lending to first-time buyers (FTBs), mover purchasers and investors declined by 38.1% in the year to Q3 2008, the eight recorded decline in yoy terms. Looking at the composition of lending, 39% went to movers, 36% to FTBs and 25% to investors. While the share of mover purchasers has not changed much over the past twelve months, the share accounted for by investors has declined from 32% in Q1 2008 (to 25%) and the FTB share has increased from 29% in Q1 2008 (to 36%).

It is rather peculiar to note that the average loan value in Q2 2008 was €278,900 (excluding top-ups & re-mortgages) compared with the average national new house price (€267,594) in September using ptsb/ESRI data. However, the average FTB loan of €238,064 also represents close to 100% of the average FTB house price in September (€239,598).

The global credit crunch is associated with tighter credit restrictions which are likely to generate further reductions in mortgage lending in Q4 at least and possibly into 2009.

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



Source: Irish Bankers Federation

A record almost 40% of mortgages issued to FTBs in Q3 2008…

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
nsa	22,086	21,878	19,264	13,299	16,694	14,208
% change yoy, nsa	-21.4%	-26.8%	-28.5%	-36.6%	-24.4%	-35.1%

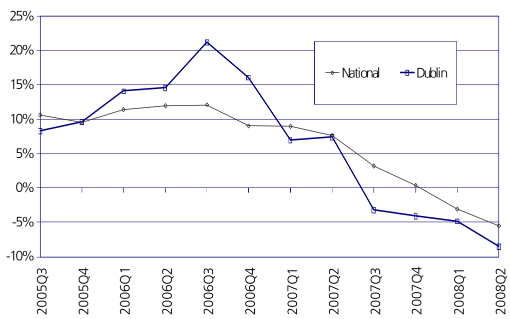
* (excluding re-mortgages and top-up loans)

Similar trends are apparent from the loans series, with the number of loans paid out (excluding re-mortgages and top-up loans) down 35.1% yoy in Q3 2008 and down 52.5% from the peak in Q3 2006, when almost 30,000 loans were paid out. The mortgage market did however rebound in Q2 2008 from the previous low recorded in Q1 2008 when only 13,299 loans were paid out, although it declined again in Q3 2008 on the previous quarter (data not adjusted).

The most recent data show a sizable increase in the activity of first time buyers, who increased their share of the total to 39.1% in Q3 - which amounted to 5,553 loans to FTBs - up from 32.6% in Q1 2008.

We suspect that further reductions are likely over the coming months as unemployment and job security issues cause potential buyers to postpone their purchases as they wait to see where house prices settle. Combined with the ongoing credit and banking difficulties mortgage activity is likely to remain subdued for some months to come.

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



Source : DEHLG.

Decline in new house prices nationally accelerates for second quarter in a row

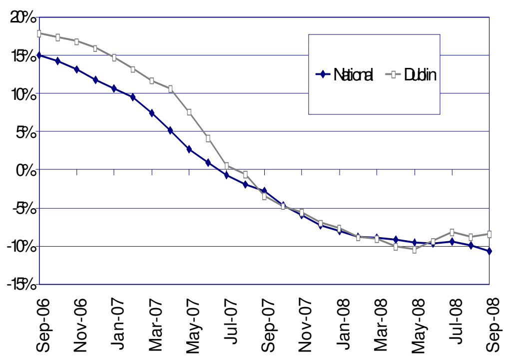
	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
National (€) nsa	320,969	331,947	319,214	314,333	311,113	313,678
% change qoq, nsa	2.5%	3.4%	-3.8%	-1.5%	-1.0%	0.8%
% change yoy, nsa	9.0%	7.7%	3.2%	0.4%	-3.1%	-5.5%
Dublin (€) nsa	417,800	426,900	412,324	402,346	397,697	390,544
% change qoq, nsa	-0.4%	2.2%	-3.4%	-2.4%	-1.2%	-1.8%
% change yoy, nsa	7.0%	7.4%	-3.2%	-4.1%	-4.8%	-8.5%

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), which suggests further declines are inevitable. The latest data from the DEHLG shows the decline in new house prices across the country accelerated in Q3 to -5.5% yoy from -3.1% in Q2.

Dublin house prices have been declining for longer and in Q3 the rate of decline accelerated to -8.5%. Dublin house prices have now been falling yoy for four successive quarters, generating an average new house price in Dublin of €390,544 in Q2 2008, compared with the average Dublin price of €379,727 (new and existing) in June using the permanent-tsb/ESRI series.

Construction indicators

Figure 16: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

National house prices continue to slide month on month…

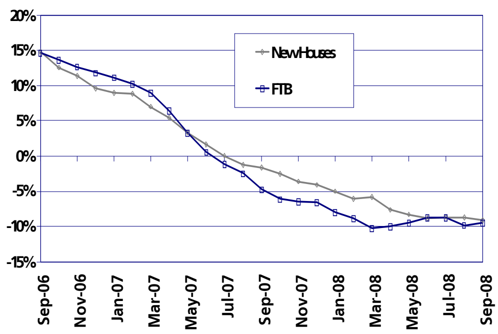
	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
National index, nsa	124.9	123.4	122.6	122.4	121.3	120.0
% change mom, nsa	-1.1%	-1.2%	-0.6%	-0.2%	-0.9%	-1.1%
% change yoy, nsa	-9.2%	-9.5%	-9.7%	-9.4%	-9.9%	-10.6%
Dublin Index nsa	128.3	126.2	126	125.2	124.2	123.2
% change mom, nsa	-0.9%	-1.6%	-0.2%	-0.6%	-0.8%	-0.8%
% change yoy, nsa	-10.0%	-10.4%	-9.4%	-8.2%	-8.8%	-8.4%

The prolonged slide in national house prices continues with average prices down by 10.6% yoy and down 14% from the peak (Jan'07). Similar trends are evident in Dublin where average prices are down by 8.4% yoy and by 13.6% from their peak (April'07).

In absolute terms, average house prices in September stood at €267,594 nationally whereas the average house price in Dublin was €371,288; almost 39% more expensive compared to the national average.

Using tsb/esri data, real house prices are already down by 21% from their peak (Jan'07) which implies that the market has already lost more than three years of the gains in the run up to the peak in January 2007, when real house prices increased by 19%. If prices fall by a further 12% between September 2008 and December 2009, real house prices will have fallen by around 32% by December 2009 from the peak, which implies that the market will have lost four years of the gains in the run up to the peak, when real house prices increased by 32%. This would seem a real possibility.

Figure 17: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

…as do FTB house prices…

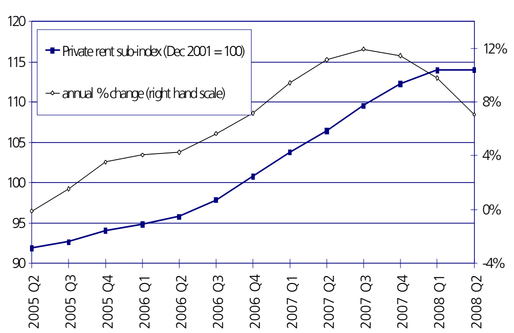
	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
New index, nsa	129.7	127.5	125.8	125.6	125.1	124.6
% change mom, nsa	-2.0%	-1.7%	-1.3%	-0.2%	-0.4%	-0.4%
% change yoy, nsa	-7.6%	-8.3%	-8.8%	-8.7%	-8.7%	-9.1%
FTB Index, nsa	126.2	124.7	124.5	124	122.5	121
% change mom, nsa	-0.6%	-1.2%	-0.2%	-0.4%	-1.2%	-1.2%
% change yoy, nsa	-10.0%	-9.4%	-8.7%	-8.7%	-9.8%	-9.4%

Average new house prices fell by 9.1% yoy in September 2008 or by almost 12% from their peak (Feb'07). The average price paid for a new house in September 2008 was €269,932 – some €36,395 lower than the Feb'07 peak.

Average FTB house prices were down 9.4% yoy in September 2008, and by 14.4% from their March 2007 peak. The average price paid by a FTB in September 2008 was €239,598 - €40,197 lower than the March'07 peak.

While the continued downward trend in house prices together with the Mortgage Interest Relief changes in the Budget for FTBs and recent reductions in mortgage rate are substantially helping housing affordability, it is the ability to raise a mortgage in the current credit environment which is the key determinant of affordability. With confidence at an all time low and further price reductions likely, transactions are likely to remain fairly subdued over the next six months at least.

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



Source : CSO.

Private rents fall for first time since 2004

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
CPI Rents Index	106.5	109.6	112.3	114.0	114.0	111.2
% change, qoq	2.6%	2.9%	2.5%	1.5%	0.0%	-2.5%
% change, yoy	11.1%	12.0%	11.4%	9.8%	7.1%	1.5%

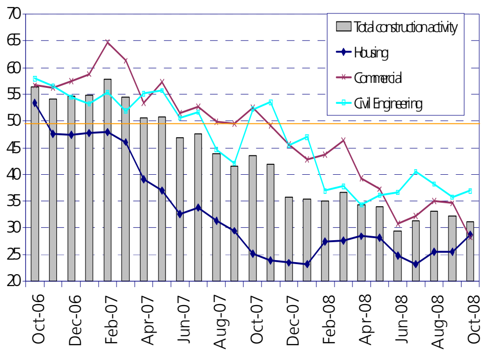
The CSO's Private Rents sub-index value was down 2.5% in Q3'08 compared with the previous quarter. It is important to note that the yoy trends are more relevant as the Rents index is not seasonally adjusted. It can be seen that rental growth moderated significantly in Q3 to 1.5% yoy, compared with 12.0% in the year to Q3 2007.

The CPI Index for Q3 appears to have picked up the trends noted in Q2 of the Daft Rental Report in which rents fell on average by 2.2% on the previous quarter.

It is likely that the reduction in private housing rents is a result of the excess supply in the market with further declines expected over the coming months, in response to the slower employment growth and the level of unsold stock in the market.

Construction indicators

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



Source: Ulster Bank

Irish construction confidence deep in negative territory…

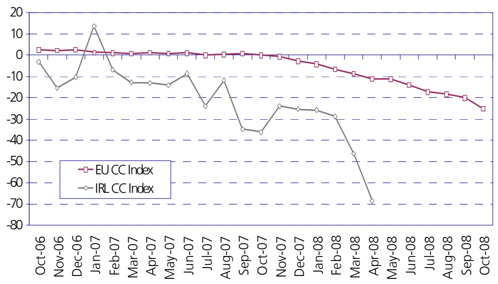
	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Total construction	**33.9**	**29.4**	**31.3**	**33.0**	**32.2**	**31.2**
Housing	28.1	24.8	23.2	25.4	25.5	28.6
Commercial	37.3	30.8	32.3	35.0	34.6	28.2
Civil engineering	36.1	36.6	40.4	38.2	35.8	36.9

Confidence in the construction sector, as reported by the Ulster Bank PMI*, remained deep in negative territory (i.e. below 50) during October. Housing was up slightly in the month but commercial fell sharply (-18.5%). In yoy terms, commercial and civil engineering reported the largest declines of 46.3% and 29.4% respectively. As a result the overall index plummeted to its second lowest reading since the index began in 2000. The lowest point was recorded just four months earlier in June 2008.

With construction employment prospects and activity levels inextricably linked to the above measures, the current readings do not come as a surprise. The downturn in new residential construction has spread to the commercial sector, leaving companies pessimistic about the future outlook. While difficulties remain on the credit side and as the recession takes hold, it is inevitable that these measurements will remain in negative territory for some time yet.

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

Figure 20: Construction confidence



Source: Eurostat

While EU construction confidence deteriorates further

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Eurozone (sa)	-11	-14	-17	-18	-20	-25

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

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

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).