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Environment, Heritage and Local Government



Construction industry Indicators

Issue 17

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Local Government**

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Introduction

The availability of good and robust data is important for carrying out analysis of the construction sector, especially at a time when the industry is experiencing a major adjustment such as the one which is underway at present. Gross investment in the building and construction sector accounted for 77% of total investment in the economy and almost 19.5% of GNP in 2008. New residential construction alone accounted for 7.4% of GNP compared with 11.5% in 2007 and approximately 13% in 2005 and 2006. Given the nature of the downturn and the direction of the most recent indicators, it is inevitable that this proportion will have decreased even further by the end of 2009.

This is number seventeen 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. In addition, the CSO, in conjunction with the DEHLG, is currently developing a mix-adjusted house price index which will take account of different property, location and purchaser characteristics. Both series will be included in this report in due course.

The indicators presented in this report cover the following:

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

The construction industry is known to be affected by seasonal patterns, and some of the above series are seasonally adjusted by the CSO. Where data have not been seasonally adjusted, we have tested for seasonality and where it is present carried out our own seasonal adjustment³.

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

The sharp and painful adjustment continues as industry faces its most severe contraction in thirty years....

This set of *Construction Indicators* captures an industry which is undergoing a sharp and painful adjustment to much lower levels of activity compared with the boom years. As a result, confidence levels are extremely weak as companies face declining new orders, rising unemployment and intense competition for the work that is available.

Overall *investment* levels in the economy in Q4'08, as measured by gross fixed capital formation (GFCF), have fallen back to Q4 2000 levels, following a decline of almost 20% in 2008. Almost each component of GFCF contracted in 2008 with investment in new housing (-35%), machinery and equipment (-20%) recording the highest reductions compared with 2007. The sharp drop in property transactions in 2008 explains the extent of the fall in transfer costs which were down by 53.3% on the previous year. Investment in improvement works was the only component to record positive growth (+13%), but was not sufficient to stem the decline in overall investment (-20%). Further reductions are expected in 2009 as conditions in the construction industry continue to deteriorate further. Indeed the 2009 Preliminary Assessment for Construction, recently published by the DEHLG, forecasts that the volume of investment in building and construction will decline by 34.6% in 2009 following a 17.9% decline in 2008. Thus by the end of 2009, the construction industry will have shrunk to 13% of GNP compared with almost 25% at the peak.

Perhaps the most difficult development has been the pace of *job losses* with approximately 53,000 direct jobs lost in construction between the peak (Q1'07) and Q4'08. The Live Register performance since suggests that another 58,000 persons could have become unemployed in construction, bringing the total estimate of job losses to around 111,000 at the end of April'09. While this is just an estimate, it indicates the vulnerability of the sector to the economic recession. Moreover when the impact in terms of indirect job losses (estimated at a further 40%) and induced job losses across the economy are taken into account, the consequences for economic activity and GNP could be considerable.

Falling *house prices* have been a striking characteristic of the housing downturn – a phenomenon that has left many home owners facing negative equity and many others postponing their purchases in the expectation of further reductions. Latest figures from PTSB/ESRI point to a continued decline in the average price of a house nationwide in April 2009. Prices have now been falling for over 2 years, having dropped by just over 20% since the beginning of 2007 or by 22.4% in real terms. Average prices in Dublin have dropped somewhat faster, and were down by 23% in a slightly shorter timeframe (since peak in April '07) or by 25.2% in real terms. However other sources, based on different datasets and methodologies, have suggested that the reductions to date have been closer to 40% in real terms. In any case, house prices probably have further to fall and until there is evidence of stability returning to house prices, transactions are likely to remain weak. Moreover falling *rents* in the private sector - down 14.5% year-on-year in Q1'09 – are a further incentive to postpone purchases.

Volumes and values of new *mortgage lending* are also down sharply. Moreover measures announced in the April Budget, such as the new income levy, the changes to mortgage interest relief including speculation about a future property tax, will all impact on potential buyers' ability to raise a mortgage, notwithstanding the favourable reductions in house prices, mortgage interest rates and consumer prices to date.

Overall *average weekly construction earnings* fell by 2.4% during 2008, in contrast to the year-end positions of +6% in 2007 and +6.7% in 2005. Given the scale of current and projected job losses in construction and across the economy as a whole, pay levels are almost certainly set to continue declining for some time in construction as the worst affected industry is forced to restore competitiveness against the backdrop of weakening orders and declining tender prices.

All of the housing supply indicators portray a housing market in decline from unprecedented levels of activity in 2006/2007. The total number of *planning permissions* for houses and apartments fell to its lowest level in ten years in 2008, falling by 20% to just 67,584 units. April had the highest ever monthly reduction in *registrations* (-17%) with an average of only 381 per month in the first four months of 2009. The number of residential commencements has been falling sharply for almost two years with only 752 commencements recorded across the whole country in January 2009. The proxy for actual *completions*, namely the number of dwellings connected for electricity, declined by 45% year-on-year in Q1'09 to just 7,711 units. However given the *unsold stock* situation, estimated at some 30,000 to 35,000 new units, a number of these 7,711 units could have been built in 2008 or indeed 2007. However, based on current trends in commencements, the total number of completions is projected at 20,000 this year.

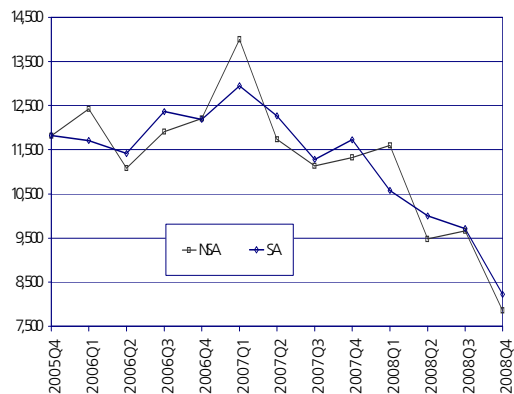
The weakening trend in confidence is evident from the *Ulster Bank Purchasing Managers Index* reading for May which recorded a deterioration in activity levels across all three components – housing, commercial and civil engineering, as companies face steep falls in new orders and employment. The further difficulty for construction companies – although good news for their clients - is the very competitive nature of the market with current *tender prices* reported to be back to where they were a decade ago.

The major disappointment for the sector over recent months has been the reduction in the public capital programme (PCP) announced with the April Budget. The overall PCP provision for 2009 is €11.8bn, some 5% below the provisional outturn for 2008. The voted expenditure provision (c. 65% of the total PCP) is down by 16%. As a result public sector projects are likely to be postponed or possibly cancelled. The hope is that the exploration of other infrastructure funding options (e.g. using Pension Funds) announced at the time of the Budget will deliver additional funds for public sector projects over the coming months. Without such funding initiatives the prospects for construction are exceptionally weak, as the industry faces its most severe contraction in almost thirty years.

Construction indicators

Figure 1: Gross domestic fixed capital formation

(Quarterly, constant 2006 chain-linked prices)



Source: CSO; National Accounts

Investment in Q4 2008 down 30% on the previous year

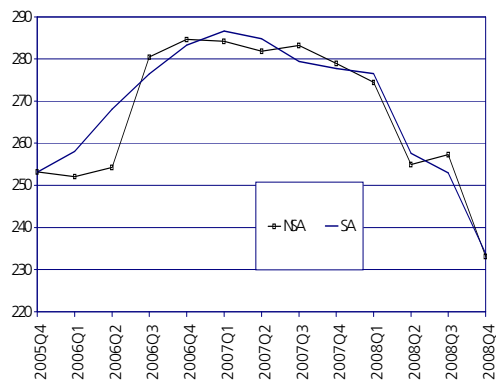
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
nsa €m.	11,133	11,331	11,601	9,476	9,662	7,860
sa €m.	11,282	11,732	10,578	10,001	9,714	8,222
% change (qoq, sa)	-8.0%	4.0%	-9.8%	-5.5%	-2.9%	-15.4%
% change (yoy, sa)	-8.8%	-3.7%	-18.3%	-18.5%	-13.9%	-29.9%

The CSO's Quarterly National Accounts for Q4'08 reveal that total investment in the economy (as measured by gross fixed capital formation, GFCF) suffered a substantial quarterly decline in Q4 - down in excess of 15% on the previous quarter and by almost 30% year-on-year. The largest contributor to this decline was new residential investment which more than halved (-50.9%) compared with Q4 2007. Investment in machinery and equipment recorded the second most significant decline, falling to almost half (-47.5%) its corresponding level in Q4 2008. Investment in improvements rose by 13.8% year-on-year while transfer costs (reflecting the strong decline in transactions) were down by 53.3%.

The sharp decline in Q4'08 is attributable to the severe contraction in construction activity recorded in the second half of 2008. All sectors, with the exception of the improvement/maintenance market, are weakening due to the collapse in demand and the difficulties securing finance for projects. It is difficult to see any pick up in construction investment in the short-term, as confidence remains weak. The most recent Ulster Bank Purchasing Managers Index (May) suggests that business continues to deteriorate sharply and that it will be some time before activity ceases to contract and the employment situation improves. Medium-term projections from Euroconstruct, for example, suggest that a recovery in Irish construction output volumes is unlikely until 2011.

Figure 2: Construction employment

(000s, sa)



Source: CSO; QHNS

Construction employment in Q4'08 down 52,800 or 18% from the peak (Q1'07)

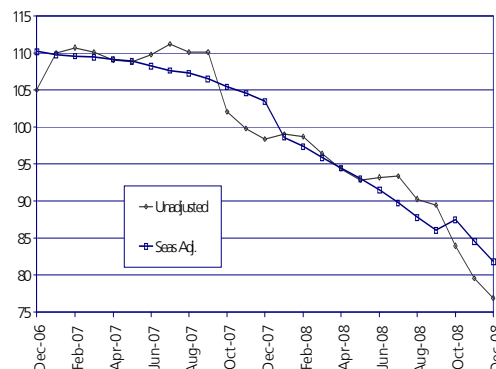
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
nsa (000s)	283.2	279.0	274.4	255.0	257.3	233.1
sa (000s)	279.4	277.7	276.5	257.6	253.0	233.8
% change (qoq, sa)	-1.9%	-0.6%	-0.4%	-6.8%	-1.8%	-7.6%
% change (yoy, sa)	1.1%	-2.0%	-3.5%	-9.6%	-9.4%	-15.8%

The contraction in the housing market began to take its toll on employment in the construction sector in 2007, with the severity of it becoming apparent in the first half of 2008 and culminating in a substantial decline of 6.8% (sa) in Q2'08 on the previous quarter. Over 27,000 jobs were lost in the previous twelve months. Having moderated to just 1.4% in Q3, data just published for Q4 shows an acceleration in the quarterly rate of decline to 7.6%. Overall, figures for Q4 indicate a loss of almost 53,000 direct jobs (sa) since the peak in Q1 2007. The annual rate of decline also accelerated in Q4 to 15.8%.

Looking ahead, the construction employment situation looks set to deteriorate further as the difficulties spread to the non-residential construction sector. Over the last four months, there have been further significant increases in the numbers becoming unemployed in construction as indicated by the Live Register (LR) performance. If an estimated 65% of the 89,800 males who joined the LR since October 2008 had previously worked in construction, this would imply a further 58,370 became unemployed since October 2008, bringing the total jobs lost in construction by end April 2009 to around 110,770 since the peak in Q1 2007. This figure excludes indirect job losses estimated at a further 40%.

Figure 3: Construction employment index

(2000=100)



Source: CSO

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

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

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

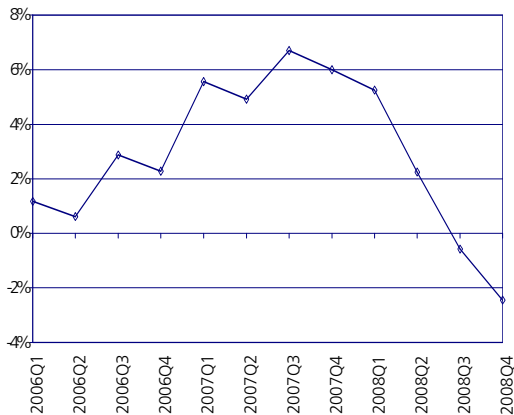
These figures provide further worrying evidence of the pace at which labour is being shed by larger firms in the construction sector. A combination of weakening demand and confidence, difficulty in shifting current stock and the stringent credit markets have led to liquidity issues in the industry, reduced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

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

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Figure 4: Average weekly earnings in construction

(% change yoy, sa)



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

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

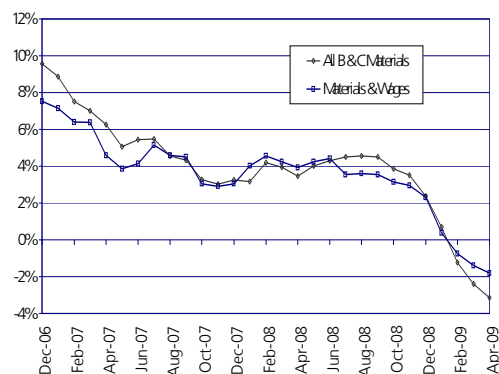
Average weekly earnings (sa) in the construction sector remained almost stagnant in Q4'08, following quarterly declines in Q2 and Q3. Overall weekly earnings fell by 2.4% during 2008 – this is in contrast to the year-end position of +6% at end of 2007 and +6.7% at end of 2005. As a result of this year-on-year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

In contrast, average weekly earnings in the Public Sector (excluding Health) rose by 3.2% in the year to December 2008. At an average of €945.18 per week, earnings in this sector are €123 more per week than in the construction sector.

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

Figure 5: Wholesale price indices for building and construction materials

(% change yoy)



Source: CSO

Largest annual decline in the cost of building materials since records began in mid-eighties

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
All B&C Materials, nsa	147.8	146.7	144.4	143.1	142.2	141.6
% change yoy, nsa	3.5%	2.4%	0.7%	-1.2%	-2.4%	-3.1%
B&C Mat's & Wages nsa	160.3	159.6	158.2	157.3	156.8	156.4
% change yoy, nsa	3.0%	2.3%	0.4%	-0.8%	-1.4%	-1.8%

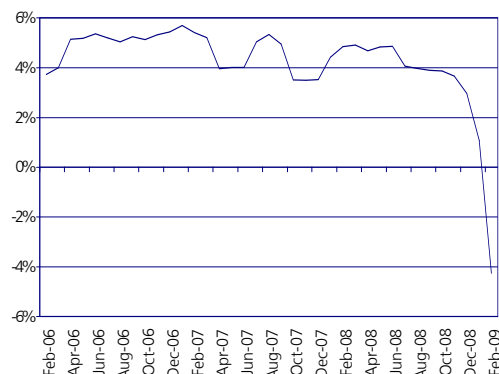
It can be seen that annual inflation for building and construction materials has been declining rapidly over the past number of months. The rate of growth in both measures (excluding and including labour) has accelerated downwards with building and construction materials descending to -3.1% (yoy) in April 2009 and materials and wages declining to -1.8% (yoy). Each measure has experienced positive growth rates for the past two decades, reaching double digit growth at times (10% yoy in Oct'06). The current decline in costs, the largest since records began in the mid-eighties, is a clear response to the downward pressure on the industry as a result of suppressed demand.

Looking at the main components, timber fell by (-8.7% yoy), structured steel and reinforcing metal (-10.1% yoy), bituminous emulsions (-14.1% yoy) and paints (-14.1% yoy). In contrast however, some materials have experienced annual increases such as stone, sand & gravel (+4.9% yoy) and cement (+8.0% yoy).

The reduction in costs will be a welcome development given the very competitive tendering market which currently exists.

Figure 6: Construction cost inflation

(% change yoy, nsa)



Source: SCS, Bruce Shaw, Davis Langdon PKS.

...while the SCS measure for construction inflation falls sharply

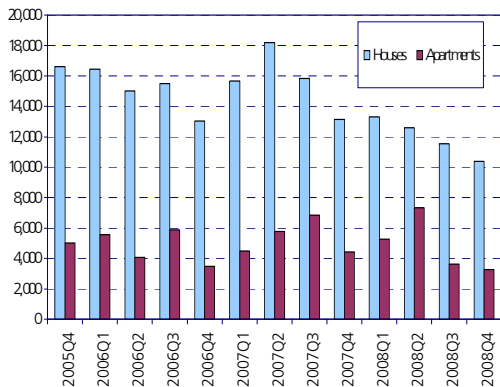
	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
SCS Const. Cost Index	303.7	303.7	303.5	302.0	300.2	285.5
Cost Inflation yoy	3.9%	3.9%	3.7%	3.0%	1.1%	-4.3%

Construction inflation, as measured by the Society of Chartered Surveyors' (SCS) recorded a sharp turnaround in February when costs fell by -4.3% (yoy) following a 1.1% (yoy) increase in the previous month. Not only is -4.3% (yoy) the largest ever decline since this measure began in 1992 but it is also the first time that construction cost inflation has experienced negative growth rates (yoy) over the same timeframe. This fall off in construction costs is a positive news for construction firms who have been forced to reduce their own prices due to the lack of demand and the highly competitive market that has emerged as a result.

The very competitive market is evident from the trend in tender prices. The SCS Tender Price Index fell by 7.6% in the second half of 2008, and was down 10.5% in the year as a whole. The most recent Annual Reviews from Bruce Shaw and Davis Langdon PKS estimate that tender prices fell by between 12% and 13.5% in 2008, although in some cases declines of over 20% were recorded. The likelihood is that tender prices from 2007 will be down 20% by the end of 2009. Thus with tender prices now back to levels recorded at the end of the last decade, there exists exceptional value for money for both public and private sector clients.

Construction indicators

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



Source: CSO

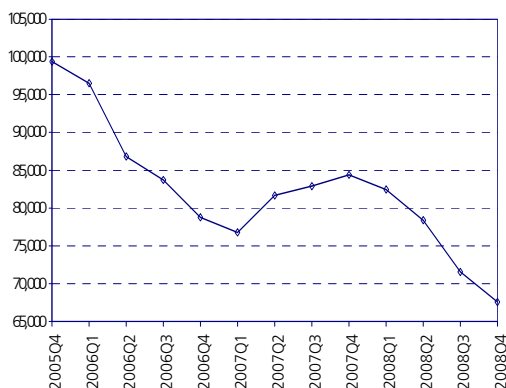
Planning permissions for houses and apartments continue to fall in Q4 – down 22.4% in 2008

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
# Houses						
nsa	15,838	13,135	13,301	12,598	11,532	10,375
% change yoy nsa	2.3%	0.6%	-15.0%	-30.8%	-27.2%	-21.0%
# Apartments						
Nsa	6,300	4,598	5,281	7,344	3,761	3,392
% change yoy nsa	16.7%	43.8%	8.1%	26.9%	-40.3%	-26.2%
Total Units						
nsa	22,138	17,733	18,582	19,942	15,293	13,767
% change yoy nsa	6.0%	9.1%	-9.5%	-16.9%	-30.9%	-22.4%

The downward trend in the number of houses granted planning permission continued in Q4'08 with numbers falling to 10,375; a 21% decrease on the previous year. The number of planning permissions for apartments was down by 26.2% to just 3,392, generating total planning permissions for the year 2008 of 67,584. Thus planning permissions were down by 20% in 2008 compared with 2007. The 2008 level represents the lowest calendar year level in ten years since this new data series was commenced by the CSO.

There were a total of 14,754 one-off houses granted planning in 2008 compared with 18,555 in 2007 – a decline of 20.5%. However it is difficult to reconcile this number with the actual number of one-off units built which appears to be less than half the number of units actually granted permission. It is not clear that the permissions figure is consistent with the number of individual houses reported in the completions data.

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



Source: CSO

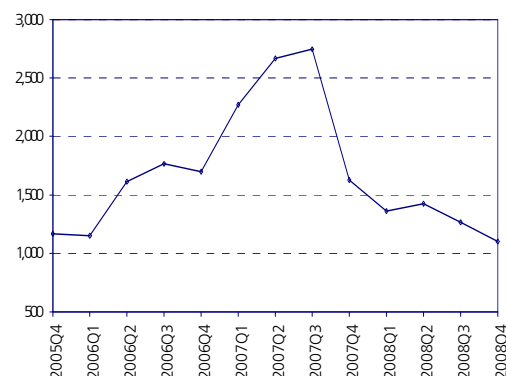
...while the annual number of units granted permission declines to its lowest calendar year total in a decade

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
nsa	82,915	84,397	82,441	78,395	71,550	67,584
% change yoy	1.5%	1.8%	-2.3%	-4.9%	-8.7%	-5.5%

The 12-month running total of residential units granted planning permission has been steadily declining now for about a year, bringing the current total back to the level reported in the four quarters to Q2 2003 – although on a calendar year basis the 2008 total represented the lowest in the past decade.

The downward trend in planning permissions is unlikely to level off just yet due to the high level of unsold stock and the lack of confidence amongst housebuilders and developers. The difficulty with falling numbers of planning permissions is that the recovery, when it comes, may be slower than it might otherwise be the case.

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



Source: CSO

The level of planning permissions in Q4'08 for non-residential buildings is now back at 2005 levels

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
nsa	2,747	1,625	1,362	1,425	1,265	1,102
% change yoy, nsa	55.7%	-4.2%	-40.1%	-46.6%	-53.9%	-32.2%

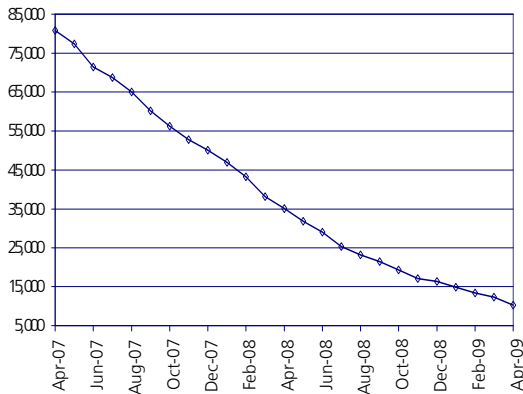
The total floor area granted permission for non-residential buildings has performed very poorly in 2008 with year on year declines of up to 50% and more recorded. Figures for Q4'08 indicate further decreases with the total floor area down almost one third in the year or 53% from its peak in Q3'07.

The total floor area granted permission for agriculture buildings continued to decline in Q4'08 (-78% year-on-year) while education, culture, science and research buildings also declined (-36%) as did buildings for entertainment and recreation (-12%) and buildings for transport (-25%).

At around 1m square metres in Q4'08, the total figure granted planning permission for non-residential buildings may well drop below the 1m per quarter mark during 2009. This reflects the lack of confidence as well as the difficulty securing project finance, weak demand and a high unsold/unlet inventory of commercial buildings. Until there is a return to positive growth in the economy, which is not expected until 2011 at the earliest according to ESRI, there is unlikely to be much of a demand for new non-residential buildings suggesting levels of floor area granted planning permissions are likely to fall further in the meantime.

Construction indicators

Figure 10: Registrations
(12-month running total)



Source: Homebond, Premier Guarantee, DKM estimate

Only an average of 381 registrations per month over first four months

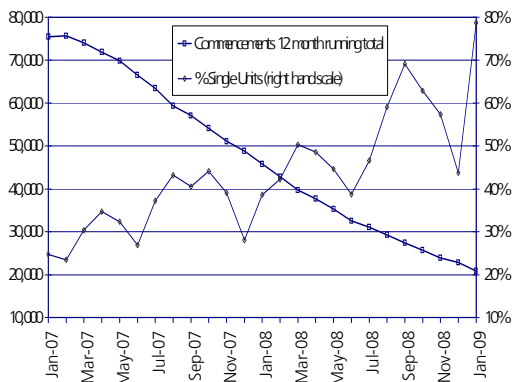
	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
12 mrt *	17,704	16,412	14,879	13,425	12,340	10,271
% change mom	-11.7%	-3.9%	-9.3%	-9.9%	-8.1%	-16.8%
% change yoy	-67.6%	-67.2%	-68.3%	-69.0%	-67.6%	-70.7%

The latest figures for registrations (recorded by Homebond & Premier Guarantee) indicate that April had the largest ever decline recorded with figures down 16.8% on the previous month and 70.7% year on year. This has brought our adjusted figure* for the 12-month running total in April to just 10,271 registrations.

The reduction in registrations continues to be a result of weak consumer confidence and a lack of activity in the mortgage market. Registrations have now fallen from figures as high as almost 8,000 per month mid-2006 to an average of just 381 per month in the opening months of 2009. The year-on-year decline will inevitably continue for some time yet but at this current juncture with such few monthly registrations, the market cannot be far off bottoming out if it has not already done so.

* 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

Almost 4 in every 5 commencements in Jan-09 were single units

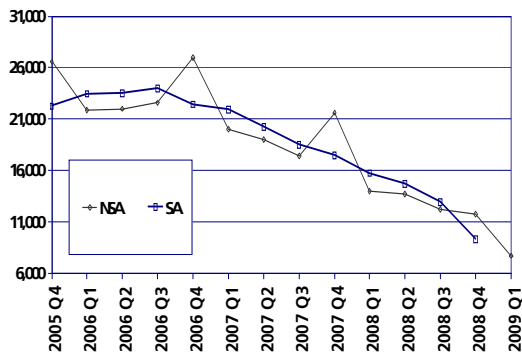
	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
12 mrt	29,313	27,448	25,740	23,890	22,852	20,874
% of single units	59.1%	69.1%	62.8%	57.4%	43.7%	78.7%
GDA 12 mrt	8,391	7,759	7,642	7,500	7,056	6,139
GDA as% of nat tot	28.6%	28.3%	29.7%	31.4%	30.9%	29.4%

January 2009 brought with it yet another monthly decline in total residential commencements which have now been in freefall (yoy) for almost two years. Having fallen by 72% (yoy), there were only 752 commencements across the whole country in January. This is in sharp contrast to figures as high as 8,500 for monthly commencements in mid-2006.

As a result of the sharp drop in the total, the number of single units as a % of total residential commencements experienced a substantial increase to 79% in January from just 44% in December. At 592 single units in January, this corresponds to approximately 7,000 single units in the full year - as against almost 15,000 one-off houses granted planning permission in 2008.

The commencements data report the number of units for which preliminary and other site works have been commenced by the builder in advance of proceeding to construction. The number of commencements has become a more reliable indicator of actual construction than registrations in recent times. Accordingly, based on the trend in commencements to date, we forecast completions at around 20,000 units in 2009.

Figure 12: Total dwellings completed
(Number, quarterly)



Source: DEHLG, based on ESB residential connections

Proxy for completions down by 45% year-on-year in Q1'09

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09
Total Completions, nsa	21,622	14,010	13,726	12,250	11,738	7,711
% change qoq, sa	-5.6%	-9.8%	-6.6%	-12.0%	-28.1%	N/A
% change yoy, nsa	-19.8%	-30.0%	-27.6%	-29.7%	-45.7%	-45.0%

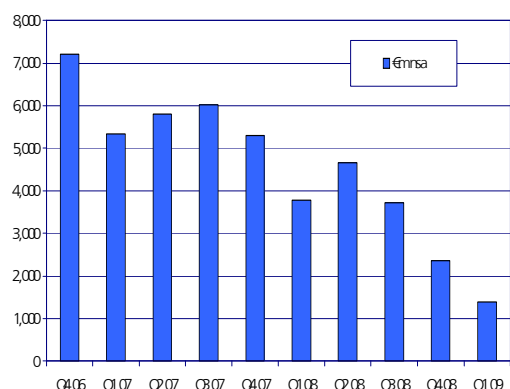
Total 'residential connections' for electricity (a proxy for completions) fell by 45% in Q1'09 on the same quarter in 2008 to just 7,711. The difficulty with the latter is that it is not a true measure of the number of units actually built in the first three months, but is more of a measure of the number connected for electricity, and hence 'sales' or 'transactions' as each house tends to be connected for electricity at the point of sale. Then the question arises whether the almost 6,000 houses connected in Q1 2009 were actually built in Q1 2009 or represent units carried over from 2008 or indeed 2007. With apartments the relationship is less clearcut as apartments can be connected for electricity well in advance of actual transactions. Some 1,706 apartments were connected nationwide in Q1 2009.

The basis for the housing supply estimate in 2009 is the commencements series at the end of 2008. Thus the total number of completions (i.e. units actually built) this year is projected at 20,000. Much will depend on the social housing contribution, which is likely to be well below the 6,801 units constructed in 2008. However, the number of ESB connections reported is likely to be much higher than 20,000, if the unsold stock accumulated at the end of 2008 is sold. Thus the figure reported for completions as measured by 'ESB connections' could be closer to 35,000 units this year.

Construction indicators

Figure 13: Value of housing loans paid out

(€m quarterly)



Source: Irish Bankers Federation

Average FTB loan at €221,734 in Q1'09, down 12% year-on-year...

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09
€m. nsa*	5,308	3,770	4,656	3,723	2,352	1,388
% change yoy, nsa	-26.3%	-29.3%	-19.7%	-38.1%	-55.7%	-63.2%
Avg. loan value, nsa €'000s	275.5	283.5	278.9	262.0	249.8	252.0

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

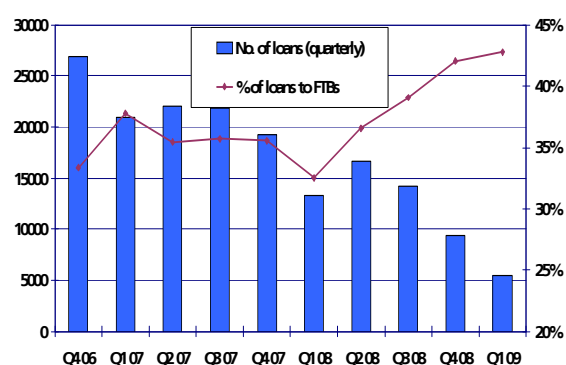
The most recent data issued by the Irish Bankers Federation (IBF) shows that the value of housing loans continued its accelerating downward trend in Q1'09. The year-on-year rate of decline, which has been negative since Q4'06, has also accelerated each quarter (apart from Q2'08), reaching -63.2% in Q1'09. Thus the value of mortgages, where there was a residential transaction, fell to €1.4bn, of which 38% or €0.5bn was paid out to FTBs. The value of loans to the latter group declined by 52% in the year to Q1'09 while the value of loans paid out to existing owners moving house declined at the slightly faster pace of 60%. Loans to investors declined by a staggering 77% over the same period to just €280m in Q1'09.

The average loan value in Q1'09 was €252,000 (excluding top-ups and re-mortgages) compared with the average national house price of €253,546 in March using ptsb/ESRI data. The average for FTBs was €221,734 in Q1'09 compared with the average FTB house price using ptsb/ESRI figures for March of €215,440. However, these figures are not strictly comparable as the loan figure is based on the average reported for 11 institutions while the average house price is based on lending by just one institution (permanent-tsb).

The total value of mortgages outstanding appears to have stabilized at around €148bn over the six months to April 2009 according to Central Bank data, although it fell for the first time in the month of April (by over €100m) since the series began in 1990.

Figure 14: Total number of housing loans paid out

(Number, quarterly)



Source: Irish Bankers Federation

...while the share of FTB loans increases to almost 43%...

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09
nsa	19,264	13,299	16,694	14,208	9,415	5,508
% change yoy, nsa	-28.5%	-36.6%	-24.4%	-35.1%	-51.1%	-58.6%

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

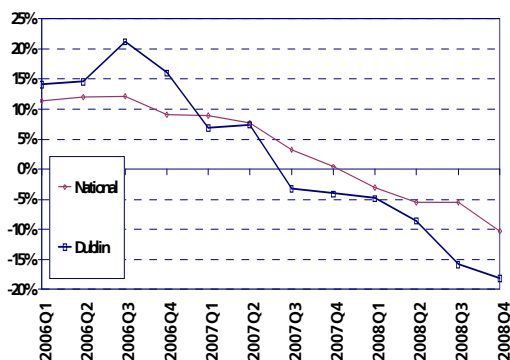
With the number of housing loans (excluding top-ups and re-mortgages) and the value of such loans inextricably linked, it is not surprising to discover that both measures have declined by almost similar amounts. The decline in value (reported above) is a combination of a reduction in loan volumes - down 58.6% year-on-year - as well as a reduction in house prices (see below). The quarterly number of housing loans (excluding top-ups and re-mortgages) for Q1 was 5,508, almost 82% below the peak reached in Q3'06 (29,884 loans paid out).

Despite the notable declines across the board in the value and volume of lending, FTBs continued to increase their share in Q1'09 to 42.8%, compared with 32.6% just four quarters earlier. A total of 2,356 loans were paid out to FTBs, which is equivalent to an annual rate of 9,424, compared with almost 18,000 in the last twelve months.

The mortgage market is clearly characterized by exceptionally weak demand at this point in time which is not being helped by the continuing decline in house prices. Moreover measures announced in the April Budget, such as the new income levy and the changes to mortgage interest relief as well as speculation about a future property tax, will all impact on potential buyer's ability to raise a mortgage, notwithstanding the favourable reductions in house prices, mortgage interest rates and consumer prices to date.

Figure 15: New house prices

(% change, yoy)



Source: DEHLG.

National new house prices fall 15% in Q4'08 from peak in Q2'07

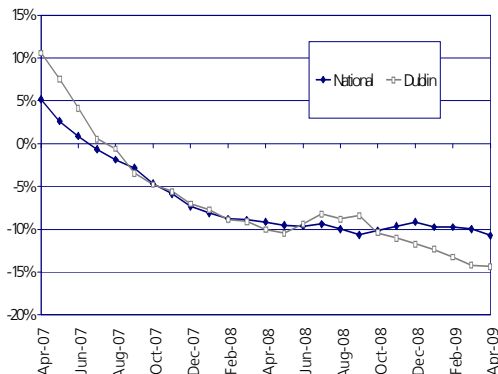
	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
National (€) nsa	319,214	314,333	311,113	313,678	301,680	282,023
% change qoq, nsa	-3.8%	-1.5%	-1.0%	0.8%	-3.8%	-6.5%
% change yoy, nsa	3.2%	0.4%	-3.1%	-5.5%	-5.5%	-10.3%
Dublin (€) nsa	412,324	402,346	397,697	390,544	347,233	329,625
% change qoq, nsa	-3.4%	-2.4%	-1.2%	-1.8%	-11.1%	-5.1%
% change yoy, nsa	-3.2%	-4.1%	-4.8%	-8.5%	-15.8%	-18.1%

New house price data for Q4'08 from the DEHLG confirm that residential properties nationwide continued to lose value throughout 2008. The annual rate of decline accelerated to -10.3% nationwide in Q4'08 and to -18.1% in Dublin.

According to the DEHLG series, average house prices across the State peaked at €331,947 in Q2'07, implying that a 15% reduction in new house prices over the 18 months to end 2008. Similarly Dublin house prices peaked in Q2'07 at €426,900 on average but by Q4'08 had fallen back by almost 23%. The average price for a new house in Dublin stood at €329,625 in Q4'08 compared to a national average of €282,023 indicating a price differential of 16.9%, having been 29% at the peak (Q2 2007).

Construction indicators

Figure 16: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

House prices down by almost 5% in the first 4 months of 2009

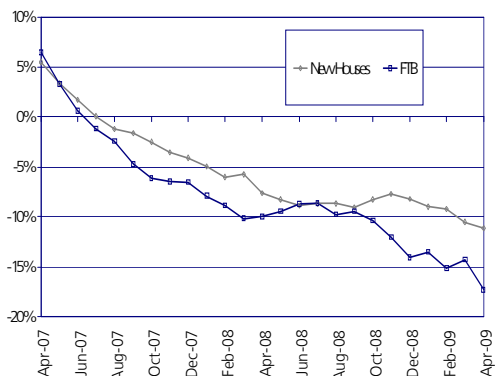
	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
National index, nsa	118.4	117.3	115.7	114.8	113.7	111.5
% change mom, nsa	-0.5%	-0.9%	-1.4%	-0.8%	-1.0%	-1.9%
% change yoy, nsa	-9.6%	-9.1%	-9.8%	-9.7%	-10.0%	-10.7%
Dublin Index nsa	119.0	116.5	114.9	112.5	111.1	109.9
% change mom, nsa	-0.8%	-2.1%	-1.4%	-2.1%	-1.2%	-1.1%
% change yoy, nsa	-11.1%	-11.7%	-12.4%	-13.3%	-14.2%	-14.3%

Average house prices nationwide fell by 10.7% in the year to April 2009. Having fallen by 20% since their peak in February 2007, the rate of decline accelerated in the last three months from 9.7% in February 2009 to 10.7% in April.

In Dublin the average price of a house in April 2009 was 23% below its peak in April 2007. Average prices in Dublin have been falling at a more rapid rate than average prices across the country since October 2008. Since October, the annual rate of decline in Dublin has accelerated each month, culminating in a reduction of 14.3% in the year to April 2009.

In absolute terms the average price of a house across the country was €248,640 in comparison to €331,206 for the average price of a house in Dublin, 33% above the national average (permanent-tsb data). However this measure for Dublin was 39% higher 12 months ago which highlights the extent of convergence that is occurring between house prices in the capital and elsewhere. It is expected that prices will continue to fall further given the lack of confidence in the market and buyers' concerns about the economic recession and rising unemployment.

Figure 17: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

...while FTB prices were down by 7.9% over the same period

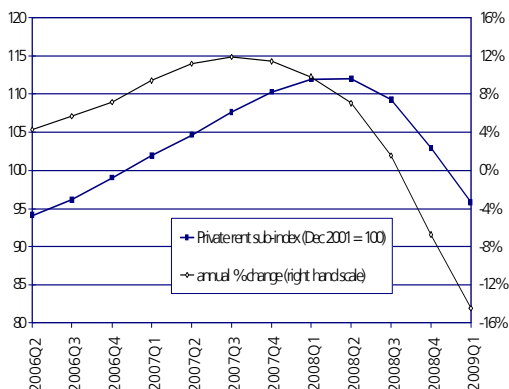
	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
New index, nsa	123.9	123.0	121.4	120.7	118.4	115.3
% change mom, nsa	-0.1%	-0.7%	-1.3%	-0.6%	-1.9%	-2.6%
% change yoy, nsa	-7.7%	-8.2%	-9.0%	-9.2%	-10.5%	-11.1%
FTB Index, nsa	116.2	113.2	112.3	109.1	108.8	104.3
% change mom, nsa	-1.9%	-2.6%	-0.8%	-2.8%	-0.3%	-4.1%
% change yoy, nsa	-12.0%	-14.0%	-13.5%	-15.2%	-14.3%	-17.4%

Average new house prices in Ireland lost 11.1% of their value in the year to April 2009. The monthly decrease of 2.6% in April was the largest monthly decline since the index began in 1996 and has led new house prices to fall in excess of 18% since their peak in February 2007. In absolute terms the average price for a new house in Ireland stood at €249,785 in April.

It is clear from the graph that the price of FTB homes has been declining more rapidly than new house prices. The monthly pace of decline in average FTB house prices accelerated to its highest level (-4.1%) since the series commenced in March 1996, culminating in a decline of 17.4% year-on-year in April. The average price paid by FTBs was €206,530, some 21% below the national average.

While the expectation of further reductions in house prices acts as a disincentive for potential house buyers and will continue to do so over the remainder of the year, buyers are also being discouraged by the uncertainty surrounding the availability of credit.

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



Source : CSO.

Private housing rents down by 6.9% in the first quarter of 2009...

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09
CPI Rents Index	110.3	112.0	112.0	109.3	102.9	95.8
% change, qoq	2.5%	1.5%	0.0%	-2.4%	-5.9%	-6.9%
% change, yoy	11.4%	9.8%	7.0%	1.5%	-6.7%	-14.5%

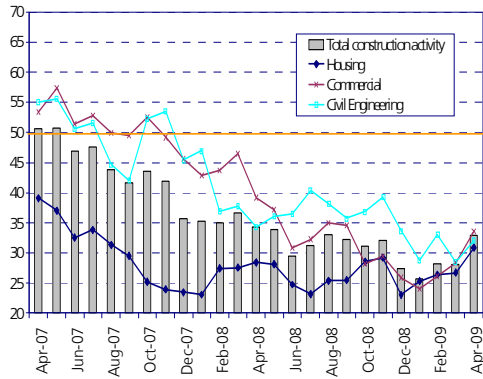
Private rents in Ireland, as measured by the CSO, were down by 14.5% (yoy) in Q1'09 on the same period in the previous year. Rents have now been falling for nine months from their peak in Q2'08.

The Daft Rental Report Q1'09 indicates that the average rent nationwide has fallen from over €1,000 a year ago to €840 in April 2009. The economic recession combined with the increase in unemployment have increased the supply of properties for rent, with an estimated 15,000 new properties coming on to the rented market every month. The total number of properties available to rent in the country at any one point is above 20,000 - twice the level of early 2008 - according to Daft.ie.

It is inevitable that rental supply will remain strong in a market where employment is falling and sales are weakening. If this scenario continues, rental prices will continue to fall, which is a further incentive to postpone house purchases. Overall the value for tenants will continue to improve under such market circumstances.

Construction indicators

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



Source: Ulster Bank

Conditions in construction continue to deteriorate sharply..

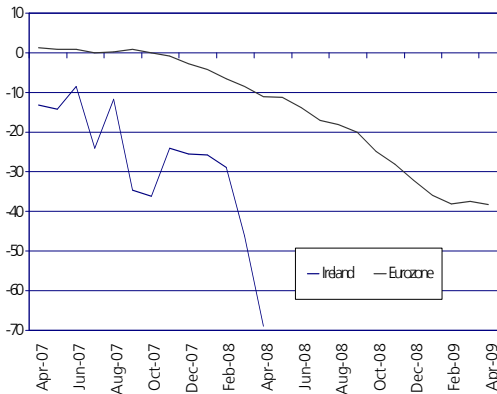
	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Total construction	27.4	25.7	28.1	28.1	32.9	31.1
Housing	23.1	25.4	26.4	26.7	30.9	27.9
Commercial	25.9	24.1	26.2	28.3	33.6	31.7
Civil engineering	33.7	28.8	33.1	28.5	32.1	30.7

Confidence in the construction sector, as reported by the Ulster Bank PMI*, deteriorated further in May'09 despite gaining some ground in April. All three components - housing, commercial and civil engineering – were weaker in May compared with April, as companies faced steep falls in new orders and employment. The poor performance in May follows some very dismal readings for the Index over the past twelve months which have culminated in an overall contraction in activity since June 2007.

The Index is consistent with the preliminary assessment for construction output recently published by the DEHLG which sees the volume of construction output contracting by 34.6% in 2009 following a 17.9% decline in 2008 (see www.environ.ie).

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

Figure 20: Construction confidence



Source: Eurostat

... whereas EU construction confidence appears to have stabilised somewhat, albeit at a very negative level

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Eurozone (sa)	-28	-32	-36	-38	-37	-38

Data on construction confidence in Ireland from the Eurostat Survey has not been updated since April 2008. However, given the performance of other indicators quoted in this report, we might expect the series to have continued its decline into negative territory. The confidence index for Ireland experienced a downward trend since the end of 2006, declining at an accelerating pace since February of 2008.

The EU measure of construction confidence appears to have levelled off somewhat in the opening four months of 2009. Despite the dramatic plunge in confidence experienced throughout 2008 and levelling off somewhat in 2009, sentiment in the industry remains at its worst level since 1996. The most recent Euroconstruct Conference on the prospects for construction in Europe projected that the volume of construction output across Western Europe would contract by 8% this year as every country except Switzerland is expected to record a contraction in construction output volumes, especially Spain and Ireland.

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).