



# Construction industry indicators

## Issue 11

Prepared for PPP, Construction Policy and  
NDP Coordination Unit

of the Department of the Environment,  
Heritage and Local Government

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**DKM Economic Consultants,  
6 Grand Canal Wharf,  
South Dock Road,  
Ringsend,  
Dublin 4.  
Tel: 353 1 6670372  
Fax: 353 1 6144499  
E-mail: [annette.hughes@dkm.ie](mailto:annette.hughes@dkm.ie)**

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## 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. This is the eleventh statistical report on *Construction Indicators*, prepared for the Department of the Environment, Heritage and Local Government (DEHLG).

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. A short overall summary is also given.

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 new *CSO Quarterly Survey of Construction Output* were published in month (August)<sup>1</sup>. Work is currently underway in the Housing Section of the DEHLG on the development of improved house price data. In due course this data will be included in this report.

The indicators presented relate to the following:

- Gross fixed capital formation
- Construction employment
- Construction earnings
- Wholesale prices for construction materials
- Construction cost and tender price inflation
- Planning permissions for residential and non-residential development
- Registrations, a proxy for housing starts
- Commencement notices
- Dwellings completed
- Housing loans (value and number)
- House prices
- Private housing rents
- 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<sup>2</sup>.

Sources of data include the Housing Section of the DEHLG, the CSO, Homebond, Premier Guarantee, Bruce Shaw Partnership, permanent-tsb 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](http://www.environ.ie)<sup>3</sup>.

1. [www.cso.ie](http://www.cso.ie)

2. Using the Tramo-Seats software via the Demetra interface developed by Eurostat.  
<http://forum.europa.eu.int/irc/dsis/eurosam/info/data/demetra.htm>

3. Previous issues are available at  
<http://www.environ.ie/en/Publications/StatisticsandRegularPublications/ConstructionIndustryStatistics/>

## Although non-residential construction remains strong, the construction data reveal a sector which has peaked in a number of respects

While a decline in the volume of new housebuilding was inevitable at some stage in the current construction cycle, it could be argued that the existing slowdown is timely, coming at a time when the rest of the construction industry is doing well. Total building and construction output continued to increase in Q2 2007, albeit by a modest amount (+2.3%). The continued growth reflects a healthy level of private commercial and industrial building activity as well as the substantial level of public sector investment in productive and social infrastructure this year, the first year of the NDP for 2007-2013. As a result the latest National Accounts show that total non-residential investment (including investment in machinery and equipment) increased strongly (+24%) in Q2 2007 compared with the same period in 2006. This provided a boost to GNP growth in Q2 2007.

However, total residential construction represents around two-thirds of investment in building and construction, implying that the prospects for overall building and construction will be heavily influenced by the extent of the weakness on the new housebuilding side.

While there are a number of projections out there for total completions next year, it is our view that the most recent trend in registrations, a leading indicator of future supply, suggests that total completions will be around 60,000 in 2008 (adjusting for units that are not in the published figures). Accepting that there is a tendency to underestimate the extent of the slowdown on the way down – just as there was a tendency to underestimate the extent of the increase on the way up – it is possible that the outturn figure for completions next year could be lower, at closer to 55,000 or even 50,000, assuming market confidence was to weaken further. Some forecasts for completions next year are as low as 35,000/40,000. However, this scenario would only begin to look plausible if builders, who have registered their intention to build, decide not to do so due to a serious lack of confidence in the market. If completions were to fall to this level, there would, without doubt, be a significant impact on employment, economic growth and Exchequer revenues next year.

However, on a more positive note, one would expect that of the residential units that are provided, a significant proportion of those units would be built in the locations where potential demand is strongest e.g. in the urban areas and close to major centres of employment.

Moreover, the recovery in the growth in planning permissions in Q2 2007 is welcomed after eight quarters of decline, with the twelve month total currently running at just under 82,000. It remains to be seen whether this is just a temporary recovery or a more permanent indication of a possible recovery in market confidence for the medium term amongst the building fraternity.

Meanwhile other indicators available to date on the construction sector portray a sector which has possibly peaked in a number of respects:

*Construction employment*, according to household data, registered its second quarterly decline in Q2 2007; while construction employment, according to the establishment based survey (firms with 5 or more persons) recorded a greater decline, suggesting that layoffs are taking place in firms with 5 or more persons, while smaller firms (less than 4) and the self-employed are more likely to be able to switch to the repair and maintenance sector. However the impact of the decline in new residential construction on smaller firms has yet to come through in the QNHS.

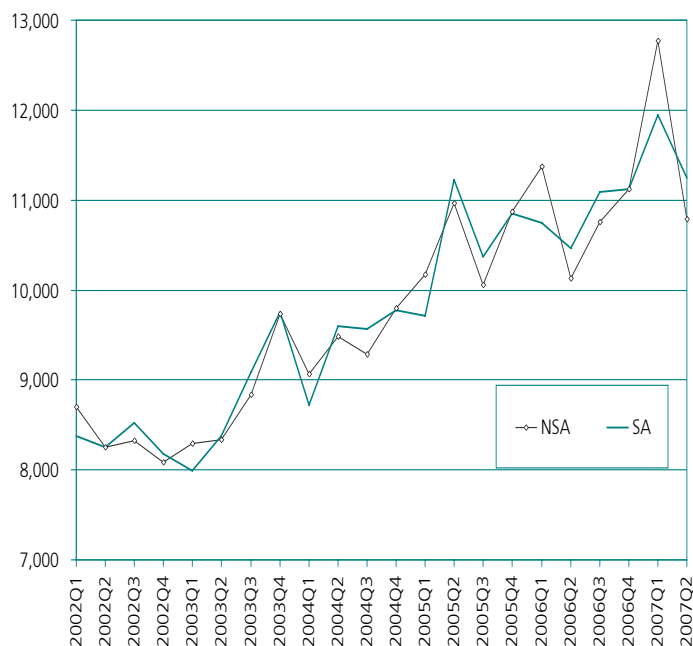
The construction sector recorded the lowest annual rate of *earnings growth* in Q2 2007 compared with other employment sectors.

*Building and construction inflation* hit an 18-month low in September when it reached 4.3% (yoy) with even lower growth rates reported using the SCS construction cost index (4% in June).

Given the current lack of consumer/housebuyer confidence and the reported slowdown in housing sales/transactions, it is no surprise that *residential lending volumes and values* have weakened up to Q2 2007. Further declines in the volume of mortgage activity are likely over the remainder of the year. However, the positive outlook for interest rates and affordability should boost confidence somewhat in the early months of 2008.

One measure of the lack of confidence in the housing market is the fact that annual *house price inflation* rates nationally turned negative in September (-2.8%) for the second month in a row (tsb/esri data). As a result average house prices in September were 3.7% below their peak in January 2007. Similar negative trends were reported for average new house prices and FTB houses. Much of this decline can be attributed to the spate of mortgage rate increases from December 2005 to June 2007. However international events arising from the global credit crunch, the sub-prime debacle and the growing risk of recession in the US also damaged buyer confidence at home. Two developments could potentially help restore confidence to the market in 2008: a possible cut in Eurozone interest rates and some positive news for first time buyers in the forthcoming Budget.

**Figure 1: Gross domestic fixed capital formation**  
(Quarterly, Constant 2005 chain-linked prices)



Source: CSO; National Accounts

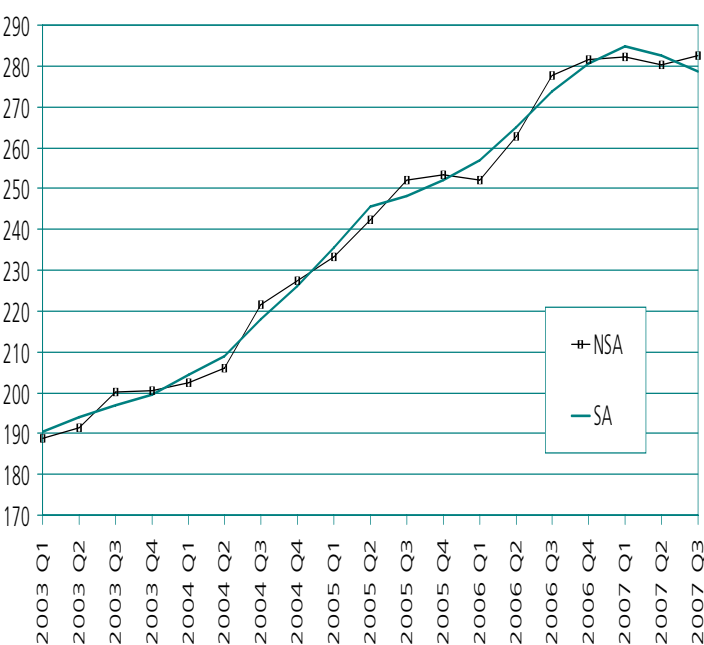
## Total investment continues to grow strongly despite slowdown in housing market

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
nsa (€m)	11,371	10,129	10,752	11,126	12,775	10,784
sa (€m)	10,746	10,463	11,087	11,126	11,947	11,242
% change (qoq, sa)	-1.0%	-2.6%	6.0%	0.4%	7.4%	-5.9%
% change (yoy, sa)	10.6%	-6.8%	6.9%	2.5%	11.2%	7.4%

According to Quarterly National Accounts data for Q2 2007, total investment in the economy, measured by gross fixed capital formation (GFCF i.e. in building and construction and machinery and equipment), grew by 6.5% (nsa) on the same period last year. Although this figure is lower than the 12.4% growth recorded in Q1 2007, it continues to represent a healthy level of investment growth within the economy.

The continued slowdown in the housing market is reflected in a fall of 6.0% (nsa) in residential investment (new dwellings and improvements) year-on-year. However, this fall off in residential investment was compensated by an increase in non-residential construction (+22.8%), with the result that total construction investment increased by 2.3% year-on-year in Q2 2007. Continued strong growth in investment in machinery and equipment (+25.6%) was also recorded in this period. Total non-residential fixed investment (representing the combined total of non-residential construction and machinery and equipment) therefore increased strongly (+24.2%) on the same period last year.

**Figure 2: Construction employment**  
(000s, sa)



Source: CSO; QNHS

## Negative growth in construction employment for second quarter in a row

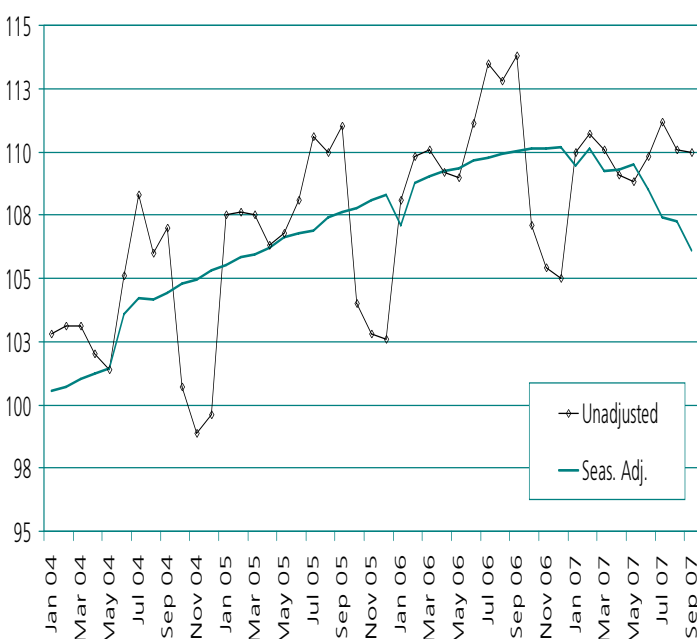
	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
(000s) sa	265.0	273.8	280.6	284.8	282.6	278.7
% change qoq, sa	3.2%	3.3%	2.5%	1.5%	-0.8%	-1.4%
% change yoy, sa	7.9%	10.3%	11.4%	10.9%	6.6%	1.8%

Construction employment fell for the second quarter in a row in Q3 2007, with qoq growth of -1.4% (sa) following a fall of 0.8% in Q2 – the first time in five years (since Q2 2002) that growth in construction employment has turned negative. In terms of annual growth, the rate of increase moderated to just 1.8% in Q3 2007, having consistently recorded double digit growth for much of the previous two and a half years.

Also for the first time in five years, the annual rate of growth in construction employment (+1.8%) has now dropped below the rate of total employment growth in the economy (+3.3%). The QNHS report notes that this modest annual increase in construction employment was entirely attributable to the self-employed (+5,700), while the number of employees in the construction sector actually declined by 1,000 persons in the year to Q3 2007. Almost 55% of the annual increase in employment in the economy was attributable to a growth in part-time employment, although this increase was primarily concentrated in sectors other than construction.

The continued growth in construction employment in yoy terms is surprising given the decline in new residential construction in the second half of 2007. It may suggest that either firms are postponing the laying off workers or are turning to the non-residential construction sector. We would expect, however, the numbers employed to continue to decline in Q4 2007.

**Figure 3: Construction employment index**  
(2000=100)



Source: CSO

## Significant decline in employment for construction firms with 5 or more employees

	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07
nsa	109.1	108.8	109.8	111.2	110.1	110
sa	109.3	109.5	108.5	107.4	107.3	106.1
% change (mom, sa)	0.1%	0.2%	-0.9%	-1.0%	-0.1%	-1.1%
% change (yoy, sa)	0.0%	0.1%	-1.1%	-2.2%	-2.4%	-3.6%

The latest figures from the CSO's construction employment index show a significant decline in construction employment (-3.0%, sa) in the period from May to September. Looking at year-on-year changes, construction employment declined by 3.6% (nsa) in the year to September 2007.

These growth rates are significantly lower than those recorded by the QNHS. They may suggest that layoffs are taking place in firms with 5 or more persons, while smaller firms (less than 4) and the self-employed are more likely to be able to switch to the repair and maintenance sector. It may be that the effects of the decline in new housebuilding on employment in smaller firms have yet to come through in the QNHS figures.

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

## Average weekly earnings continue to grow strongly in Q2

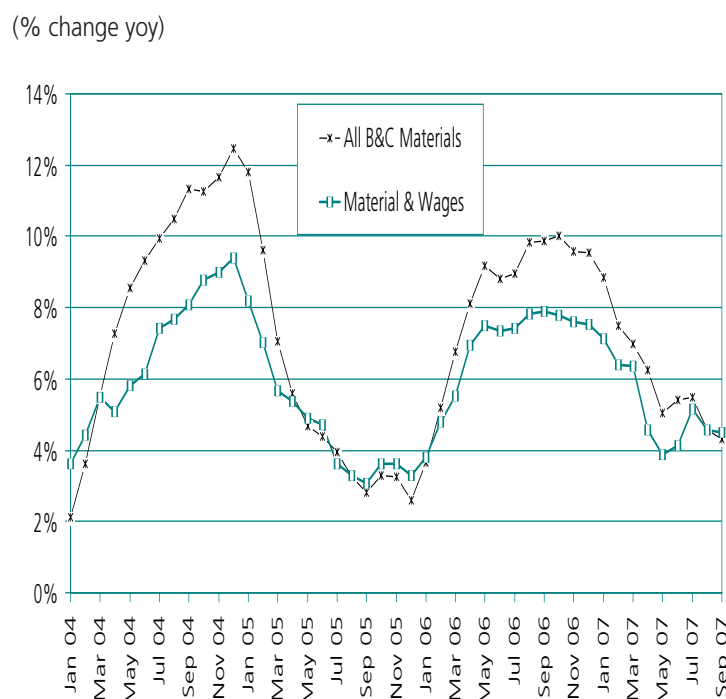
	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
sa (€)	736.6	759.8	769.9	800.3	780.1	793.7
% change qoq, sa	-6.3%	3.2%	1.3%	4.0%	-2.5%	1.7%
% change yoy, sa	0.6%	0.6%	2.8%	1.8%	5.9%	4.5%

Average weekly earnings in construction grew strongly for the second quarter in a row, with seasonally adjusted figures showing an annual increase of 4.5% in Q2, marginally down on the 5.9% annual growth rate recorded in Q1 of this year. The increase in average weekly earnings comes in spite of a fall in average hours worked per week (-1.6% yoy), with the average hourly wage rate (for clerical and operatives) increasing by 6.1% (yoy, to Q2 of this year). The Q2 figures would include that final 2.5% pay increase awarded in July under the terms of the current wage agreement negotiated under *Towards 2016*.

In other sectors, annual growth in average weekly earnings to Q2 2007 was 4.9% in industry, 6.9% in banking and insurance, 5.2% in distribution and business services, and 5.7% in the public sector. This puts construction at the lower end of the scale in terms of wage growth. In terms of annual average earnings however, at €41,390 construction ranks ahead of both industry (€32,617) and distribution and business services (€36,846) but continues to lag the banking and insurance (€46,090) and public (€48,185) sectors on this measure.

The above data for construction workers from the CSO is obtained from firms with 10 or more employees. Although there are increasing numbers of small firms working in the sector, we have no information on the average earnings of their employees.

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



Source: CSO

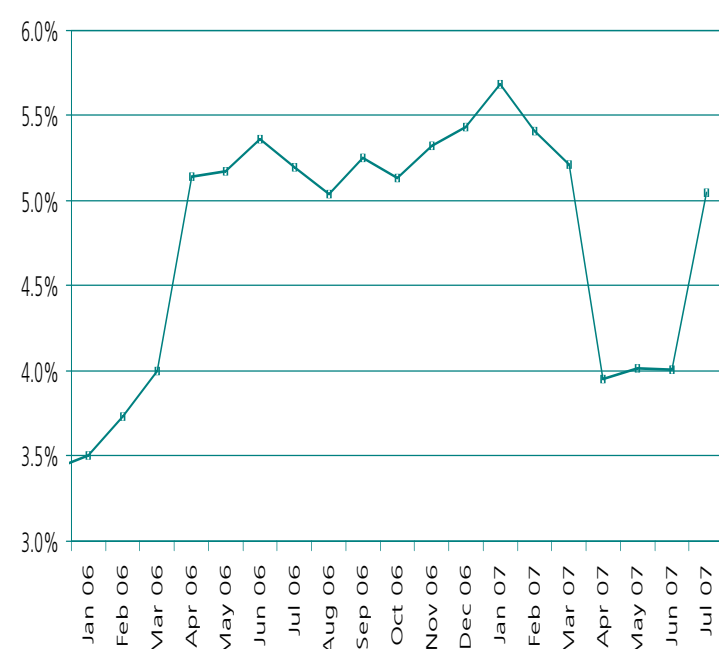
## Building and construction inflation hits an 18 month low

	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07
All B&C materials (nsa)	141.3	141.5	141.9	142.5	142.4	142.6
% change (yoy, nsa)	6.2%	5.0%	5.4%	5.5%	4.6%	4.3%
B&C materials and wages (nsa)	153.3	153.4	153.7	155.5	155.4	155.6
% change (yoy, nsa)	4.6%	3.9%	4.1%	5.1%	4.6%	4.5%

The annual rate of building and construction materials inflation has continued to moderate over recent months, declining from 5.4% in June of this year to an 18 month low of 4.3% in September. This follows a sharp decline in this series over a 6 month period from its peak of 10% in October 2006. Continuing high price inflation for stone, sand and gravel (+11.8% per annum in September 2007), cement (+9.6%) and timber (+8.5%), remains a cause for concern, however.

The Capital Goods index is a composite of the hourly wage and materials price index. Although it maintains a similar trajectory to wholesale price inflation, the capital goods index has generally grown at a slower rate, hovering at about 1-2 percentage points below wholesale price inflation over the past year. In recent months the two series have converged, with the Capital Goods index (at +4.5% per annum in September 2007) surpassing wholesale price inflation (at +4.3% per annum in September 2007) for the first time since January 2006. The spike in the Capital Goods index, observed in July 2007 is most likely attributable to the 2.5% increase awarded during that month under the current wage agreement.

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



Source: SCS

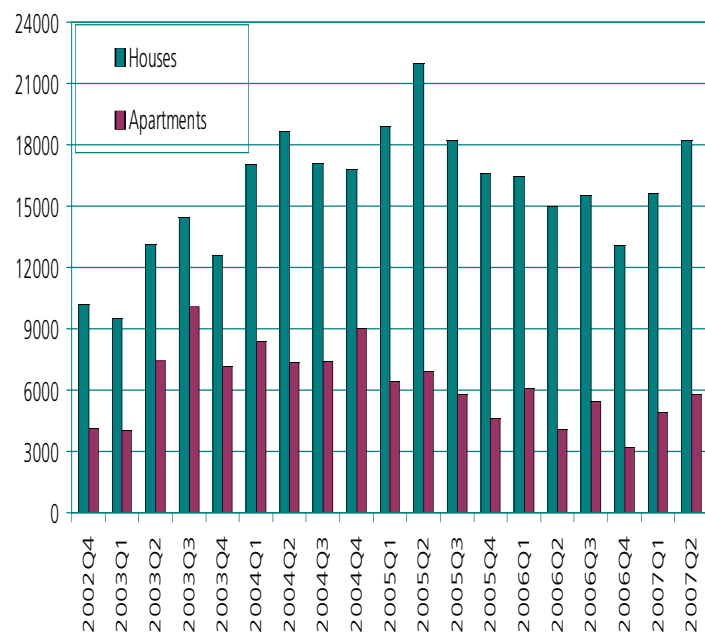
## ...but the SCS measure of construction cost inflation shows a slight increase in July '07

	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07
SCS construction cost index	284.4	284.7	286.8	287.4	288.0	291.3
Cost inflation (yoy)	5.4%	5.2%	4.0%	4.0%	4.0%	5.0%

The latest Society of Chartered Surveyors (SCS) figures report the annual rate of construction cost inflation at 5% in July 2007. These growth rates are slightly below those recorded by the CSO for inflation in building materials and the capital goods index for July 2007. However, the most recent CSO data for September 2007 (reported above) suggests that the rate of construction cost inflation is likely to fall back in Q3 2007.

Looking at tender prices, which are forecast to increase by between 3% (Bruce Shaw) and 3.8% (Davis Langdon PKS) this year – still well below rates of construction cost and building materials inflation – suggests that tender prices are absorbing the higher material prices. This may reflect the high level of competition in the sector. It remains to be seen what the impact of the new fixed price contracts will be on tender price inflation over the medium term.

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



Source: CSO

## Strong recovery in planning permissions in Q2 suggests confidence returning to the market

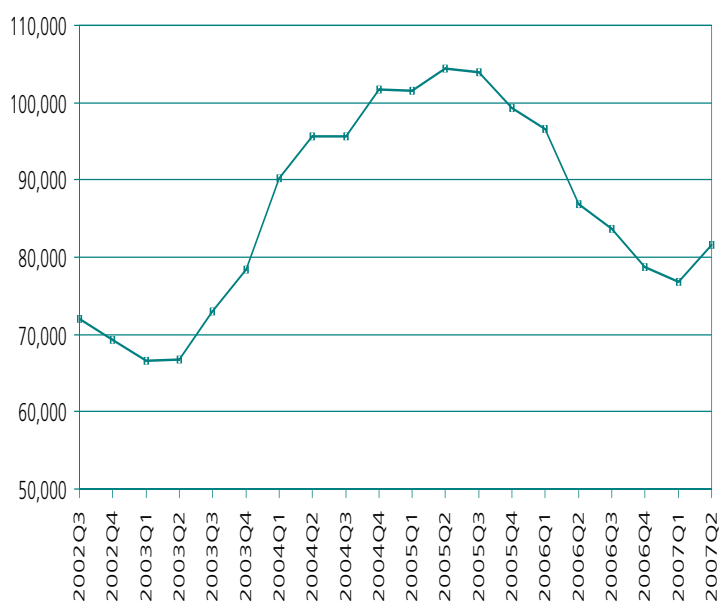
	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
<b>Number of houses</b>						
nsa	16,454	15,014	15,486	13,054	15,654	18,201
% change yoy sa	-13.0%	-31.6%	-14.9%	-21.4%	-4.9%	21.2%
<b>Number of apartments</b>						
nsa	6,070	4,083	5,397	3,197	4,884	5,787
% change yoy nsa	-5.7%	-40.7%	-6.8%	-30.4%	-19.5%	41.7%
<b>Total units</b>						
nsa	22,524	19,097	20,883	16,251	20,538	23,988
% change yoy sa	-11.1%	-33.7%	-12.9%	-23.4%	-8.8%	25.6%

The total number of residential units granted planning permission in Q2 of this year was up 8.6% (sa) on the previous quarter and 25.6% on the same period one year ago. The recovery in planning permissions sees the number granted in Q2 of this year return to levels not seen since Q3 of 2005. Growth in the number of planning permissions was most pronounced for apartments (+41.7% yoy), while the number of houses granted permission was up 21.2% on a year previously. One-off houses, which accounted for over a quarter (25.7%) of all houses granted planning in Q2 2007, were down fractionally (-0.3%) on the same period last year – the tenth quarter in a row that the number of one-off houses granted permission fell, although this latest figure represents a noticeable slowing of the downward trend.

Looking at the regional breakdown, exceptional rates of growth in the number of dwelling units granted planning permission were observed in Dublin (+144.2% yoy) and the Mid-West (+139.3% yoy), although these figures reflect a very low level one year previously (Q2 2006). Elsewhere, strong growth was also registered in the South-East (+44.3% yoy) and the Mid-East (+40.3%). The number of dwelling units granted planning in the Border region declined by almost one third yoy (-28.8%), while numbers were down 13.9% in the West.

*Note: All planning permission data reported is unadjusted as time series is too short to rely on the seasonally adjusted pattern.*

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



Source: CSO

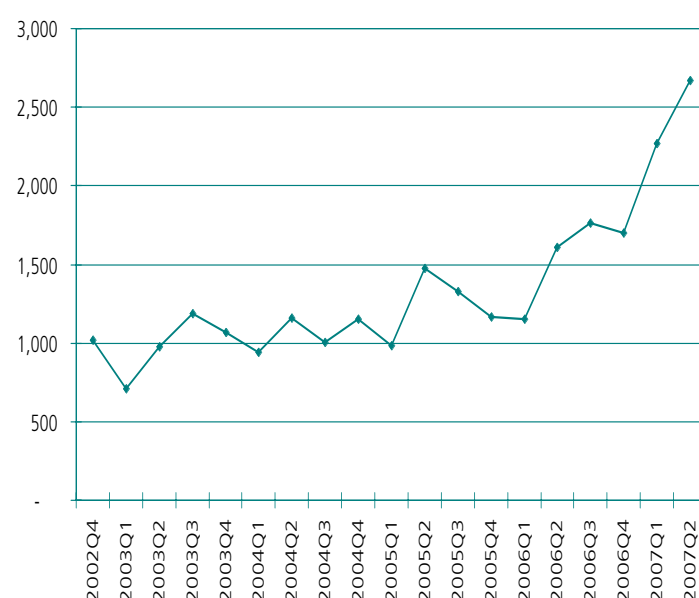
## ...with the 12-month running total turning upwards for the first time since Q2 2005

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
nsa	96,526	86,805	83,707	78,755	76,769	81,660
% change yoy	-2.8%	-10.1%	-3.6%	-5.9%	-2.5%	6.4%

The consistent decline of the 12-month running total in residential planning permissions since its peak in Q2 2005 was finally reversed in Q2 of this year. In the twelve months to Q2 2007 a total of 81,660 residential units were granted planning permission, an increase of 6.4% on the previous quarter. However, this still represents a decline of 5.9% on a year previously, and a fall of 21.8% on the peak this series reached in Q2 2005. Whether this apparent reversal represents a true recovery in future housing supply, or merely an aberration in an otherwise downward trending series, remains to be seen.

In any event, the previous downward trend in this series, evident for seven quarters from Q3 2005 to Q1 of this year, implies a substantially lower level of housing supply in 2008.

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



Source: CSO

## Agricultural building continues to drive strong growth in non-residential construction

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
nsa	1,151	1,612	1,764	1,697	2,272	2,668
% change yoy, nsa	16.9%	9.1%	32.9%	45.4%	97.4%	65.5%

Having grown by 97.4% yoy in Q1 of 2007, the annual rate of growth in total non-residential floor area granted planning permission slowed somewhat to +65.5% in Q2 of this year. 56% of the total new non-residential floor area represented agricultural buildings, with commercial buildings accounting for 26%.

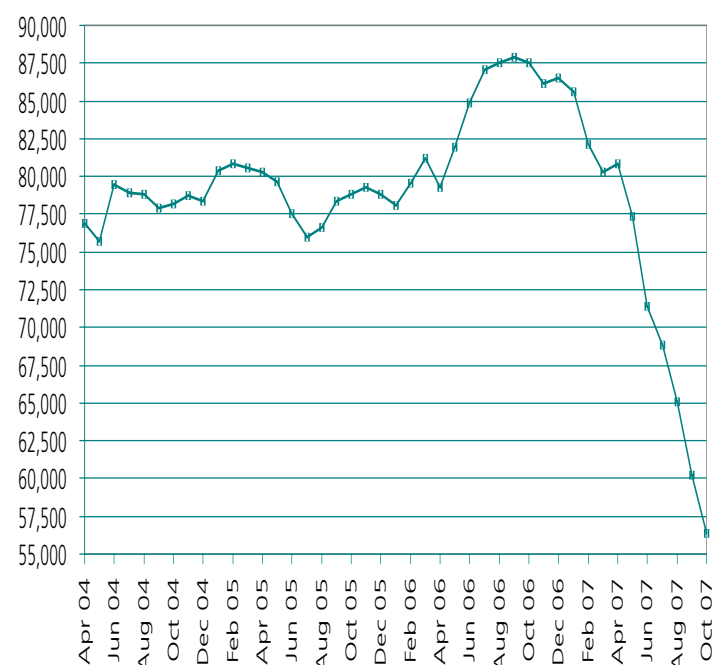
Within the total, commercial construction volumes were up 16.5% over the year to Q2 2007 while industrial space fell by almost half (-44.6%) over the same period. For the second quarter in a row agricultural building has increased substantially, although the rate of increase did slow considerably, from a six-fold increase yoy in Q1 2007, to a rate of +235% in Q2. As stated in our last *Construction Indicators* report (Issue 10), we believe that this reflects an increase in planned investment in farm buildings due to various EU Directives and other compliance factors, which require farmers to keep their farms in a good environmental and agricultural condition.

Although residential construction continues to dominate, accounting for 56% of the total planned floor area, continued jobs growth and the current high levels of consumer spending should point to a sustained demand for commercial units in the near future.

# Construction indicators

**Figure 10: Registrations**

(12-month running total)



Source: Homebond; Premier Guarantee; DKM estimate

## A comprehensive measure of registrations would suggest a year end total of around 60,000

	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
12-month running total	77,399	71,421	68,820	65,048	60,224	56,331
% change mom	-4.2%	-7.7%	-3.6%	-5.5%	-7.4%	-6.5%
% change yoy	-5.6%	-15.9%	-21.0%	-25.7%	-31.5%	-35.7%

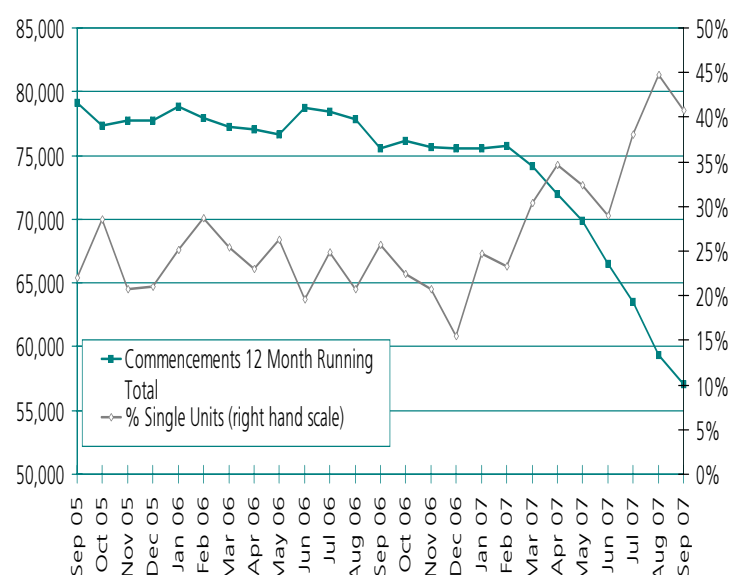
Total registrations (recorded by Homebond and Premier Guarantee) in the ten months to October of this year stood at 34,417, 41.5% lower than the figure for the same point in 2006. Taking the 12-month running total, the October figure (at 56,331) was 35.7% below the corresponding level a year previously.

Assuming a further 3,500 registrations in November and December, the total for the calendar year would be approx. 38,000. However, this unadjusted figure for registrations does not include one-off houses. Taking our adjusted figures\* we would estimate total registrations at approx. 55,000 units for this year. Adding on an estimate for public sector (local authority and social) housing, suggests that total completions next year are likely to be around 60,000.

\* 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

## Commencement notices down 27.5%, year-on-year

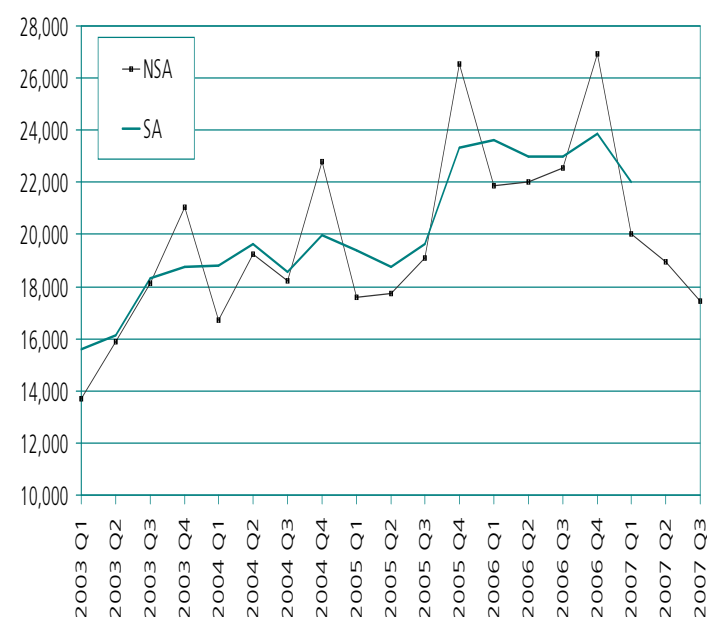
	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07
12-month running total	72,004	69,892	66,540	63,507	59,377	57,106
% of single units	34.6%	32.4%	29.0%	38.1%	44.7%	40.7%
Greater Dublin Area 12 mrt	21,466	20,787	20,287	18,917	17,077	16,308
GDA as % of national total	29.8%	29.7%	30.5%	29.8%	28.8%	28.6%

The commencement series has never broken the 80,000 barrier, for reasons to do with the interpretation of units by local authorities. The annual total for commencements has been on a downward trend since July 2006 after peaking at 78,721 in June 2006. The latest figure for September 2007 shows the cumulative 12-month total at just over 57,000, down 27.5% compared to June 2006, another indication of the weakness expected on the supply side over the coming twelve months.

Total commencements in the Greater Dublin Area (GDA) stood at 16,308 in the twelve months to September 2007. Activity in the GDA has fallen sharply with commencements over the twelve months to September 2007 down by 31.7% compared with the previous twelve months.

**Figure 12: Total dwellings completed**

(Number, quarterly)



Source: DEHLG, based on ESB residential connections.

## Completions down 22.8% year-on-year in Q3 2007

	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
<b>Total completions (nsa)</b>	22,005	22,571	26,949	20,018	18,960	17,427
<b>Total completions (nsa)*</b>	18,905	22,571	26,949	20,018	18,960	17,427
% change qoq, sa	-2.6%	0.0%	3.7%	-7.7%	n/a	n/a
% change yoy, nsa*	22.5%	17.3%	2.4%	-6.7%	-13.8%	-22.8%
<b>Private completions (nsa)</b>	20,647	21,365	25,070	18,866	n/a	n/a
sa	21,204	21,696	22,764	20,057	n/a	n/a
% change qoq, sa	-4.9%	2.3%	4.9%	-11.9%	n/a	n/a
% change yoy, sa	21.2%	19.0%	4.4%	-10.0%	n/a	n/a
<b>Public completions (nsa)</b>	1,358	1,206	1,879	1,152	n/a	n/a
sa	1,809	1,311	1,104	1,980	n/a	n/a
% change qoq, sa	36.4%	-27.5%	-15.8%	79.4%	n/a	n/a
% change yoy, sa	40.1%	-4.4%	-26.8%	49.3%	n/a	n/a

\* adjusted for connections backlog in 2005/06

A sharp fall off in completions emerged in the third quarter of 2007, with yoy growth falling to -22.8% in Q3 following an almost unchanged position, yoy in the first half of 2007 (+0.7%). The position after the first nine months of the year is that total completions were 7.9% lower than in the same period in 2006. We expect to see a continued decline in Q4, which has tended to be the record quarter each year historically. At this stage we expect completions to decline to around 77,000 this year, down around 12.7% on the peak in 2006 (88,219). Taking current trends in registrations (Figure 10) and adding on an estimate for one-off housing and public sector housing, the forecast for total completions next year is 60,000. While there is a tendency to underestimate the extent of the slowdown on the way down, it is conceivable that completions could fall further to around 55,000. However, there is no evidence at this point in time to suggest that completions would fall much below this figure, unless builders who have registered their intention to build next year, decide not to do so. Clearly such a development would seriously impact on the economy and employment. This figure differs from those published by the DEHLG as we have adjusted for units connected in 2006 that were actually built in 2005.

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



Source: DEHLG, Irish Bankers Federation

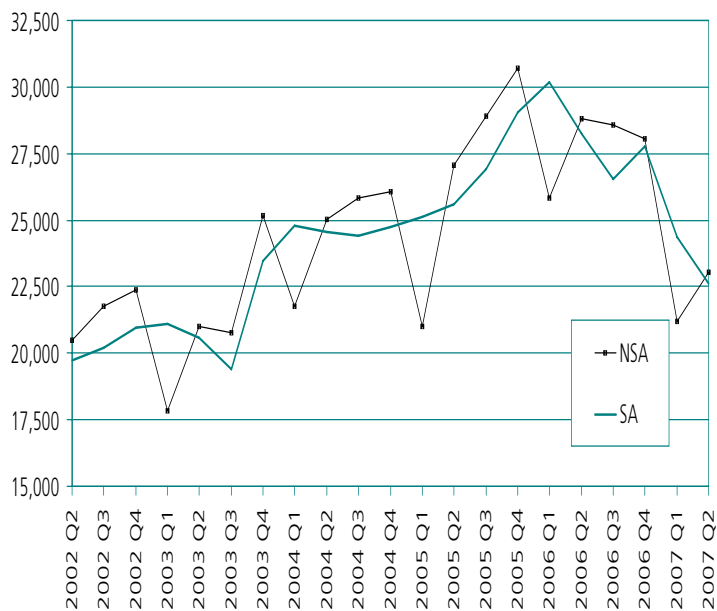
## Value of lending in Q2 2007 down 11.9% year on year (DEHLG data)

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
nsa (€m)	5345.6	6032.4	7083.4	7033.9	4817	5312
sa (€m)	6390.2	5963.1	6526.4	6719.4	5762.6	5254.8
% change qoq, sa	1.9%	-6.7%	9.4%	3.0%	-14.2%	-8.8%
% change yoy, sa	39.3%	16.8%	18.9%	7.2%	-9.8%	-11.9%
Average loan value, sa (€'000s)	211.7	211.0	246.0	242.0	236.7	232.4

The latest available DEHLG data shows the value of loans reached €5.3bn in Q2 2007 (sa), down by 11.9% on the same period in 2006. The number of loans paid out in Q2 2007 (at 22,612, sa) was down 20% on Q2 2006. Data from the Irish Bankers Federation (IBF) suggests that the total value of mortgage lending in Q2 2007 excluding re-mortgages and top-up mortgages (at €5,798m) was down even further at -16.2% on Q2 2006.

Average loan value in Q2 2007 was €232,400, according to DEHLG figures. This represents 70% of the average national new house price in Q2 2007.

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



Source: DEHLG, Irish Bankers Federation

## Mortgage market activity down by one fifth, year-on-year for Q2

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
nsa	25,827	28,822	28,558	28,046	21,181	23,058
sa	30,183	28,264	26,534	27,766	24,351	22,612
% change qoq, sa	3.8%	-6.4%	-6.1%	4.6%	-12.3%	-7.1%
% change yoy, sa	20.0%	10.5%	-1.4%	-4.5%	-19.3%	-20.0%

According to DEHLG data, a total of 22,612 housing loans were paid in Q2 2007 (sa), 20% below the figure one year earlier and 25.1% off the peak number recorded in Q1 2006 (using seasonally adjusted figures).

Looking at data from the Irish Bankers Federation (IBF), the proportion of loans to FTBs (having jumped to a record high of 37.8% in Q1 of this year) declined somewhat in Q2 to 35.5%, although this remains appreciably higher than at any time during 2006. At the same time, the proportion of loans issued to mover purchasers (i.e. existing owners) recovered to its 2006 level of just over 40% (40.5% in Q2 2007). The total number issued to mover purchasers was 30.9% off its peak level in Q4 2005. The number of loans issued to investors in Q2 2007 was 29.7% off peak level in Q4 2005 (7,474).

Given the current lack of consumer confidence and the reported slowdown in transactions, a further decline in the volume of mortgage activity is likely over the remainder of the year. However, the positive outlook for interest rates and affordability should boost confidence somewhat in the early months of 2008.

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



Source: DEHLG

## Further moderation in annual new house price inflation to below 8% in Q2 2007

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
National (€) nsa	294,580	308,302	309,206	313,087	320,969	331,947
% change qoq, nsa	2.6%	4.7%	0.3%	1.3%	2.5%	3.4%
% change yoy, nsa	11.4%	11.9%	12.1%	9.0%	9.0%	7.7%
Dublin (€) nsa	390,629	397,337	425,925	419,330	417,800	426,900
% change qoq, nsa	8.1%	1.7%	7.2%	-1.5%	-0.4%	2.2%
% change yoy, nsa	14.1%	14.6%	21.3%	16.1%	7.0%	7.4%

The annual rate of new house price inflation nationally continued to moderate in Q2 2007, dropping to +7.7%. Annual house price inflation rates have almost consistently been in double figures for most of the previous three years (as far back as Q3 2002 this rate was +11.4%). However, this latest moderation (according to the DEHLG quarterly data), suggests a significant cooling of the housing market.

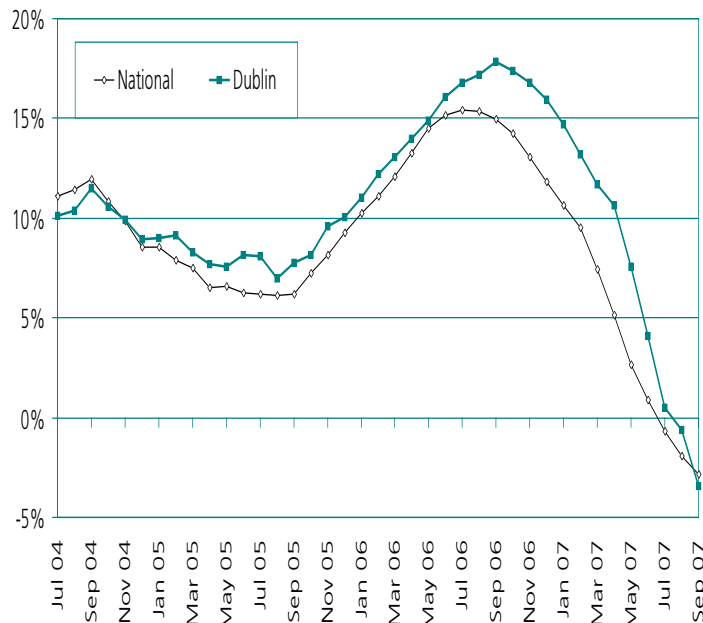
Q2 of this year saw a modest recovery in new house prices in Dublin (+2.2% qoq, although these figures are not seasonally or mix-adjusted). In annual terms, the rate of new house price inflation in Dublin was running at +7.4% in Q2 2007. This continues to represent a significant moderation for the Dublin area, as the rate recorded in Q2 of this year was less than half the average rate for the four quarters in 2006 (+16.5%).

Nationally, the average price for a new house in Q2 2007 stood at €331,947, while the equivalent figure for Dublin was €426,900. These figures could represent a peak in average new house prices, as recent trends in the permanent-tsb/esri house price index suggest that average new prices actually began to fall in year on year terms – both nationally and in Dublin – in the third quarter of 2007.

# Construction indicators

**Figure 16: House prices**

(% change, yoy)



Source: permanent-tsb

## Annual average house price inflation negative for third month in a row in September

	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07
National index (nsa)	137.5	136.4	135.7	135.1	134.7	134.3
% change (mom, nsa)	-0.8%	-0.8%	-0.5%	-0.4%	-0.3%	-0.3%
% change (yoy, nsa)	5.1%	2.6%	0.9%	-0.7%	-1.9%	-2.8%
Dublin index (nsa)	142.6	140.9	139.0	136.4	136.2	134.5
% change (mom, nsa)	0.1%	-1.2%	-1.3%	-1.9%	-0.1%	-1.2%
% change (yoy, nsa)	10.6%	7.6%	4.1%	0.5%	-0.6%	-3.4%

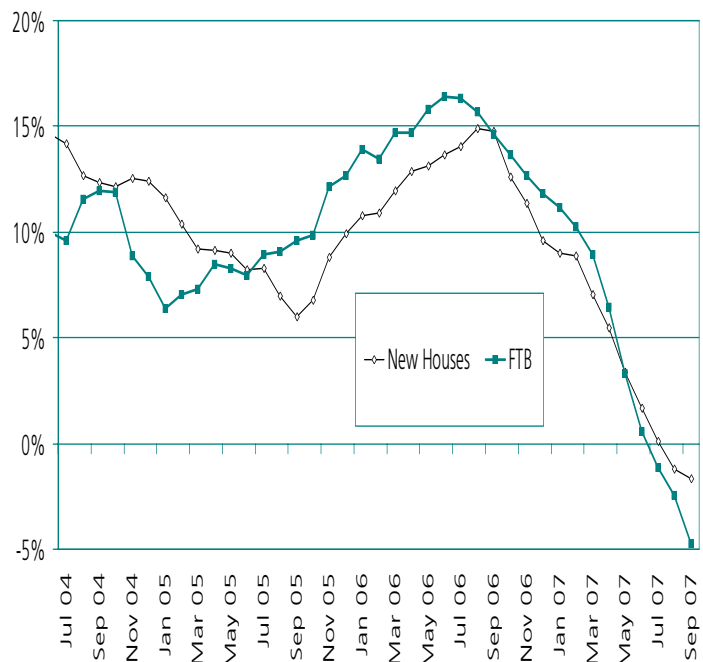
In sharp contrast to the DEHLG figures, annual house price inflation was running at -2.8% nationally in September, according to the latest figures from the permanent-tsb/esri index. Average house prices in Ireland fell by 0.3% in September (mom) – the seventh month in a row to record negative house price inflation. In Dublin the ptsb index has recorded a decline in average house prices (mom) for five months in a row (to September 2007) with the result that annual house price growth stood at -3.4% in September – a dramatic fall in the space of 12 months given that the equivalent figure for September 2006 was +17.9%.

Average house prices in September were at €299,500 nationally and €405,300 in Dublin. These figures represent a fall of 3.7% in national house prices from their peak in January 2007. In Dublin the September 2007 figure was 5.7% below its peak level recorded in April of this year.

House price inflation in Ireland turned a corner in July of this year as the annual rate of inflation turned negative in August following five straight months during which house prices declined (mom) – the first time that house prices have fallen since late 2001/early 2002. Further modest declines are likely over the coming months.

**Figure 17: House prices**

(% change, yoy)



Source: permanent-tsb

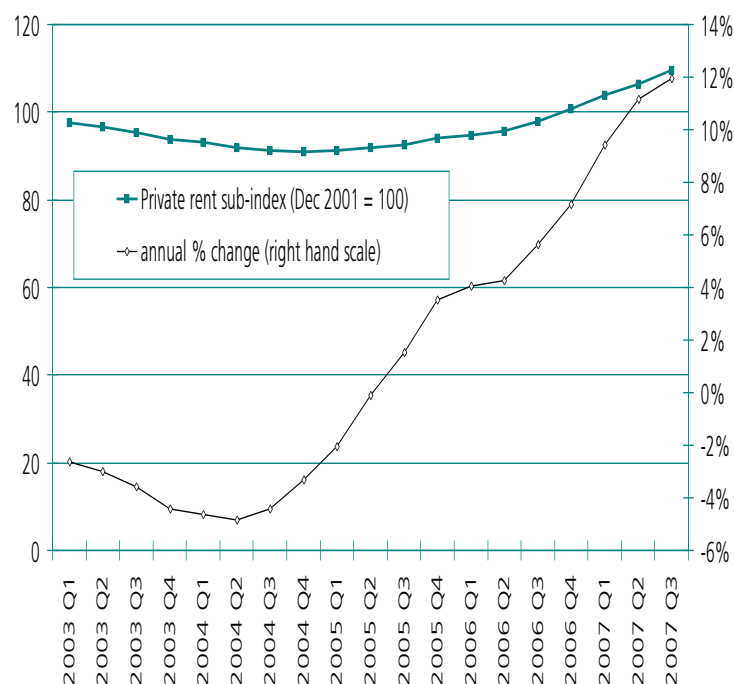
## ...with similar negative yoy trends evident for new-house prices and FTB prices

	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07
New index (nsa)	140.4	139.0	138.0	137.5	137	137.0
% change (mom, nsa)	0.0%	-1.0%	-0.7%	-0.4%	-0.4%	0.0%
% change (yoy, nsa)	5.5%	3.3%	1.7%	0.1%	-1.2%	-1.7%
First-time-buyer index (nsa)	140.2	137.7	136.4	135.8	135.8	133.6
% change (mom, nsa)	-0.8%	-1.8%	-0.9%	-0.4%	0.0%	-1.6%
% change (yoy, nsa)	6.5%	3.3%	0.6%	-1.2%	-2.4%	4.7%

New house price inflation was flat for September 2007 (mom) having fallen for the previous four months in a row. However this did not prevent yoy inflation from falling back to -1.7% in September. Similarly, FTB prices have fallen for six months in a row, with the average price paid by a first time buyer in September 2007 now 4.7% lower than a year previously. This fall in prices will have positive implications for affordability for FTBs, although it seems likely that prices may have further to fall during 2008.

**Figure 18: CPI private housing rents sub-index**

(mid-December 2006=100)



Source: CSO

## Private rental growth continues to soar ahead to reach +12% yoy in Q3

	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
CPI private housing rents *	95.8	97.9	100.8	103.8	106.5	109.6
% change, qoq	1.0%	2.2%	3.0%	3.0%	2.6%	2.9%
% change, yoy	4.3%	5.6%	7.2%	9.4%	11.1%	12.0%

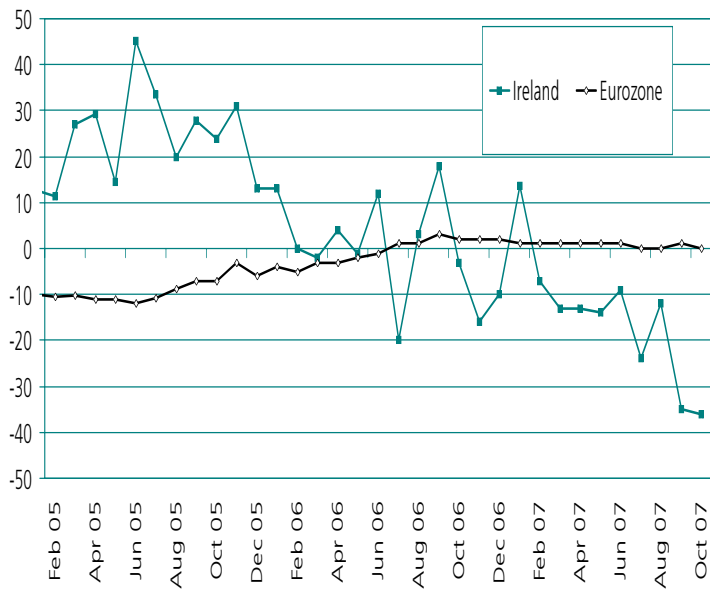
\* Sub-index

Private rents continued to accelerate into the latter half of 2007, on the back of consecutive q-on-q increases for the first three quarters of the year (of +3%, +2.6% and +2.9% respectively, nsa) to reach an annual growth rate of +12% in Q3 (the highest since Q3 2001).

Amid growing uncertainty in the housing market, many prospective buyers have been forced into rented accommodation as they wait to see the extent of the correction in house prices over the coming months. Rental demand has been bolstered further by employment growth and high immigration. We previously reported that the number of loans issued to investors in Q2 2007 was almost 30% off its peak in Q4 2005. A continued decline in the demand from investors may well keep rents at a high level, provided the demand for rented accommodation remains robust. This should eventually encourage the demand for owner occupied properties.

This latest CSO data would appear to contradict the assertion made in the most recent rental report by property website Daft.ie (released in August 2007) that rental inflation had reached a peak during the summer of this year. The Daft report put national rental growth at +9%, down from 11.9% in the previous Daft report (released in June 2007).

**Figure 19: Construction confidence**



Source: Eurostat

## Pessimism about Irish construction prospects reaches new low

	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07
Ireland (sa)	-14	-9	-24	-12	-35	-36
Eurozone (sa)	1	1	0	0	1	0

Construction confidence in Ireland continued its descent into negative territory in the months to October 2007, while remaining broadly stable in the Eurozone area. Looking at the components of the construction confidence index, the continued decline is attributed to a significant disimprovement in the assessment by managers of current activity levels (in September and October) compared with previous months, order books and employment expectations. We suspect this view is very much influenced by the sharp slowdown underway in new housebuilding.

This confidence indicator is a composite index based on firm's order books and employment expectations. Given the high degree of variability, caution is needed in interpreting the results.

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 <sup>1</sup>
5 Wholesale price index for B&C materials	Monthly	CSO	Index	No	DKM <sup>2</sup>
6 Capital goods price index for B&C	Monthly	CSO	Index	No	DKM <sup>2</sup>
7 Bruce Shaw tender price index	Annual	BS	Index	No	
8 Bruce Shaw construction cost index	Annual	BS	Index	No	
9 Planning permissions	Quarterly	CSO	Number	No	(3)
10 Floor area for non-residential new construction	Quarterly	CSO	Sq.mtrs.	No	(3)
11 Total registrations (incl. one-offs, estimated)	Monthly	DKM est.	Number	No	(3)
12 Dwelling completions	Quarterly	DoEHLG	Number	No	DKM
13 Total value of housing loans paid out	Quarterly	DoEHLG	€m	Yes	DKM
14 Total number of housing loans paid out	Quarterly	DoEHLG	Number	Yes	DKM
15 Average loan value (based on drawdowns)	Quarterly	DoEHLG	€000	Yes	DKM
16 National average new house prices	Quarterly	DoEHLG	€000	Yes	DKM
17 Dublin average new house prices	Quarterly	DoEHLG	€000	Yes	DKM
18 Permanent TSB national house price index	Monthly	Perm.TSB	Index	No	(3)
19 Permanent TSB Dublin house price index	Monthly	Perm.TSB	Index	No	(3)
20 Permanent TSB new house price index	Monthly	Perm.TSB	Index	No	(3)
21 Permanent TSB FTB house price index	Monthly	Perm.TSB	Index	No	(3)
22 CPI private housing rents sub-index,	Quarterly	CSO	Index	No	(3)
23 EU construction confidence index	Monthly	Eurostat	Index	Yes	Eurostat
24 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).