



Construction industry indicators

Issue 9

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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 ninth 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 results from the new *Quarterly Survey of Construction Output*, which is being undertaken by the CSO, are expected this year. Work is also currently underway in the Housing Section of the DEHLG on the development of improved house price data. In due course the results from both initiatives 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 adjustment¹.

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.ie².

1. Using the Tramo-Seats software via the Demetra interface developed by Eurostat.

<http://forum.europa.eu.int/irc/dsis/eurosam/info/data/demetra.htm>

2. Previous issues are available at

<http://www.environ.ie/DOEI/DOEIPub.nsf/wvNavView/RegularPublications?OpenDocument&Lang=en>

Outturn for construction in 2006 was healthy but challenges lie ahead for 2007

The range of construction indicators available to date portray a sector where investment growth increased by 5.7% on average in 2006; employment growth last year was over twice the national average for the economy as a whole; non-residential construction investment growth performed strongly (annual rate of +12.2%); and construction cost and building materials inflation are increasing at a higher rate than tender prices. The prospects for non-residential investment are strong again this year judging by the volume of new non-residential space planned in the pipeline and the unprecedented investment in social and productive infrastructure set out in the National Development Plan 2007-2013.

However the latest National Accounts data suggest that there was a sharp decline in the level of residential investment in Q4 2006 (-2.1% year-on-year) while leading indicators of residential investment this year suggest that housing supply will be much lower in 2007 than in 2006. As residential investment accounts for 46% of total fixed investment in the economy, a weaker residential investment sector does not augur well for the prospects for building and construction investment and employment this year, despite a continued strong performance from the non-residential investment sector.

Growth in construction employment was strong again in Q4 2006 (QNHS), with 280,300 (sa) persons employed. The sector accounted for 36% of annual employment growth in Q4. Construction now accounts for 13% of total employment. The economy's dependence on construction is likely to be challenged this year as housebuilding activity declines, resulting in some reduction in the numbers employed, which may not be picked up by other sectors.

Construction earnings moderated in 2006, resulting in a 2.5% annual growth rate in average weekly construction earnings. But this pace falls far short of robust annual wage growth in the banking and insurance (+8.8% nsa) and distribution and business services (+5.3%) sectors. The increasing proportion of migrant workers in the construction sector (+13% yoy), appears to have dampened wage growth from the record high rates in 2001 and 2002.

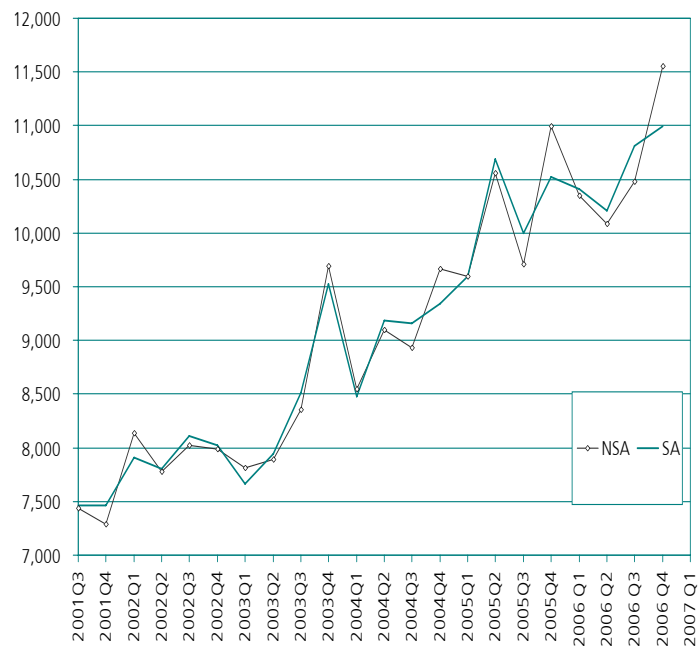
There was a substantial acceleration in building and construction materials inflation throughout 2006, which culminated in annual inflation running at or close to 10% in each of the four months up to November 2006. Inflation moderated slightly to 7.5% in February 2007. When compared with the pace of growth of the capital goods index (+6.4%); materials prices and not wage growth appear to be the key factor driving this inflation. However, construction costs inflation, measured by the SCS, was lower at 5.7% in January, but well ahead of the projections for tender price inflation of 3-4% this year.

Following the peak in housing supply in 2006, when the number of units built reached 88,219, a modest 2.4% above the 2005 level, total supply was unchanged in the first two months of 2007 on the same period in 2006. When combined with the sharp fall off in planning permissions in 2006 – some 25% off their peak level in Q2 2005 (104,782) – and the sharp downward trend in registrations to date, the likelihood is that housing supply will be substantially down this year on 2006 levels.

National house price growth was flat in February, possibly in response to the seven mortgage interest rates increases since December 2005. However, average house price inflation remains at a high level: 13.4% nationally in 2006 on average and 15.3% in Dublin. Price growth at a national level was running at 9.5% per annum in February 2007 (average price at €311,087), compared with 13.2% in Dublin (€428,850).

Although the economic fundamentals remain strong in terms of population, net migration, employment and disposable income growth, a further moderation in the rate of house price growth seems in prospect over the remainder of 2007, given the likelihood of at least one further increase in mortgage rates over the summer, but also recent negative comment regarding market prospects which is expected to dampen confidence amongst potential housebuyers. Despite this recent moderation, average FTB house prices, at around €280,000 in February 2007, pose significant affordability challenges for potential first-time buyer couples in the market.

Figure 1: Gross domestic fixed capital formation
(Quarterly, Constant 2004 chain-linked prices)



Source: CSO; National Accounts

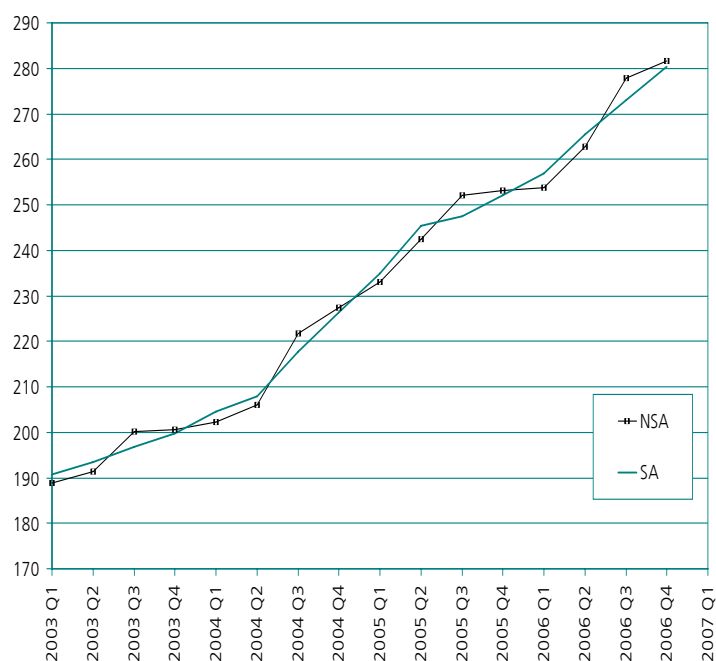
Moderation in investment growth in 2006 as pace of residential growth slows sharply

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
nsa (€m)	9,714	10,999	10,347	10,082	10,480	11,558
sa (€m)	9,995	10,591	10,408	10,206	10,813	10,994
% change (qoq, sa)	-6.5%	6.0%	-1.7%	-1.9%	5.9%	1.7%
% change (yoy, sa)	9.1%	13.4%	8.5%	-4.5%	8.2%	3.8%

Following the release of National Accounts data at end of March for Q4 2006 and preliminary results for the full year, the volume of investment in the economy, measured by gross fixed capital formation (GFCF i.e. building and construction and machinery and equipment investment) increased by 3.9% in 2006 following an increase of 12.8% in 2005. The components of GFCF growth in 2006 comprise a 5.7% volume increase in building and construction investment and a 6.5% decline in investment in machinery and equipment, reflecting significantly lower imports of airplanes in 2006. Within the building sector the rate of growth in new housebuilding moderated sharply from 12% in 2005 to 2.9% in 2006, reflecting the more modest annual growth in house completions last year.

The quarterly figures also suggest a sharp slowdown in the level of residential investment, with the annual growth rate falling from 6% in Q2 to -2.1% in Q4. In contrast the annual growth rate in non-residential building and construction investment accelerated from 6.1% year-on-year in Q2 to 17.2% year-on-year in Q4. With residential investment, which accounts for 46% of total GFCF, expected to decline this year, a continued strong performance from the non-residential investment sector this year may not be sufficient to ensure that GFCF is up again this year.

Figure 2: Construction employment
(000s, sa)



Source: CSO; QNHS

Construction employment growth over twice the rate of total employment growth in 2006

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
(000s) sa	247.5	252.0	256.9	265.4	273.0	280.3
% change qoq, sa	0.9%	1.8%	1.9%	3.3%	2.9%	2.7%
% change yoy, sa	13.6%	11.4%	9.3%	8.1%	10.3%	11.2%

Growth in construction employment was again strong in Q4 (2.7% on Q3, sa). This comes after the slight moderation in growth experienced over the three quarters from Q3 2005 to Q1 2006. In the year to Q4, construction employment increased 11.2% (sa). The average rate of construction employment growth was 9.8% in 2006, over twice that of average employment growth in the economy (4.4%). The construction sector currently employs 280,300 (sa) persons.

In seasonally adjusted terms construction now accounts for 13% of total employment, up from 11% at the beginning of 2004. Growth in construction employment accounted for 36% of the 20,500 jobs generated in the economy in Q4. This follows a downward trend over the past 5 quarters in the construction sector's proportion of new jobs generated. With overall housing supply expected to be lower this year, this may generate lower construction employment numbers by the year-end.

Figure 3: Construction employment index
(2000=100)



Source: CSO

Small firms and self employed continue to fuel construction employment growth

	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07
nsa	112.8	113.8	107.1	105.4	105.0	110.6
sa	109.9	110.0	110.1	110.1	110.2	110.0
% change (mom, sa)	0.1%	0.1%	0.1%	0.0%	0.0%	-0.1%
% change (yoy, sa)	2.3%	2.2%	2.2%	1.9%	1.7%	2.7%

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. There has been virtually no sa employment growth recorded by this monthly index for the six months to December 2006, with a fall of 0.1% in January 2007. Year-on-year growth was 2.7% (sa). These growth rates are significantly lower than those recorded by the QNHS, suggesting that growth is concentrated amongst small firms (4 or less employees) and the self-employed.

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Figure 4: Average weekly earnings in construction

(% change yoy, sa)



Source: CSO

Annual wage growth in construction moderated sharply in 2006 to less than 2%

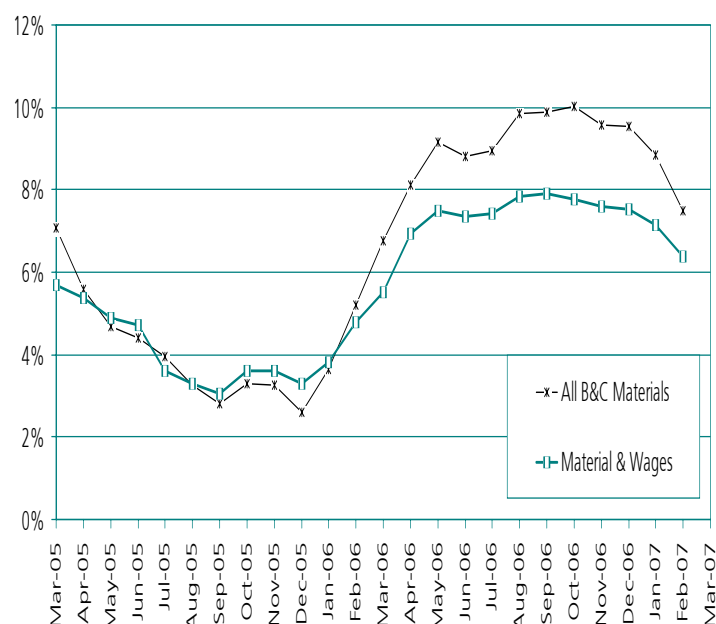
	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
sa (€)	749.0	786.0	736.6	759.8	769.9	805.6
% change qoq, sa	-0.8%	4.9%	-6.3%	3.2%	1.3%	4.6%
% change yoy, sa	4.7%	7.1%	0.6%	0.6%	2.8%	2.5%

Annual construction wage growth (for clerical and operatives) slowed sharply during 2006. Annual wage growth was 1.8% on average in 2006 compared with 7.2% in 2005. Average weekly earnings declined in the first-half of the year (-3.3% sa) but increased (+6%, sa) in the second-half of the year, possibly reflecting payments under the current national wage agreement, to generate a 2.5% (sa) increase in the year to Q4, 2006. The annual wage growth rates (nsa) (to Q3 2006 which is the latest available) in other sectors were 8.8% in banking and insurance, 5.3% in distribution and business services, 3.3% in industry and 4.8% in the public sector. In Q4 2006, average sa annual gross earnings in construction were at €42,000 compared with under €43,000 in banking and insurance, €35,300 in distribution and services and €36,700 in the industrial sector.

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 materials inflation at its lowest level for 12 months (7.5% per annum)

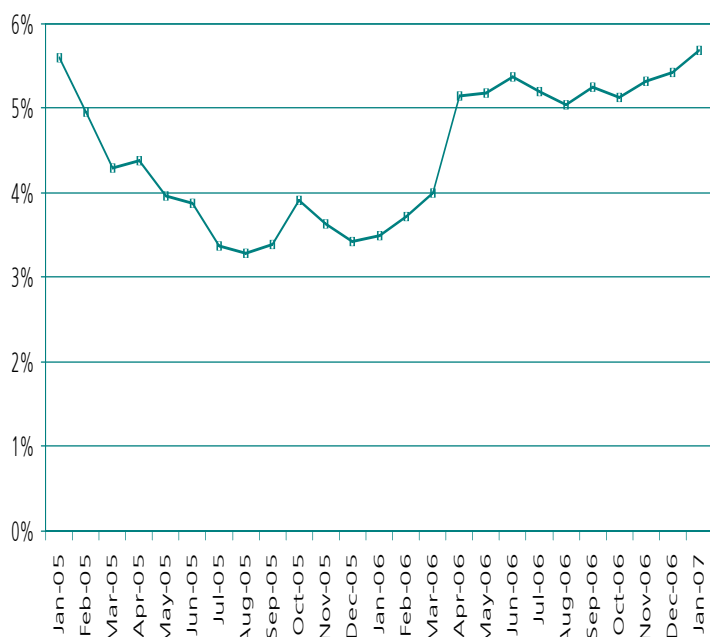
	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
All B&C materials (nsa)	136.7	138.2	138.6	138.8	139.0	139.1
% change (yoy, nsa)	9.9%	10.0%	9.6%	9.6%	8.8%	7.5%
B&C materials and wages (nsa)	148.9	151.0	151.3	151.4	151.5	151.6
% change (yoy, nsa)	7.9%	7.8%	7.6%	7.5%	7.1%	6.4%

Building and construction materials inflation accelerated sharply at the start of 2006, culminating in annual inflation running at, or close to 10%, over the period August to December 2006. This has since moderated to 7.5% in February 2007, the lowest annual rate for 12 months. High oil price increases in early 2006 have generated high inflation in oil based materials such as bituminous macadam and asphalt (+13% per annum in Feb 2007). In addition, high material price inflation has also been fuelled by rising inflation for timber (+10% per annum in Feb 2007), cement (+9.6%) and electrical fittings (+9%).

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 grown at a much slower rate (+6.4% per annum in February 2007), staying below 8% per annum since January 2005. The most recent moderation can be partly attributed to the slowdown in wage growth discussed above. It is clear that it is not so much wages but raw materials that are pushing building and construction factor prices.

Figure 6: Construction cost inflation

(% change yoy, nsa)



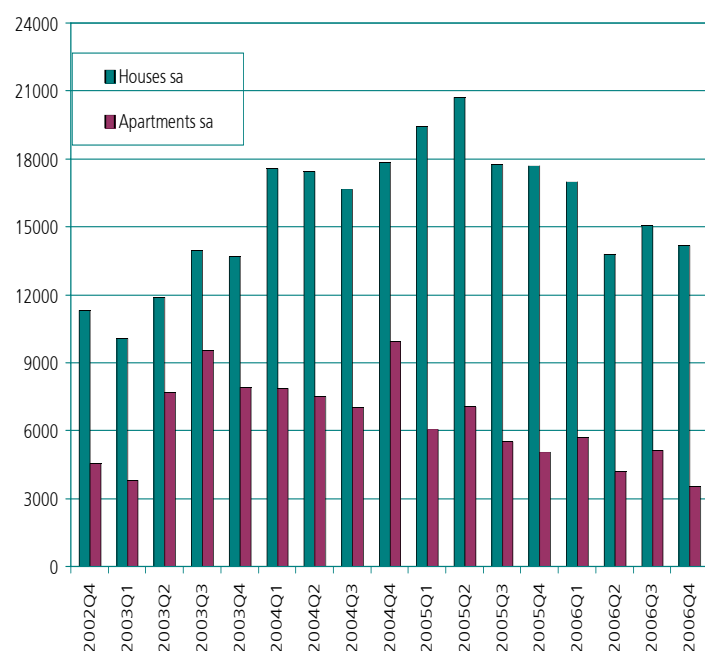
Source: SCS

.....but still above the Society of Chartered Surveyors' measure of construction cost inflation (5.7% per annum)

	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07
SCS construction cost index	277.3	278.5	282.5	282.9	283.3	284.4
Cost inflation (yoy)	5.0%	5.3%	5.1%	5.3%	5.4%	5.7%

The SCS construction cost index series has been revised upwards. The latest figures report the annual rate of construction cost inflation at 5.7% in January 2007, up from 5% in August 2006 and 4% in March 2006. These growth rates are substantially below current inflation in building materials and in the capital goods price index for building and construction, which implies that tender prices must be absorbing the higher material prices, reflecting possibly a high level of competition in the sector. However, both quantity surveying firms Davis Langdon PKS and Bruce Shaw expect construction costs and tender costs to rise by 3 to 4% in 2007 – still well below rates of construction cost and building materials inflation. It remains to be seen whether the substantial increases in infrastructure investment expected under the National Development Plan and/or the impact of fixed price contracts will result in higher tender prices over the medium term.

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



Source: CSO

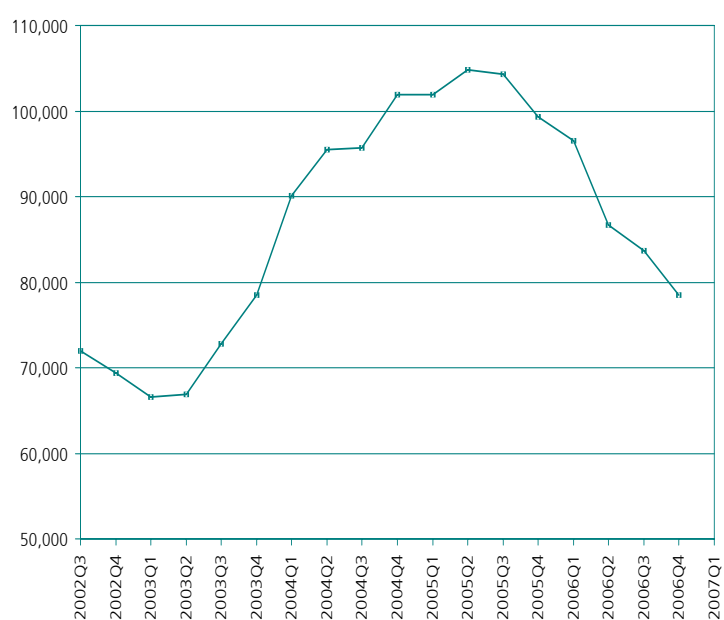
Sixth decline in the annual growth rate of planning permissions recorded in Q4 2006

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
Number of houses						
nsa	18,190	16,609	16,454	15,014	15,486	13,054
sa	17,754	17,718	16,994	13,801	15,050	14,163
% change qoq sa	-14.3%	-0.2%	-4.1%	-18.8%	9.0%	-5.9%
% change yoy sa	6.6%	-0.9%	-12.6%	-33.4%	-15.2%	-20.1%
Number of apartments						
nsa	5,791	4,594	6,070	4,083	5,397	3,197
sa	5,494	5,060	5,719	4,181	5,120	3,521
% change qoq sa	-22.0%	-7.9%	13.0%	-26.9%	22.5%	-31.2%
% change yoy sa	-21.7%	-49.1%	-5.7%	-40.7%	-6.8%	-30.4%
Total units						
nsa	23,981	21,203	22,524	19,097	20,883	16,251
sa	23,248	22,778	22,713	17,982	20,169	17,684
% change qoq sa	-16.3%	-2.0%	-0.3%	-20.8%	12.2%	-12.3%
% change yoy sa	-1.8%	-18.1%	-11.0%	-35.2%	-13.2%	-22.4%

Total residential units granted planning permission in Q4 2006 were down 12% (sa) compared with the previous quarter. The number of houses granted permission fell 6% (sa), reversing the upturn recorded last quarter (+9%, sa), after the continued poor showing seen over the preceding four quarters, while apartment permissions fell dramatically in the quarter (by 31%, sa). The total number of units granted permission was down 22% in the year to Q4 2006, the sixth annual rate of decline in a row. Regionally the number of houses permissions in Dublin was down by 59% (nsa) over the year, while the South-East recorded a strong increase in the annual rate of growth in house permissions (+48%). One-off housing continues to account for close to a quarter of all planning permissions; 20% of the national total are located in the Border counties alone. 39% of apartment permissions (1,256) were in Dublin, less than half the number granted permission in Dublin in Q3 2006 (nsa).

Figure 8: Total residential planning permissions

(four quarters, running total, sa)



Source: CSO

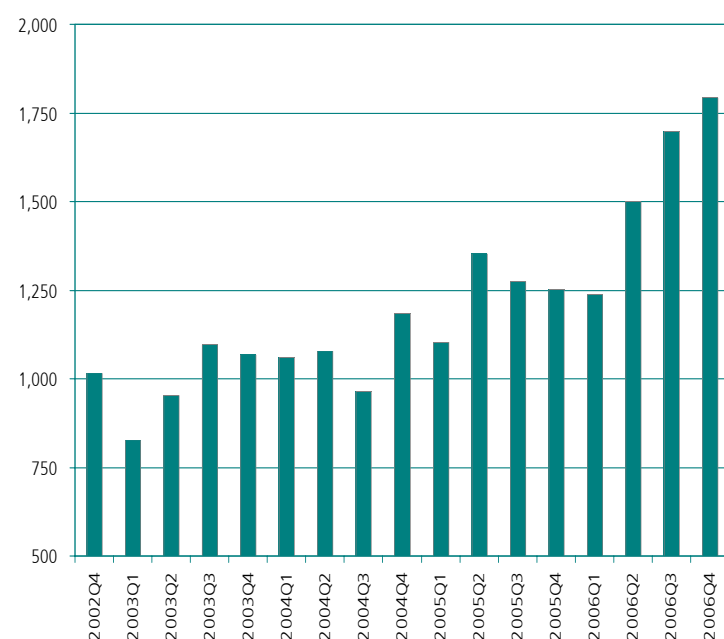
Four-quarter running total in Q4 2006 was 25% below the peak level in Q2 2005.

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
sa	104,349	99,313	96,508	86,721	83,643	78,549
% change yoy	9.1%	-2.5%	-5.3%	-17.2%	-19.8%	-20.9%

In the twelve months to Q4 2006 a total of 78,549 (sa) residential units were granted planning permission, a drop of 21% on the corresponding annual total in Q4 2005 and 25% below the peak level reached in Q2 2005 (104,782). This continued downward trend, evident now for six quarters, implies a lower level of housing supply not just this year but also in 2008 and 2009.

Figure 9: Floor area for new non-residential construction

(Quarterly, 000s sq. metres, sa)



Source: CSO

Continued strong growth in non-residential building activity

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
nsa	1,327	1,167	1,151	1,612	1,764	1,697
sa	1,276	1,251	1,239	1,500	1,697	1,794
% change qoq	-5.7%	-1.9%	-1.0%	21.1%	13.1%	5.7%
% change yoy	32.5%	5.6%	12.4%	10.8%	33.0%	43.3%

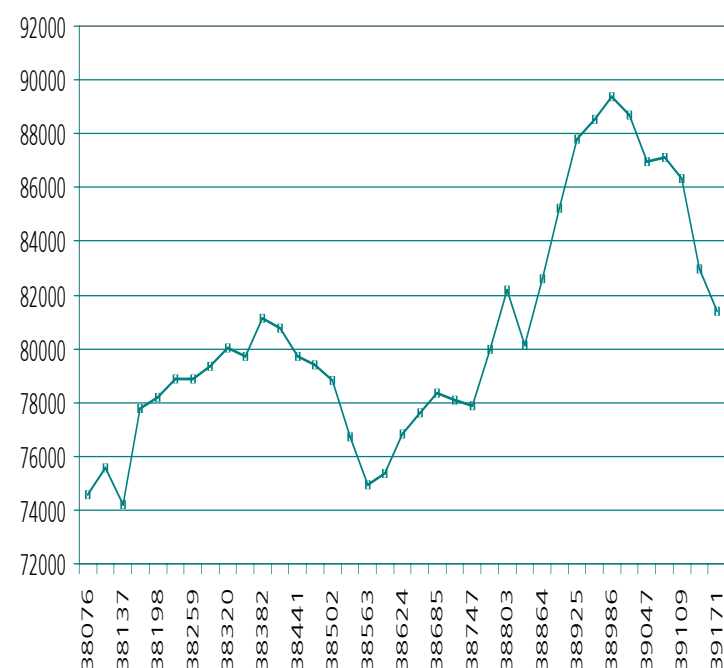
In contrast to the downward trend in residential permissions, non-residential planning permissions are still growing strongly. The total non-residential floor area granted planning permission rose by 43% (sa) over the four quarters to Q4 2006. Just under half of the total floor area represented commercial buildings, with agricultural buildings accounting for one quarter of the total non-residential floor area.

Within the total, commercial construction volumes were down 12% (nsa) on Q4 2005 while industrial space planned was also down (by 5%, nsa). There has been a substantial increase in the total floor area for agricultural building since Q2 2006, with the total floor area planned over the three quarters to Q4 2006 almost four times higher than the corresponding floor area in the previous three quarters. Although residential construction continues to dominate, accounting for 58% 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.

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Figure 10: Registrations

(12-month running total)



Source: Homebond; Premier Guarantee; DKM estimate

Registrations on a downward trend since September 2006

	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07
12-month running total	88,698	86,981	87,103	86,336	82,991	81,405
% change mom	-0.7%	-1.9%	0.1%	-0.9%	-3.9%	-1.9%

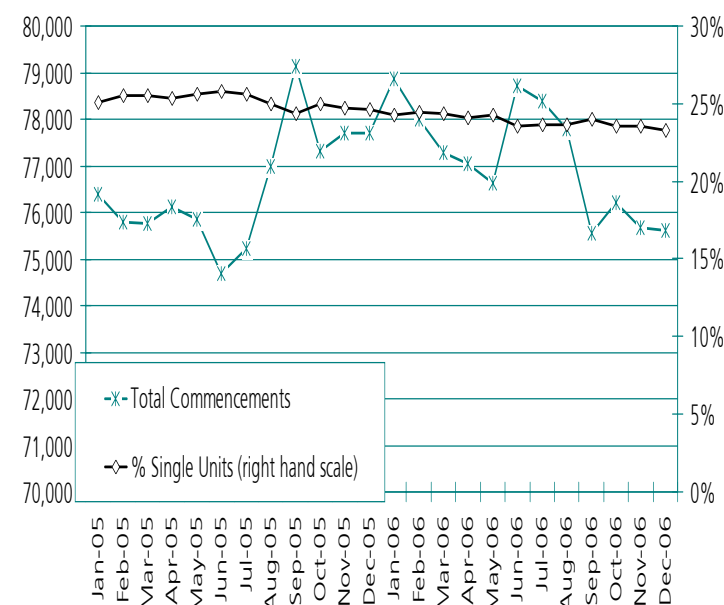
Before making any adjustment to the registrations data, the total for 2006, recorded by Homebond and Premier Guarantee, was up 7.1% to 66,712. When adjusted to include one-off houses, total registrations in 2006 amounted to 87,103, 11.6% up on the adjusted figure for 2005. The adjusted figure for registrations peaked in September at 89,352, and has fallen ever since.

Comparing the first three months of 2007 with the same period last year shows that registrations (unadjusted) were down by 28% nationally and by almost 44% in Dublin. This is despite the fact that registrations in March were at their highest level since July 2006. Carlow (+55%) and Waterford (24%) recorded the highest increases in registrations in the first 3 months of 2007, while the vast majority of counties (18 in total) counties recorded declines, most in excess of 20%. The main implication of recent trends is that the total number of dwellings built this year will be substantially lower than in 2006.

* 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).

Figure 11: Total residential commencements

(12-month running total)



Source: DEHLG

Supply slowdown also evident from the commencement notices

	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06
12-month running total	78,400	77,800	75,565	76,199	75,658	75,602
% of single units	25%	21%	26%	22%	21%	15%
Greater Dublin area 12 mrt	23,570	24,061	23,876	23,591	22,977	22,189
GDA as % of national total	30.1%	30.9%	31.6%	31.0%	30.4%	29.3%

In absolute terms, the annual total for commencements has been on a downward trend since July 2005 after peaking at 78,721 in June 2005. The latest figure for December 2006 shows the cumulative 12-month total at 75,602, well short of the approximately 88,000 units built in 2006, and probably more in line with the likely supply level in 2007/2008. However, we understand there are differences in the interpretation of units by some local authorities under the commencement notices when compared with the ESB connections and the DEHLG is looking at these issues.

Total commencements in the Greater Dublin Area (GDA) stood at 22,189 in the twelve months to December 2006. Looking at the monthly trends, activity in the GDA has fallen sharply with commencements in Kildare, Meath and Wicklow, down by almost 50% in December 2006 compared with December 2005.

Figure 12: Total dwellings completed

(Number, quarterly)



Source: DEHLG, based on ESB residential connections.

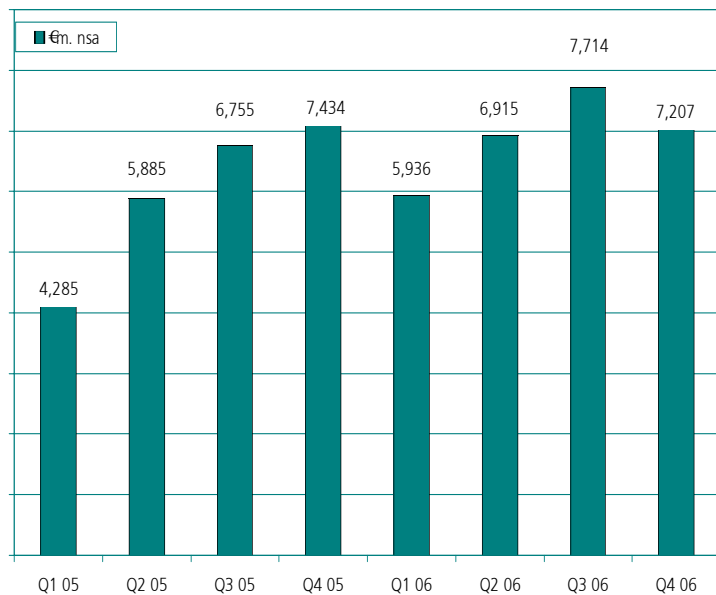
...Housing supply indicators point to a sharp slowdown in supply this year

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
Total completions (nsa)	19,087	26,563	21,894	22,005	22,571	26,949
sa	19,609	23,315	23,618	23,623	24,230	n/a
% change qoq, sa	4.4%	18.9%	1.3%	0.0%	2.6%	n/a
% change yoy, sa	5.8%	16.9%	21.7%	25.8%	23.6%	n/a
Private completions (nsa)	17,804	24,211	21,136	20,647	21,365	24,649*
sa	18,238	21,808	22,293	21,204	21,696	n/a
% change qoq, sa	4.3%	19.6%	2.2%	-4.9%	2.3%	n/a
% change yoy, sa	2.7%	17.1%	24.3%	21.2%	19.0%	n/a
Public completions (nsa)	1,283	2,352	758	1,358	1,206	2,300*
sa	1,371	1,507	1,326	1,809	1,311	n/a
% change qoq, sa	6.2%	9.9%	-12.0%	36.4%	-27.5%	n/a
% change yoy, sa	73.7%	13.9%	-10.4%	40.1%	-4.4%	n/a

* DKM estimates

The data in the Table and the accompanying chart relate to ESB connections as published by the DEHLG. From a construction perspective it is the actual number of units built which is important. Due to one-off ESB delays during 2005, which resulted in a back-log of connections entering 2006, the connections data underestimated the true level of housebuilding in 2005 but overestimated the true level of housebuilding in 2006. Thus total completions (i.e. units built) in 2006 amounted to 88,219 compared with 86,157 in 2005, equivalent to a growth rate of only 2.4%, compared with 15.4% using the ESB connections figures. The 2.4% growth in supply represents a sharp moderation on the 12% growth in housing supply recorded in 2005. The figures for the first two months suggest that total housing supply was unchanged in the first two months of 2007 on the same period in 2006 (on the 2006 adjusted figure). Despite this unchanged position in the first two months, the downward trends in planning permissions and the sharp fall off in registrations suggest that the total number of units built will be down significantly this year compared with 2006.

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



Source: Irish Bankers Federation

Figure 14: Total number of housing loans paid out
(% change qoq)



Source: Irish Bankers Federation

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



Source: DEHLG

Lending volumes up 14% in 2006 but down by 3% in the year to Q4

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
nsa(€m)	6,755	7,434	5,936	6,915	7,714	7,207
% change qoq, nsa	14.8%	10.1%	-20.2%	16.5%	11.6%	-6.6%
% change yoy, nsa	na	na	38.5%	17.5%	14.2%	-3.1%
Average loan value (€'000, sa)	228.27	234.52	229.30	246.19	258.13	267.62

In the absence of recent DEHLG loan data, we review figures from the Irish Bankers Federation (IBF). The value of loans (excluding re-mortgages and top-ups) fell by 3% in the year to Q4 2006 compared with growth of 39% in the year to Q1 2006 (all nominal). Composition of the market has remained fairly static with first-time buyers accounting for 30% of the market, while movers continue to form the largest segment at over 40%. Average loan values have continued to grow and stood at €267,620 in Q4 2006, equivalent to 86% of the average national house price in Q4 2006. The highest average loan was recorded for investors (€308,234) in Q4 2006, followed by mover purchasers (€264,209). FTB purchasers had average loans of €240,151, also equivalent to 86% of the average national FTB house price (using permanent-tsb data).

Annual growth in drawdowns declines sharply in Q4; but still one-third to FTBs

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
nsa	29,592	31,699	25,888	28,088	29,884	26,930
% change qoq, nsa	6.3%	7.1%	-18.3%	8.5%	6.4%	-9.9%
% change yoy, nsa	na	na	21.1%	0.9%	1.0%	-15.0%

As the total IBF figures (excluding re-mortgages and top-ups) are close to the DEHLG figures reported, we use the IBF figures in the absence of recent data from the DEHLG. Excluding re-mortgages and top-ups from the IBF total, the number of mortgages issued in Q4 2006 fell by 10% in the quarter and by 15% over the year to Q4 2006. There were almost 27,000 loans issued in Q4, including almost 9,000 (33%) to FTBs, 11,000 (41%) to mover purchasers and 6,881 (25%) to residential investors. Adding back re-mortgages and top-ups, the latter remain the largest market segment - almost 30%.

Annual house price inflation nationally running at 12% in second quarter

	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06
National (€)	264,472	275,394	275,810	287,134	294,580	308,302
% change, qoq	0.8%	4.1%	0.2%	4.1%	2.6%	4.7%
% change, yoy	11.1%	11.8%	10.6%	9.5%	11.4%	11.9%
Dublin (€)	342,304	346,683	351,263	361,242	390,629	397,337
% change, qoq	3.9%	1.3%	1.3%	2.8%	8.1%	1.7%
% change, yoy	9.8%	7.4%	8.3%	9.7%	14.1%	14.6%

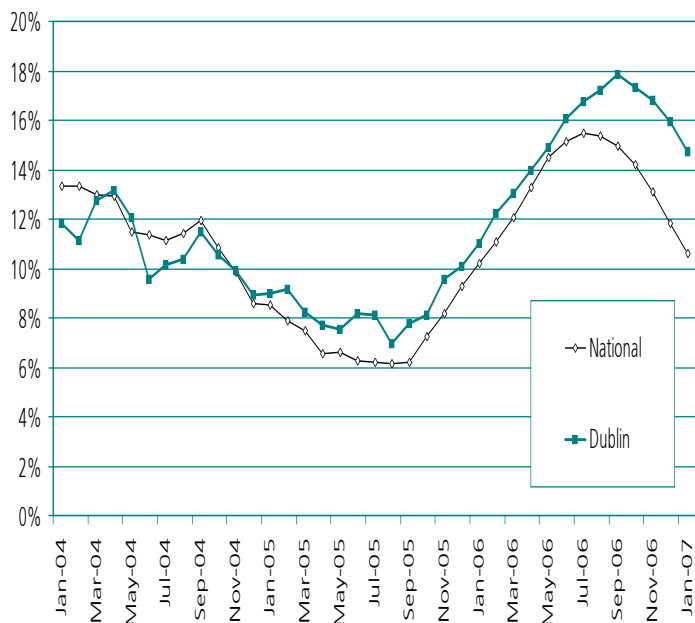
Average new house prices rose nationally by 4.7% in Q2 compared with Q1, whilst Dublin prices recorded a slowdown in the quarterly growth rate to 1.7% in Q2 from a massive 8% in Q1, according to the Department of Environment, Housing and Local Government. The average new house price in Dublin is €397,000 in Q2 compared with almost €517,000 for the average second-hand house price in Dublin.

(Latest data remains Q2 2006)

Construction indicators

Figure 16: House prices

(% change, yoy)



Source: permanent-tsb

Price growth continues to moderate with almost no change in national house prices in 3 months to January 2007

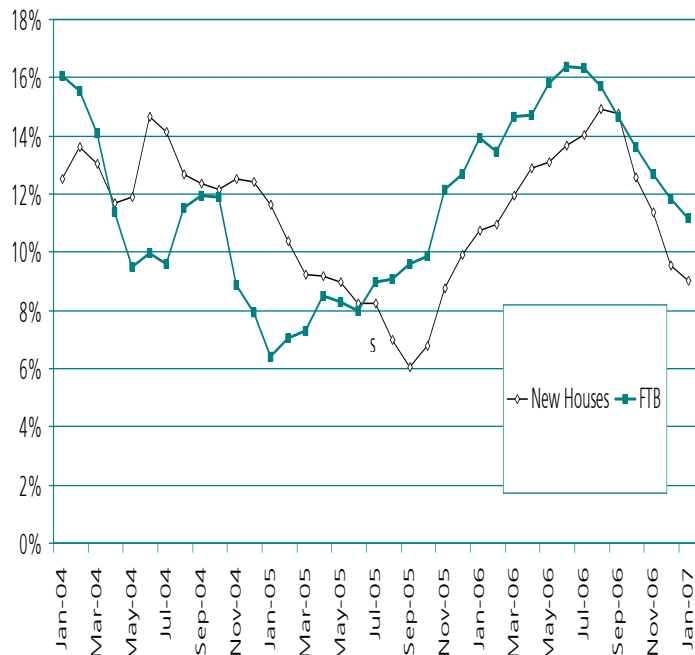
	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07
National index (nsa)	137.3	138.2	139.0	139.2	139.3	139.5
% change (mom, nsa)	1.0%	0.7%	0.6%	0.1%	0.1%	0.1%
% change (yoy, nsa)	15.4%	15.0%	14.2%	13.1%	11.8%	10.6%
Dublin index (nsa)	137.0	139.3	140.6	141.7	141.8	142.0
% change (mom, nsa)	1.0%	1.7%	0.9%	0.8%	0.1%	0.1%
% change (yoy, nsa)	17.2%	17.9%	17.4%	16.8%	15.9%	14.7%

House price movements nationally increased by only 0.1% per month in each of the three months to January 2007, down from the record growth rates recorded mid-2006 of around 1 to 1.5% per month. Similar trends are evident in Dublin where average house price growth slowed to 0.1% in each of the two months to January 2007 from almost 2% per month mid 2006. However average house price inflation remains at a high level: 13.4% nationally in 2006 on average and 15.3% in Dublin. Price growth at a national level was running at 10.6% per annum in January 2007 (average price at €311,087), compared with 14.7% in Dublin (€427,946).

The slowdown possibly reflects the impact of the seven mortgage interest rates increases since December 2005. Although the economic fundamentals remain strong in terms of population, net migration, employment and disposable income growth, a further moderation in the rate of house price growth seems in prospect over the remainder of 2007, given the likelihood of at least one further increase in mortgage rates but also recent negative comment regarding market prospects.

Figure 17: House prices

(% change, yoy)



Source: permanent-tsb

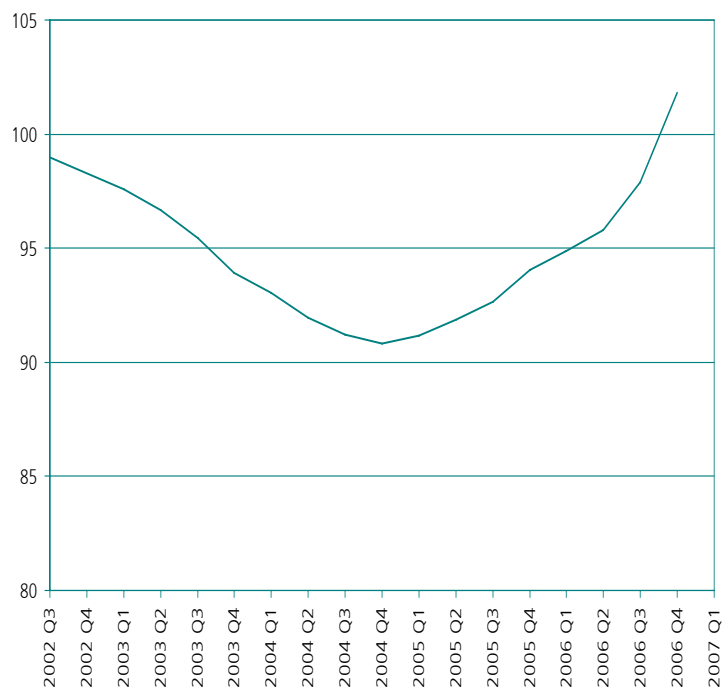
National moderating trend is mirrored for new and FTB house prices

	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07
New index (nsa)	138.7	139.3	138.7	139.3	139.7	140.4
% change (mom, nsa)	0.9%	0.4%	-0.4%	0.4%	0.3%	0.5%
% change (yoy, nsa)	14.9%	14.7%	12.6%	11.4%	9.6%	9.0%
First-time buyer index (nsa)	139.2	140.2	140.8	141.2	140.9	141.1
% change (mom, nsa)	1.3%	0.7%	0.4%	0.3%	-0.2%	0.1%
% change (yoy, nsa)	15.7%	14.6%	13.6%	12.7%	11.8%	11.2%

The monthly rate of growth in new house prices picked up marginally in January 2007 but the annual rate continued to moderate to 9%, the lowest annual rate since November 2005. First time buyer house prices had declined marginally in the month of December (-0.2%) but were slightly up in January 2007, with a continued moderation in the annual rate to 11.2%. Despite this recent moderation, average FTB house prices, at around €280,000 in January 2007, pose significant affordability challenges for potential first-time buyer couples in the market.

Figure 18: CPI private housing rents sub-index

(mid-December 2006=100)



Source: CSO

Annual private rental growth accelerates sharply to 8.3%

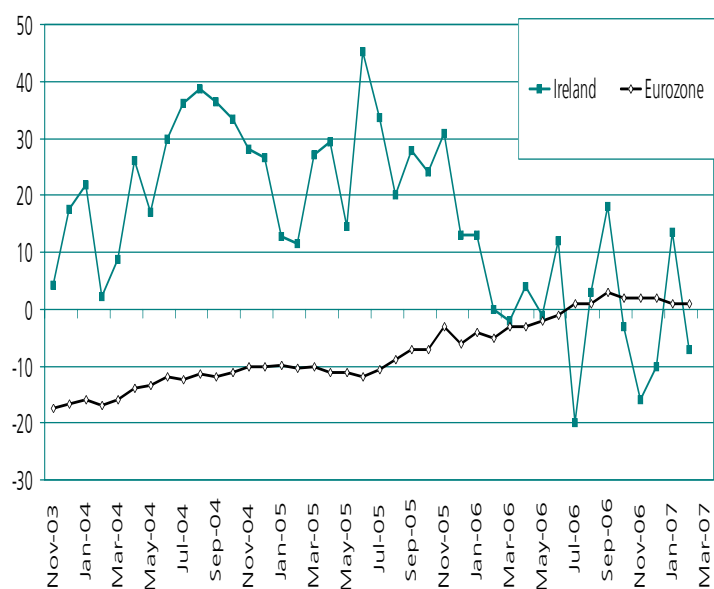
	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
CPI private housing rents*	92.6	94.0	94.9	95.8	97.9	101.8
% change, qoq	0.8%	1.5%	0.9%	1.0%	2.2%	4.0%
% change, yoy	1.5%	3.5%	4.1%	4.3%	5.6%	8.3%

* Sub-index

Private rents accelerated to record levels in Q4 2006 with a quarterly increase of 4%, the highest recorded since Q4 2000. In the 12 months to Q4 2006, private rents increased by 8.3%, the highest annual rate of growth since Q4 2001. Although housing supply has increased, demand has been bolstered by employment growth and high immigration, forecast at close to 90,000 in the year to April 2007. Although house price growth has been moderating, the investor continues to be an active player in the market, accounting for 20% of all purchases, by value, possibly reflecting the strengthening rental returns available in the sector and a continued strong demand.

Figures for Q1 2007 are not available yet, but CSO data for January and February 2007 indicate a 3% increase month-on-month. The latest report from Daft indicates that rents are continuing to grow strongly: by 10.5% in the year up to February 2007. Average rents now stand at €1,334, the highest since January 2002.

Figure 19: Construction confidence



Source: Eurostat

Volatile pattern makes it difficult to discern any real trends

	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
Ireland (sa)	18.1	-3.3	-15.5	-10.4	13.6	-6.9
Eurozone (sa)	3	2	2	2	1	1

The general pessimism regarding the immediate future for the construction industry apparent at end of 2006 seems to have lifted in January when it reached 13.6, only to plunge to -7 again in February. From the high levels recorded in mid-2005, there has been an overall downturn in confidence, fluctuating from positive to negative since February of 2006. The volatile patterns of this survey in itself would not instil too much confidence in its value as a predictor for the sector.

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 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 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).