



# Construction industry indicators

## Issue 10

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of the Department of the Environment, Heritage and Local Government

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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 tenth 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 this month (August)<sup>1</sup>. Work is currently underway in the Housing Division 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/>

## Modest increase in construction investment in Q1 but leading indicators signal a sharp slowdown in new housebuilding next year

The first results on the performance of the construction sector from the National Accounts data for Q1 2007 reported a modest increase in building investment in Q1 (+3.6%) compared with Q1 2006. Signs that residential investment has peaked were evident from the almost unchanged volume of new housing investment (+0.6%) in Q1 2007, while housing investment overall (including investment in major housing repair and maintenance) was up by 1.2% compared with Q1 2006. These figures were consistent with the Q1 change in house completions which were up by around 1% year-on-year. Indeed housing supply volumes were unchanged in Q2 2007 compared with Q2 2006, suggesting that the volume of residential investment will be flat in Q2 2007, further evidence that housing supply peaked in 2006.

In contrast, the growth in non-residential investment continued to gather momentum with volumes up by 10.3% in Q1 2007 on the corresponding quarter in 2006. This strong performance 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 in the first year of the new NDP for 2007-2013. With the volume of new housebuilding accounting for approximately 60% of total investment in construction in the economy, a continued strong performance from the non-residential investment sector will be a prerequisite if the volume of investment in construction is not to contract this year.

Meanwhile other indicators available to date on the construction sector portray a sector which accounted for one-third of the jobs created in the economy in the first quarter of the year; but one in which construction employment growth overall is moderating; while employment growth in firms with 5 or more persons employed is reported to be stagnant now for the past twelve months.

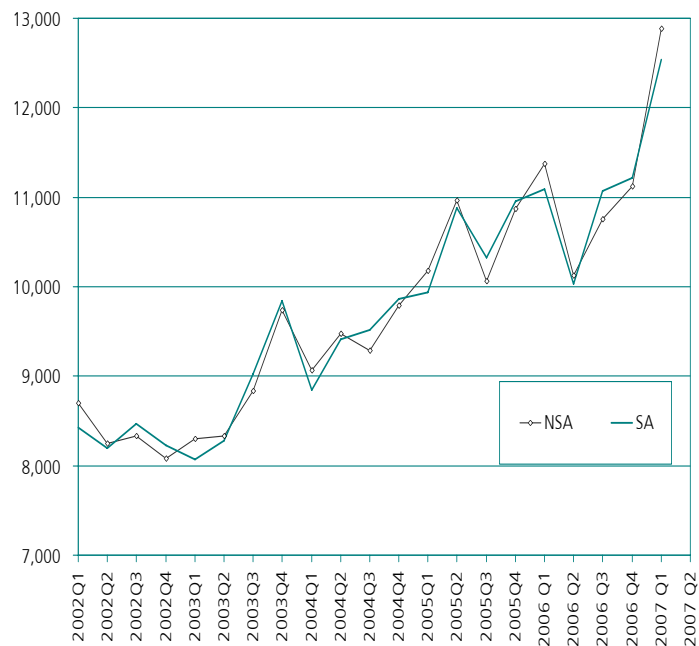
Average earnings in construction picked up in Q1 by almost 7% year-on-year, closely matching earnings growth in the Banking and Insurance sector (+8%) but well ahead of the 5% annual increases recorded by workers in the industrial, distribution and business services sectors.

The moderation in building and construction inflation continues with the composite wage and materials price index up by 4.1% in June 2007 while the Society of Chartered Surveyors cost index was up by 4% in June 2007. However, construction tender prices are expected to rise by between 3% and 3.75% this year, implying that tender prices are increasing by less than construction costs.

Perhaps it is the indicators covering the new housebuilding sector which raise the most challenges for the construction sector. The sharp downturn in the number of residential planning permissions in Q1 2007 (27% below their peak level) and in total (adjusted) registrations over the January-July period (down 35% on the same period in 2006) will have a very negative impact on housing supply in 2008. While we expect around 77,000 completions this year we expect the total number of dwellings built in 2008 could be much lower. Such an adjustment will have other adverse impacts across the economy. These are likely to include not just the lower numbers employed in housebuilding but also in other sectors dependent on the new housebuilding sector; lower Exchequer revenues as transaction volumes are reduced; which in turn should generate lower consumer expenditure. It will be critically important that the impact of this supply adjustment is minimised by ensuring that activity in the general contracting sector remains strong, both in the private and public sector.

The sharp deceleration in house price inflation over recent months (as per the tsb/esri index) left average house prices nationally in June 2007 2.7% below their peak levels in January 2007. The key factors generating recent monthly declines have been the eight mortgage interest rates increases since December 2005 with a further increase expected in September, and recent negative comment regarding market prospects. Both factors have damaged confidence and price expectations amongst potential purchasers in the market.

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



Source: CSO; National Accounts

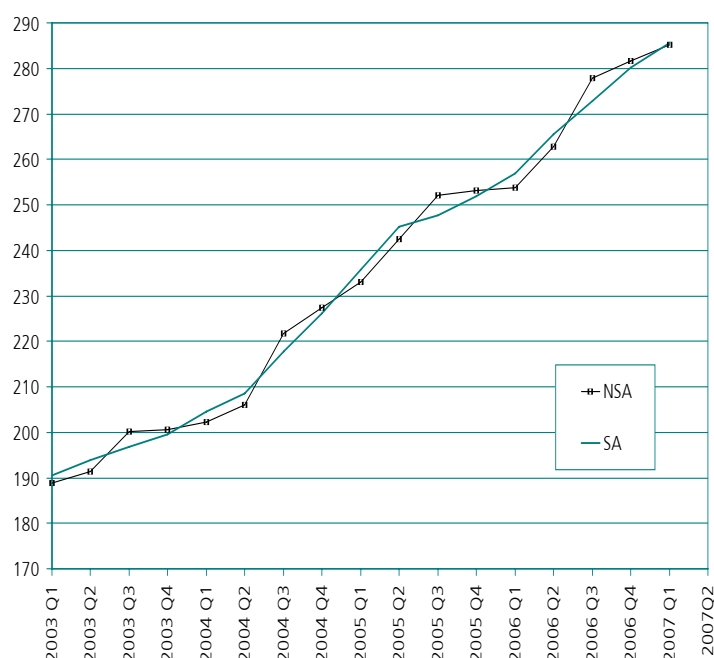
## Total investment up strongly in Q1 2007 while growth in construction is more modest

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
nsa (€m)	10,872	11,371	10,129	10,752	11,126	12,887
sa (€m)	10,957	11,086	10,028	11,072	11,212	12,538
% change (qoq, sa)	6.1%	1.2%	-9.5%	10.4%	1.3%	11.8%
% change (yoy, sa)	11.0%	11.7%	-7.6%	6.9%	2.3%	13.3%

National Accounts data released on July 3rd 2007 show that the volume of investment in the economy, measured by gross fixed capital formation (GFCF i.e. in building and construction and machinery and equipment), increased by 3.1% in 2006 following an increase of 11.8% in 2005. Within the total, building investment increased by 3.7% and other investment was up by 1.6%. Within the construction sector the rate of growth in new housebuilding moderated sharply from 11.8% in 2005 to 3.3% in 2006, reflecting the more modest annual growth in house completions last year.

The Q1 2007 figures reported an increase of 13.3% (nsa) in total investment (GFCF) on Q1 2006. Total investment in construction was up by 3.6% while other investment was up sharply (+38.5%), due to aircraft imports. Total housing investment growth was marginal (+1.2%) year-on-year in Q1, while non-residential construction investment expanded by 10.3%. Residential investment makes up around one-half of total GFCF. Thus the decline expected in new housebuilding this year will require a continued strong performance from the non-residential investment sector if the volume of investment in construction is not to contract this year.

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



Source: CSO; QNHS

## Construction employment growth moderating, but still accounting for one third of total new jobs created in Q1 2007

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
(000s) sa	251.9	256.9	265.6	272.9	280.2	285.6
% change qoq, sa	1.7%	2.0%	3.4%	2.7%	2.7%	1.9%
% change yoy, sa	11.4%	8.9%	8.3%	10.2%	11.2%	11.2%

The construction sector currently employs 285,600 (sa) persons or 13.6% of total persons employed in the State. Construction again dominated the growth in employment, accounting for 37% of the total increase in employment over the twelve months to Q1 2007, way ahead of health in second place, which accounted for 20% of the total.

That said, the growth in construction employment weakened in Q1 2007 (to 1.9% on Q4 2006, sa), the lowest monthly growth rate (sa) since Q4 2005. But on an annual basis, construction employment increased by 11.2% (sa) in Q1 2007 on Q1 2006, the same as in the previous quarter and the highest annual growth rate since Q4 2005 (+11.4%). The corresponding annual growth in total employment across the State was 3.8%.

In Q1 alone, construction accounted for 33% of the 16,400 jobs generated in the economy. This continues the downward trend over the past 2 quarters in the construction sector's proportion of new jobs generated. At best the lower expectations for housing supply this year should result in the rate of construction employment growth falling back towards the rate of employment growth across the economy this year but much will depend on the extent to which the non-residential sector can make up for the decline on the new housebuilding side.

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



Source: CSO

## No jobs being created by construction firms employing 5 or more persons

	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07
nsa	105.0	110.0	110.7	110.1	109.1	108.8
sa	110.2	109.4	110.1	109.2	109.3	109.5
% change (mom, sa)	0.0%	-0.7%	0.7%	-0.8%	0.1%	0.2%
% change (yoy, sa)	1.7%	2.2%	1.3%	0.2%	0.0%	0.1%

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. Latest figure for May suggests that there has been little change in employment since March 2006 (using sa data), with very slight upward movements in April and May this year.

However, year-on-year growth has been stagnant (sa) since March. 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. We suspect, however, that the effects of the slowdown in new housebuilding on employment in smaller firms have yet to come through in the QNHS figures.

# Construction indicators

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



Source: CSO

## Annual wage growth in construction picked up again in Q1 2007

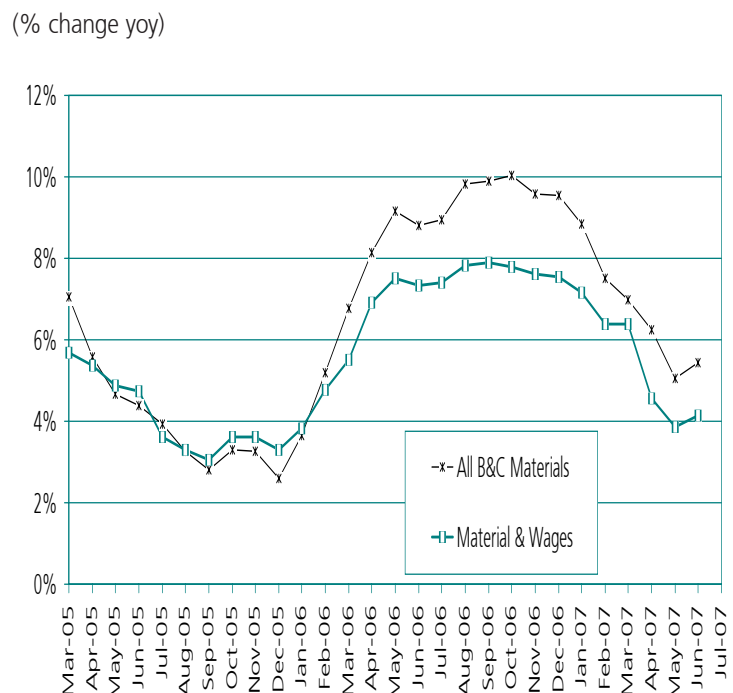
	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
sa (€)	786.0	736.6	759.8	769.9	800.3	785.8
% change qoq, sa	4.9%	-6.3%	3.2%	1.3%	4.0%	-1.8%
% change yoy, sa	7.1%	0.6%	0.6%	2.8%	1.8%	6.7%

Annual construction wage growth (for clerical and operatives) slowed sharply during 2006. Annual (hourly) wage growth was 2.1% on average in 2006 compared with 7.1% in 2005. Average weekly earnings declined by 3.3% (sa) between December 2005 and June 2006 but increased by 5.3% between June 2006 and December 2006. The latter would include the 2% due on 1st October 2006 under the current national wage agreement.

Average weekly earnings growth in Q1 2007 was slower than the preceding quarter (-1.8%, sa), but quite substantially higher (+6.7%) than one year previously. The corresponding annual wage growth rates to Q1 2007 (nsa) in other sectors were 8% in banking and insurance, 5% in distribution and business services, 4.9% in industry and 3.5% in the public sector. In Q1 2007, average nsa annual gross earnings in construction were at €41,100 compared with €45,420 in banking and insurance, €36,300 in distribution and services (latest figures for Q4 2006) and €32,000 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

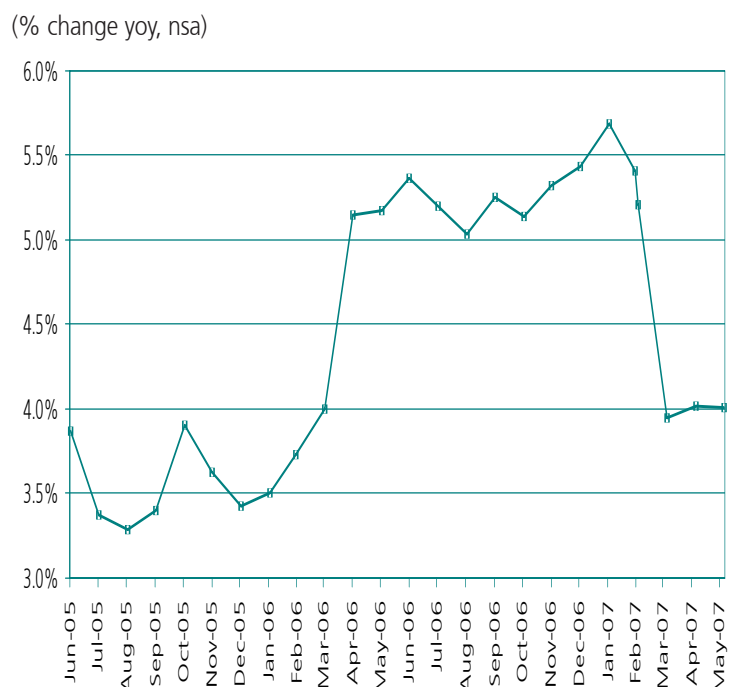
## Moderation in building and construction inflation continues despite slight pick-up in June

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
All B&C materials (nsa)	139.0	139.1	140.1696	141.3	141.5	141.9
% change (yoy, nsa)	8.8%	7.5%	7.0%	6.2%	5.0%	5.4%
B&C materials and wages (nsa)	151.5	151.6	152.5	153.3	153.4	153.7
% change (yoy, nsa)	7.1%	6.4%	6.4%	4.6%	3.9%	4.1%

The annual rate of building and construction materials inflation has slowed sharply over recent months, from its peak of 10% in October 2006 to 5% in May 2007. This has since picked up slightly to 5.4% in June 2007. A moderation in input prices of oil based materials such as bituminous macadam and asphalt (+7.2% per annum in May 2007, half of what it was only a few months ago) had contributed to the decline by May but their prices picked up again in June (to 8% per annum). However, continuing high price inflation for timber (+12% per annum in June 2007), cement (+9.6%) and steel (+9.1%) are still a cause for concern.

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 much slower rate (+4.1% per annum in June 2007), staying below 8% per annum since January 2005. The most recent moderation can be also be partly attributed to the slowdown in wage growth discussed above, although the next increase under the current wage agreement of 2.5% in July 2007 is likely to push capital goods prices for building and construction up again in the next few months.

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



Source: SCS

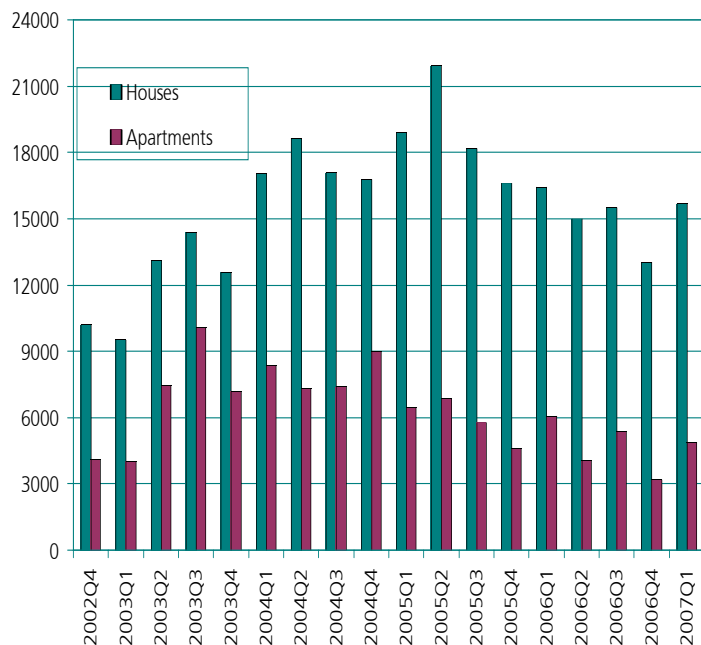
## .....but the SCS measure of construction cost inflation is still lower (4%)

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
SCS construction cost index	284.4	284.4	284.7	286.8	287.4	288.0
Cost inflation (yoy)	5.7%	5.4%	5.2%	4.0%	4.0%	4.0%

The latest Society of Chartered Surveyors (SCS) figures report the annual rate of construction cost inflation at 4% in June 2007, for the third month in a row. These growth rates are below current inflation in building materials (5.4%) and in the capital goods price index (+4.1%) for building and construction.

Looking at tender prices, which are forecast to increase by between 3% (Bruce Shaw) and 3.75% (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 either the high level of competition in the sector. 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

## The steep downward trend in units granted planning permission continues...

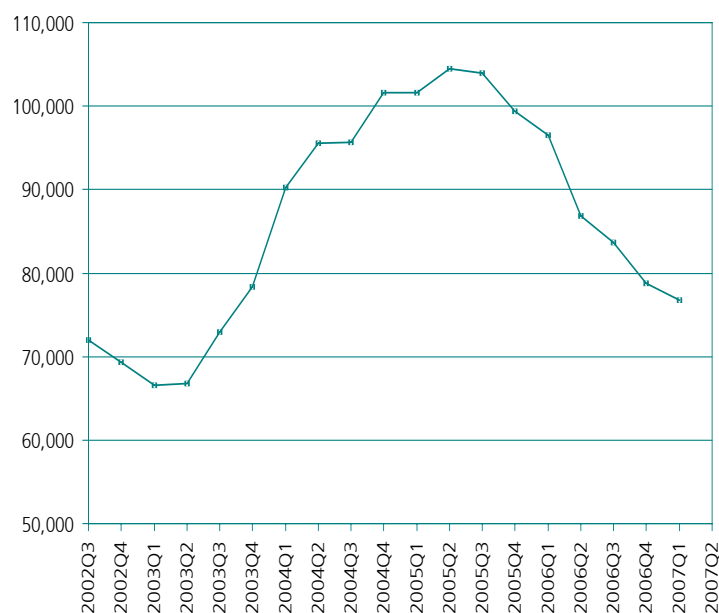
	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
<b>Number of houses</b>						
nsa	16,609	16,454	15,014	15,486	13,054	15,654
% change yoy sa	-1.0%	-13.0%	-31.6%	-14.9%	-21.4%	-4.9%
<b>Number of apartments</b>						
nsa	4,594	6,070	4,083	5,397	3,197	4,884
% change yoy nsa	-49.1%	-5.7%	-40.7%	-6.8%	-30.4%	-19.5%
<b>Total units</b>						
nsa	21,203	22,524	19,097	20,883	16,251	20,538
% change yoy sa	-17.8%	-11.1%	-33.7%	-12.9%	-23.4%	-8.8%

The total number of units granted permission was down 8.8% in the year to Q1 2007, the seventh annual rate of decline in a row. The number of houses granted permission declined by 4.9%, on Q1 2006, continuing the downward trend which commenced in Q4 2005. Similarly the number of apartments granted permission fell by 19.5%, the ninth quarter to record a decline year-on-year.

Regionally Dublin and the Midlands recorded declines in the total residential units granted permission of around 40% year-on-year in Q1 2007. In contrast the South East and South West recorded increases over the same period of 25% and 40% respectively. In line with the overall downward trend, the number of one-off houses granted permission has been declining now for nine quarters and amounted to 4,742 units in Q1 2007 compared with the peak of 6,483 in Q2 2004. 20% of one-offs are located in the Border counties alone; 19% are in the South West and 17% are 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, sa)



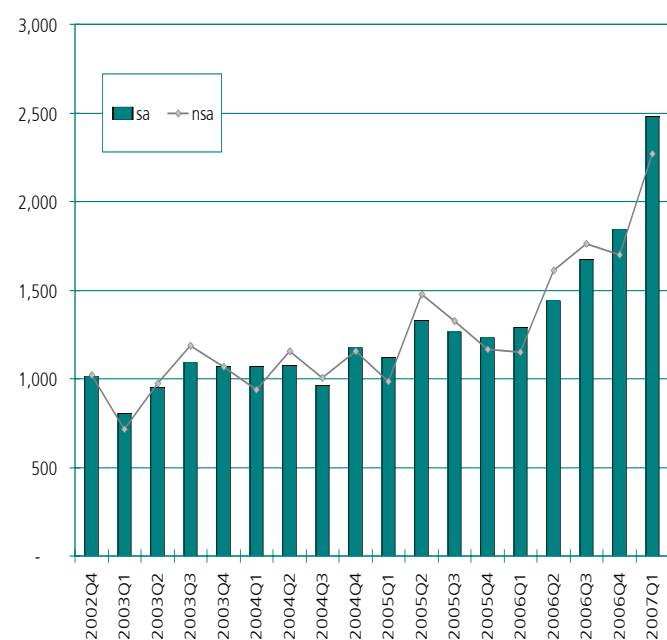
Source: CSO

## ...with the four quarter running total in Q1 2007 27% below the peak level in Q2 2005

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
nsa	99,352	96,526	86,805	83,707	78,755	76,769
% change yoy	-4.4%	-2.8%	-10.1%	-3.6%	-5.9%	-2.5%

In the twelve months to Q1 2007 a total of 76,769 residential units were granted planning permission, a drop of 20.5% on the corresponding annual total in Q1 2006 and 26.5% below the peak level reached in Q2 2005 (104,454). This continued downward trend, evident now for seven quarters, implies a substantially lower level of housing supply in 2008 and 2009.

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



Source: CSO

## Growth in non-residential building activity looks set to accelerate further

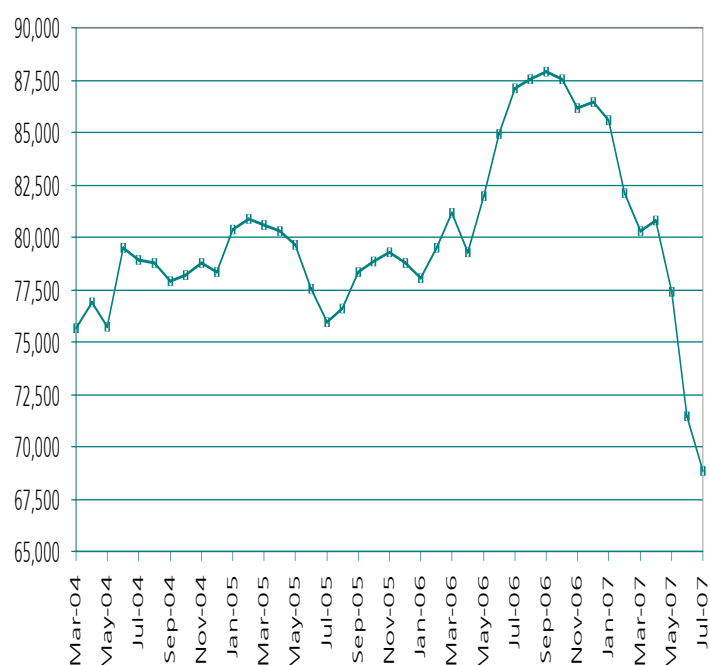
	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
nsa	1,167	1,151	1,612	1,764	1,697	2,272
sa	1,235	1,291	1,442	1,673	1,845	2,483
% change qoq, sa	-2.2%	4.5%	11.7%	16.0%	10.2%	34.6%
% change yoy, sa	5.0%	15.2%	8.7%	32.5%	49.3%	92.4%

In contrast to the downward trend in residential permissions, y-o-y non residential planning permissions growth has accelerated. The total non-residential floor area granted planning permission rose by 98% over the four quarters to Q1 2007. Over one-half (51%) of the total new non-residential floor area represented agricultural buildings, with commercial buildings accounting for 28%. Within the total, commercial construction volumes were up modestly (+4%) over the year to Q1 2007 while industrial space planned was up a lot (+28%). 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 four quarters to Q1, 2007 almost six times higher than the corresponding floor area in Q1 2006. 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 57% 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

## Trend in registrations signalling a sharp supply downturn in 2008

	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07
12-month running total	82,091	80,319	80,823	77,399	71,421	68,820
% change mom	-4.1%	-2.2%	0.6%	-4.2%	-7.7%	-3.6%
% change yoy	3.2%	-1.1%	1.9%	-5.6%	-15.9%	-21.0%

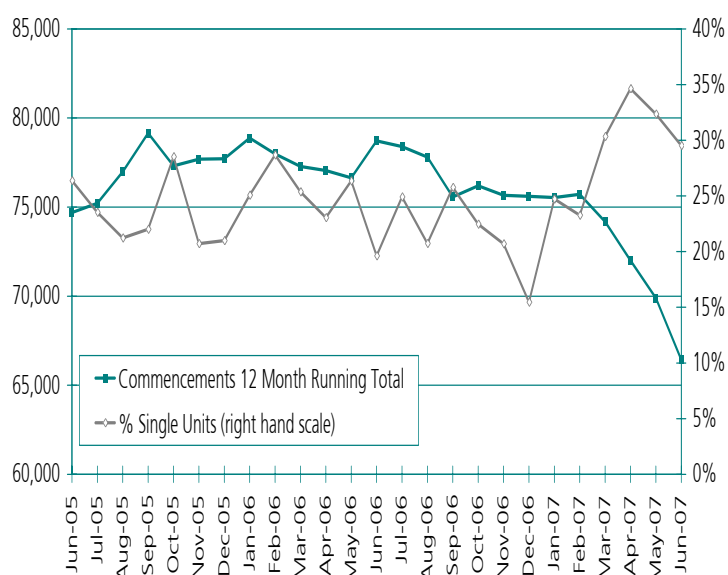
Before making any adjustment to the registrations data, the total for the seven months to July 2007 (recorded by Homebond and Premier Guarantee), was down by 35% to 27,567 units. Total registrations for the twelve months to July 2007 were down by 24% (to 51,980) on the corresponding annual total for the year to July 2006. Before making any adjustment to the figures, only three counties recorded growth in registrations over the first seven months compared with the same period in 2006: Carlow (+24%) and Louth (+19%) and Laois (+1%).

Taking our adjusted figures(\*) and calculating the twelve month total for registrations at the end of July this year suggests that registrations are running at around 69,000, down 21% on the corresponding twelve month total at the end of July 2006. Comparing the same seven month periods in each year the decline is more pronounced at 32%. Assuming an average lag of around nine months, we believe that the very sharp weakness in registrations will have a very negative impact on housing supply in 2008. While we expect around the 77,000 completions this year we expect the total number of dwellings built in 2008 could be significantly lower.

\* 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**

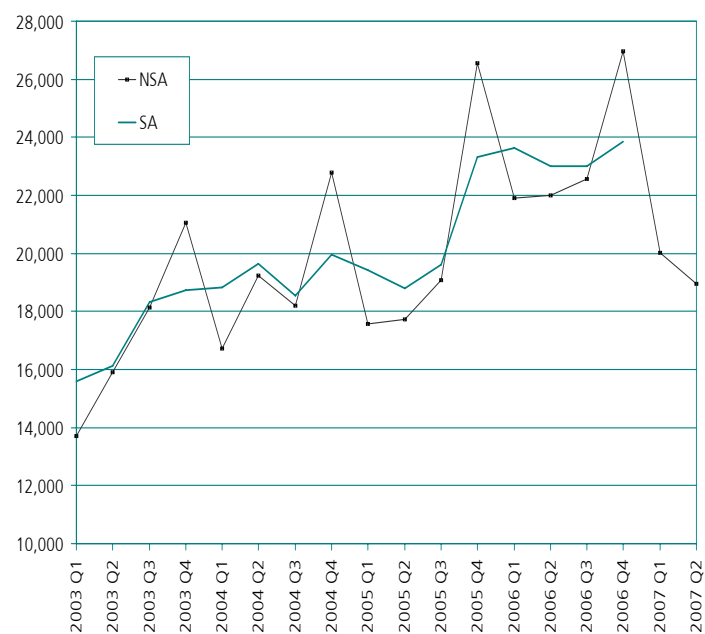
(12-month running total)



Source: DEHLG

**Figure 12: Total dwellings completed**

(Number, quarterly)



Source: DEHLG, based on ESB residential connections.

## Commencement notices decline sharply in last four months

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
12-month running total	15,623	16,145	15,306	13,959	13,454	13,322
% of single units	24.7%	23.3%	30.3%	34.6%	32.4%	29.5%
Greater Dublin Area 12 mrt	22,570	23,500	22,782	21,466	20,787	20,287
GDA as % of national total	29.9%	31.0%	30.7%	29.8%	29.7%	30.5%

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 2005 after peaking at 78,721 in June 2005. The latest figure for June 2007 shows the cumulative 12 month total at just under 66,000, down 16% 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 20,287 in the twelve months to June 2007. Activity in the GDA has fallen sharply with commencements over the twelve months to June 2007 down by 16.2% compared with the previous twelve months.

## ... Completions down 5.4% in first seven months

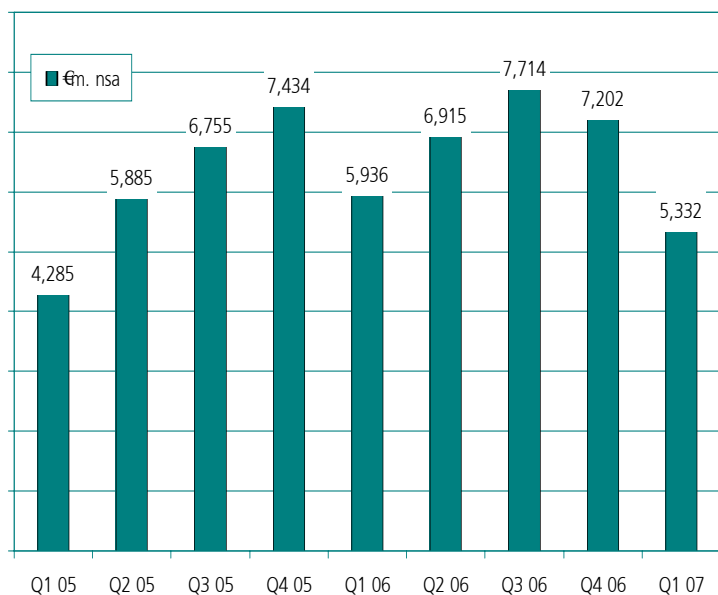
	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
<b>Total completions (nsa)</b>	21,894	22,005	22,571	26,949	20,018	18,960
<b>Total completions (nsa)*</b>	19,794	18,905	22,571	26,949	20,018	18,960
% change qoq, sa	1.3%	-2.6%	0.0%	3.7%	n/a	n/a
% change yoy, nsa *	11.7%	-6.4%	10.7%	-3.3%	1.1%	0.3%
<b>Private completions (nsa)</b>	21,136	20,647	21,365	25,070	n/a	n/a
sa	22,293	21,204	21,696	22,764	n/a	n/a
% change qoq, sa	2.2%	-4.9%	2.3%	4.9%	n/a	n/a
% change yoy, sa	24.3%	21.2%	19.0%	4.4%	n/a	n/a
<b>Public completions (nsa)</b>	758	1,358	1,206	1,879	n/a	n/a
sa	1,326	1,809	1,311	1,104	n/a	n/a
% change qoq, sa	-12.0%	36.4%	-27.5%	-15.8%	n/a	n/a
% change yoy, sa	-10.4%	40.1%	-4.4%	-26.8%	n/a	n/a

\* adjusted for connections backlog in 2005/06

Despite the weakening trend in planning permissions, registrations and commencements, the level of completions held up well in the first half of 2007. Total completions were unchanged in Q2 2007 compared with Q2 2006 and are up marginally for the first half of the year (+0.7%). However, the July figures just released show completions fell by 36% on July 2006, generating a decline of 5.4% in the first seven months. We expect to see a continued decline over the remainder of the year, particularly 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 13% on the peak in 2006 (88,219).

The 2007 breakdown of the total between private and public completions is not available.

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



Source: DEHLG, Irish Bankers Federation

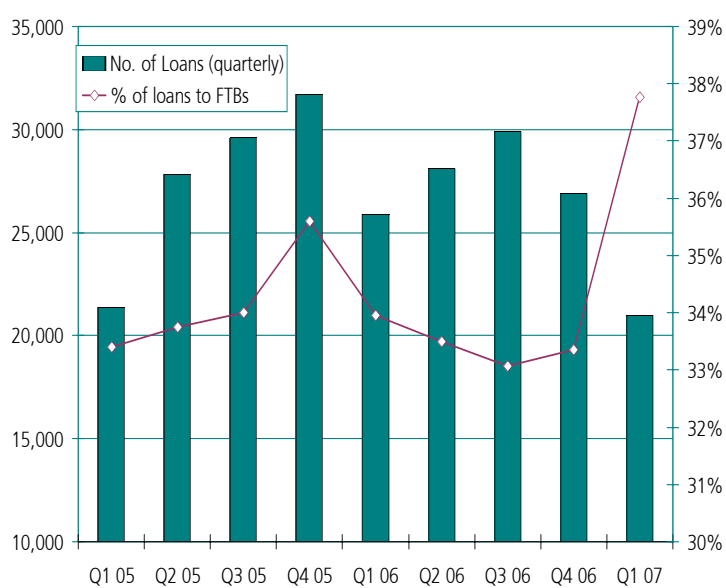
## Value of lending in Q1 2007 is 31% off its peak level in Q3 2006 (IBF data)

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
nsa (€m)	7,434	5,936	6,915	7,714	7,202	5,332
% change yoy, nsa	n/a	38.5%	17.5%	14.2%	-3.1%	-10.2%
Average loan value (€'000, nsa)	234.5	229.3	246.2	258.1	267.4	254.3
% change yoy, nsa	n/a	14.4%	16.4%	13.1%	14.0%	10.9%

The above table reports the value of loans data for Q1 2007 from the Irish Bankers Federation (IBF). The total value of mortgage lending in Q1 2007 was €7,809m. or €5,332m. excluding re-mortgages and top-up mortgages. The latter figure, which captures loans to FTBs, mover purchasers and investors, was down 10.2% on Q1 2006, following a decline of 3.1% in the year to Q4 2006. The IBF data suggests that the average loan value declined in Q1 2007 to €254,300 from €267,400 in Q4 2006. This probably reflects the increased proportion of FTBs in the total in Q1 2007 compared with Q4 2006.

The latest DEHLG data relates to Q1 2007 and shows the value of loans reached €4.8bn., down by 10% on Q1 2006. The number of loans paid out reached 21,181 in Q1 2007, down 18% on Q1 2006. The total number of loans for new dwellings was down by 16% while loans for second-hand dwellings were down by 20%. Based on the DEHLG data, the average loan for new houses in Q1 was €207,116, equivalent to 65% of the average national new house price in Q1 2007.

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



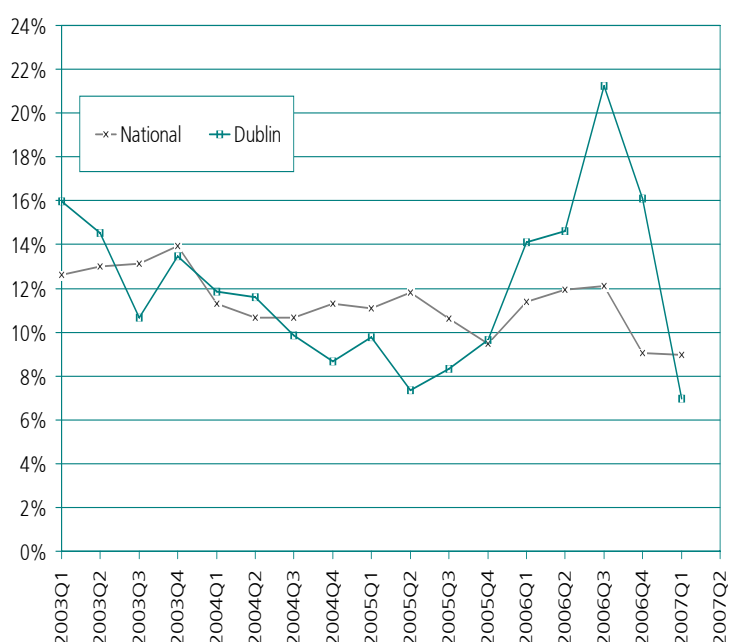
Source: DEHLG, Irish Bankers Federation

## Mortgage market slowdown most notable amongst existing owners segment

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
nsa	31,699	25,888	28,088	29,884	26,930	20,966
% change yoy, nsa	n/a	21.1%	0.9%	1.0%	-15.0%	-19.0%
% FTB loans	35.6%	34.0%	33.5%	33.1%	33.4%	37.8%
% mover purchasers	40.8%	40.4%	41.3%	41.7%	41.1%	37.3%

The IBF reported that a total of 38,236 mortgages were issued in Q1 2007 or 20,966 excluding re-mortgages and top-up mortgages. The latter figure is 19% below the number one year earlier and 30% off the peak number recorded in Q3 2006. An interesting component in the figures is that the proportion of loans issued to FTBs was up significantly to 38% in Q1 2007 (the highest since the series began in Q1 2005) from 33% in Q4 2006. Conversely the proportion of loans issued to mover purchasers (i.e. existing owners) declined from 41% in Q4 2006 to 37% in Q1 2007. The total number issued to mover purchasers was almost 40% of its peak level in Q4 2005. The number of loans issued to investors in Q1 2007 was 30% off their peak level in Q4 2005 (7,474). Given the current interest rate environment, the reported slowdown in transactions and the impact on market confidence, a further decline in the volume of mortgage activity is likely over the remainder of the year.

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



Source: DEHLG

## Q1 2007 data show a continued moderation in annual new house price inflation while Dublin prices decline for the second quarter in a row

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
National (€) nsa	287,134	294,580	308,302	309,206	313,087	320,969
% change qoq, nsa	4.1%	2.6%	4.7%	0.3%	1.3%	2.5%
% change yoy, nsa	9.5%	11.4%	11.9%	12.1%	9.0%	9.0%
Dublin (€) nsa	361,242	390,629	397,337	425,925	419,330	417,800
% change qoq, nsa	2.8%	8.1%	1.7%	7.2%	-1.5%	-0.4%
% change yoy, nsa	9.7%	14.1%	14.6%	21.3%	16.1%	7.0%

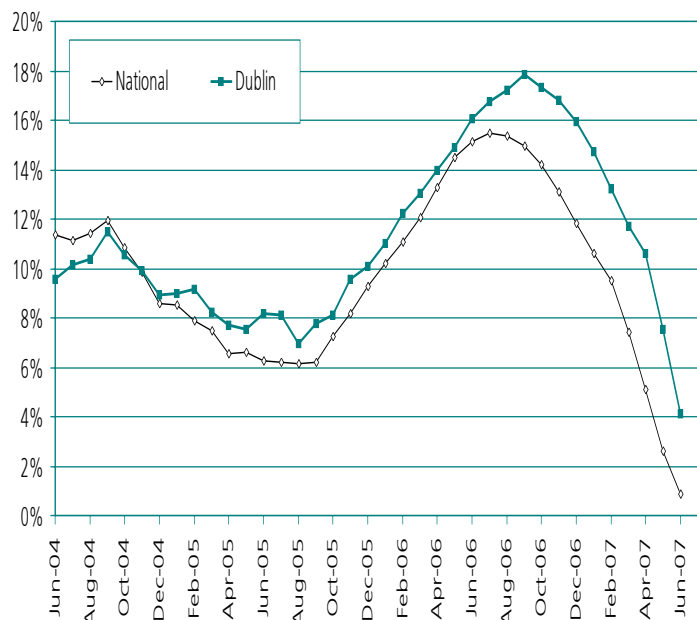
The annual rate of new house price inflation nationally was unchanged at 9% in Q1 2007 compared with Q1 2006. This rate compares with annual rates of around 11 to 12% recorded for the first three quarters of 2006 and signals that a moderation in house prices got underway in Q4 2006. In contrast, average new house prices in Dublin declined for the second quarter in Q1 2007. Although the data is not seasonally or mix-adjusted, the published figures show average new house prices in Dublin fell by 0.4% in Q1 on the previous quarter, following a quarterly decline of 1.5% in Q4 2006. Average house prices nationally were at €320,969 in Q1 2007. The same figure for Dublin was €417,800, an increase of 7% on the same quarter in 2006 and more than half the annual rate of increase in Q4 2006 (+16%).

The moderation in house prices evident in the DEHLG data can be expected to continue if recent trends in the permanent-tsb/esri index are to be replicated in the DEHLG data for Q2 2007.

# Construction indicators

**Figure 16: House prices**

(% change, yoy)



Source: permanent-tsb

## Sharp deceleration in annual house price inflation as national house prices fall for four months in a row

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
National index (nsa)	139.5	139.5	138.6	137.5	136.4	135.7
% change (mom, nsa)	0.1%	0.0%	-0.6%	-0.8%	-0.8%	-0.5%
% change (yoy, nsa)	10.6%	9.5%	7.4%	5.1%	2.6%	0.9%
Dublin index (nsa)	142.0	142.3	142.4	142.6	140.9	139.0
% change (mom, nsa)	0.1%	0.2%	0.1%	0.1%	-1.2%	-1.3%
% change (yoy, nsa)	14.7%	13.2%	11.7%	10.6%	7.6%	4.1%

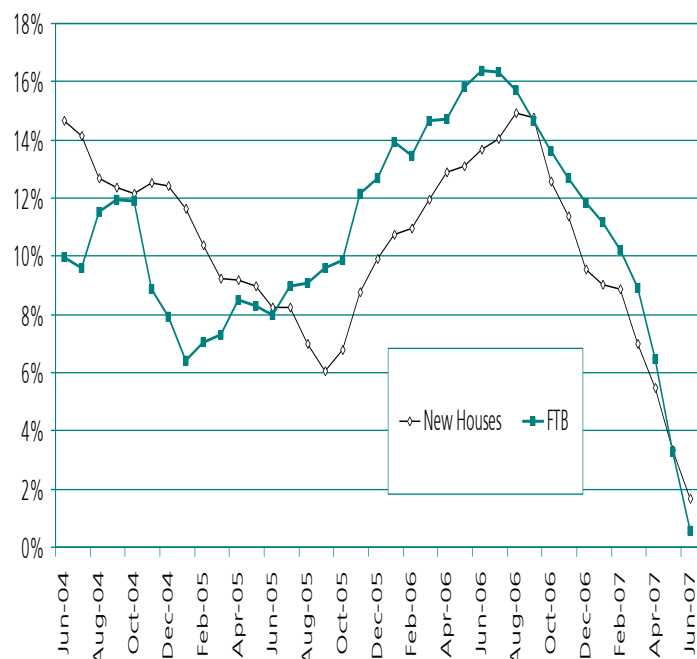
Average house prices nationally declined by 0.5% in the month of June, generating the fourth monthly decline since March. As a result the annual rate of house price inflation has decelerated sharply from 10.6% in January to 0.9% in June. Similar trends are evident in Dublin where average house price growth declined by 1.3% in the month of June, the second monthly decline to be recorded this year to date. As a result the annual rate of house price inflation in Dublin was 4.1%, well above the national average rate but well down on the corresponding rate in Dublin at the beginning of the year (14.7%).

Average house prices nationally were at €302,605 in June and €418,905 in Dublin. Compared with their peak levels in January 2007, average house prices nationally were 2.7% lower in June. In Dublin average prices in June were 2.5% below their peak just two months earlier. While these declines are modest, we expect further declines in house prices for the remainder of the year, which will result in a moderation in the annual rate of house price inflation nationally and in Dublin.

The key factors generating the monthly declines in house prices are the impact of eight mortgage interest rates increases since December 2005 with a further increase expected in September, and recent negative comment regarding market prospects. Both factors have damaged confidence and price expectations amongst potential purchasers in the market.

**Figure 17: House prices**

(% change, yoy)



Source: permanent-tsb

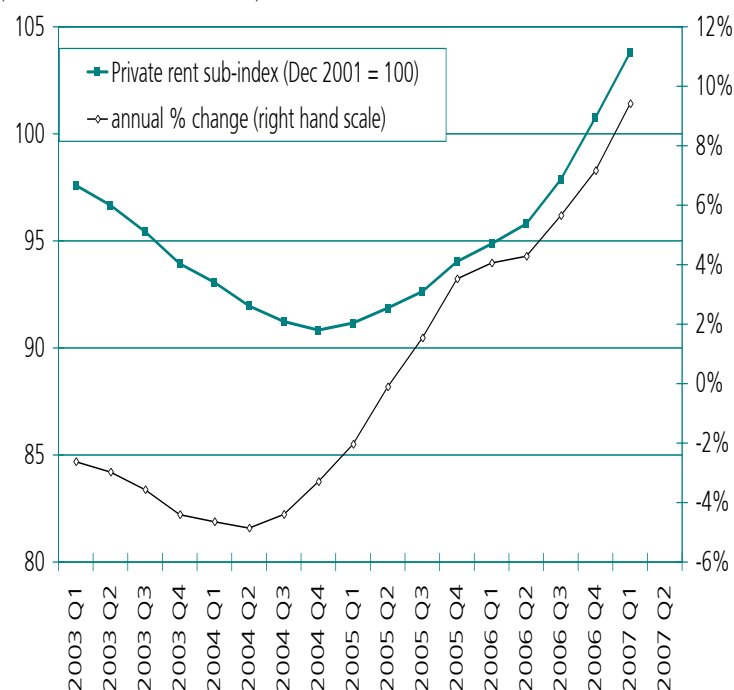
## A sharp deceleration in the annual inflation rates for FTB house prices to less than 1% in June

	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
New index (nsa)	140.4	141.4	140.4	140.4	139	138.0
% change (mom, nsa)	0.5%	0.7%	-0.7%	0.0%	-1.0%	-0.7%
% change (yoy, nsa)	9.0%	8.9%	7.0%	5.5%	3.3%	1.7%
First-time-buyer index (nsa)	141.1	141.1	141.3	140.2	137.7	136.4
% change (mom, nsa)	0.1%	0.0%	0.1%	-0.8%	-1.8%	-0.9%
% change (yoy, nsa)	11.2%	10.2%	8.9%	6.5%	3.3%	0.6%

Similar trends are evident in the house price indices for average new and FTB house prices. Both indices reveal a sharp deceleration in the annual rate of inflation to 1.7% for new houses (from 9% in January 2007) and less than 1% for FTB houses (from 11% in January 2007). Average FTB house prices peaked as recently as March 2007 but had fallen back by 3.5% by June. For the same reasons as above we expect further modest declines in average house prices over the remainder of the year. The one positive factor from these trends is that the adverse impacts of mortgage rate increases is lessened by these modest declines in house prices, thus helping affordability for FTBs.

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

(mid-December 2006=100)



Source: CSO

## Strong pick up in annual private rental growth to 9.4% in Q1 2007

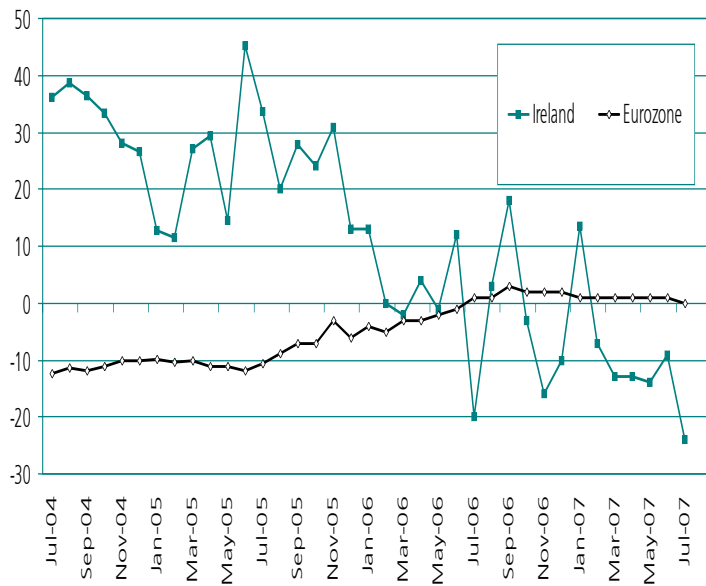
	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
CPI private housing rents*	94.0	94.9	95.8	97.9	100.8	103.8
% change, qoq	1.5%	0.9%	1.0%	2.2%	3.0%	3.0%
% change, yoy	3.5%	4.1%	4.3%	5.6%	7.2%	9.4%

\* Sub-index

Private rents accelerated to record levels in Q1 2007 with a quarterly increase of 3% (nsa) for the second quarter in a row. In the 12 months to Q1 2007, private rents increased by 9.4%, the highest annual rate of growth since Q4, 2001. Private rents in Q1 2007 were 14.3% above their lowest point reached in Q4 2004. Although the housing market is receiving much negative comment at this time, rental demand has been bolstered by employment growth and high immigration. We previously reported that the number of loans issued to investors in Q1 2007 was 30% of 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.

These trends are supported by the latest report from Daft.ie which indicated that the annual rate of growth in rents reached 10.5% nationally in February this year.

**Figure 19: Construction confidence**



Source: Eurostat

## More pessimistic about the prospects for construction

	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07
Ireland (sa)	-7	-13	-13	-14	-9	-24
Eurozone (sa)	1	1	1	1	1	0

Construction confidence declined sharply in Ireland in the last two months while remaining broadly stable in the Eurozone area. Looking at the components of the construction confidence index, the decline is attributed to a significant disimprovement in the assessment by managers of current activity levels (in May and June) 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).