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Construction industry Indicators

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Introduction

The availability of good and robust data is important for carrying out analysis of the construction sector, especially at a time when the industry is experiencing a major adjustment such as the one which is underway at present. Gross investment in the building and construction sector accounted for 77% of total investment in the economy and almost 19.5% of GNP in 2008. New residential construction alone accounted for 7.4% of GNP compared with 11.5% in 2007 and approximately 13% in 2005 and 2006. According to the Construction Industry Review 2008 and Outlook 2009-2011 construction output for 2009 will represent around 14.5% of GNP compared with much higher figures of 23.8% in 2007 and 20.7% in 2008.

This is number nineteen in the series of *Construction Indicators*, prepared for the Department of the Environment, Heritage and Local Government (DEHLG)¹. The purpose of this report is to bring the reader up to date on current levels of activity and trends in the sector. The latest available quarterly and monthly data are presented in graphic form with a brief commentary. This publication also contains a short overall commentary on emerging trends and issues.

The quality and quantity of data on the construction sector has been an issue for some time. In this regard the first results from the CSO's new Quarterly Survey of Construction (QSC) were published in August 2007². As this is a relatively new Survey and the results are considered to be experimental by the CSO, we have not yet included it in the Indicators series. In addition, the CSO, in conjunction with the DEHLG, is currently developing a mix-adjusted house price index which will take account of different property, location and purchaser characteristics. Both series will be included in this report in due course.

The indicators presented in this report cover the following:

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

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

Sources of data include the Housing Division of the DEHLG, the CSO, Homebond, Premier Guarantee, Bruce Shaw Partnership, Davis Langdon PKS, Irish Bankers Federation (IBF), permanent-tsb/ESRI, Ulster Bank and Eurostat. The source for each indicator is acknowledged. This publication appears in electronic form on a quarterly basis. It is distributed via the Department's website: www.environ.ie⁴ and is available on www.dkm.ie.

¹ This report is produced by DKM Economic Consultants. DKM was given editorial independence by the DEHLG to prepare its views, analysis, forecasts and economic commentary on data and statistical trends in the construction sector. The views expressed herein are DKM's views and do not necessarily coincide with the views of the Department.

² See www.cso.ie

³ Using the Tramo-Seats software via the Demetra interface developed by Eurostat.

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

⁴ Previous issues are available at

<http://www.environ.ie/en/Publications/StatisticsandRegularPublications/ConstructionIndustryStatistics/>

Construction indicators

Construction hits a record low in 2009 as few indicators show signs of having bottomed out

This most recent set of *Construction Indicators* provides an account into how the construction industry fared during 2009. The industry has been undergoing a period of rapid contraction for almost three years, leaving construction undoubtedly the worst affected sector of the current economic downturn. As each indicator continued to adjust downward in 2009, this has caused a profound adverse affect on overall economic growth, when compared to 2008. Consequently, the industry has entered 2010 in a very weak position.

The level of investment channelled through the economy, as measured by Gross Fixed Capital Formation (GFCF), declined by approximately 30% year-on-year in Q3 2009 despite recording a quarterly increase of 11.5% in the second quarter. Residential investment accounted for quite a significant proportion of GFCF in recent years, but now accounts for just one-fifth of overall investment having declined by 55.4% (yoy) in Q3 2009. All other components of GFCF registered annual declines in the third quarter with investment in improvements down by 20.6%, while investment in machinery and equipment declined by 25.1%. Other buildings and construction saw investment levels increase by 9.2% during Q2 and Q3 2009 but remained 23.3% lower than where levels were in 2008.

The construction industry continued to shed jobs at an alarming rate in 2009 with 34.8% fewer people employed by the sector in Q3 2009 compared with the same quarter the previous year. This implies that 79,800 (sa) direct jobs were lost in the year to Q3, although the true displacement of workers becomes much more evident when one takes into account the associated indirect job losses (estimated at a further 40% of direct job losses). Approximately 149,700 construction workers were still employed in Q3 2009 and this represents just 52.2% of what peak levels were in Q1 2007. With few sectors immune to the downturn, those that have recently found themselves unemployed will have difficulty finding employment in construction in Ireland. As a result, outward migration is rapidly becoming a feature of the Irish economy.

With the demand for housing very much suppressed at present, it is no surprise that all the supply indicators have continued to fall in Q3 2009 at alarming rates. The latest CSO data on planning permissions indicate that total permissions for houses and apartments in Q3 stood at 8,584, a reduction of 43.9% on the previous year and more than 70% below peak levels reached in 2005. It is clear from the data so far this year that permissions for houses are declining at a much faster rate than apartments, with apartments increasing its share of total permissions to 38% in Q3. Similarly, registrations (excluding public sector units) recorded a dramatic decline (-71.0% yoy) in December 2009, having plummeted to 4,755 units (exc. one-off housing) for the year. This annual figure of 4,755 is equivalent to levels recorded during a single month at the beginning of 2007. In the year to October 2009, commencements nationwide dipped below the 10,000 mark to 9,611 indicating a year-on-year decline of -62.7%. Single units accounted for quite a large proportion (72.7%) of these, while this figure was as high as 78% of total commencements in October alone.

The latest Mortgage Market Profile, released from the Irish Banking Federation, shows that the level of mortgage loans (excluding top-up loans and remortgages) gradually increased in Q2 and Q3 2009 from an extremely low position at the beginning of the year. There were 6,804 mortgage loans issued in Q3 which was significantly fewer than the level issued in the same quarter the previous year but it was an improvement nonetheless on the 5,508 that were issued in Q1 2009. The value of these loans experienced similar patterns during 2009 with a total sum of €1,558mn issued in the third quarter. This implies an average mortgage loan of around €229,000 which is akin to the average price of a national house in October 2009 (€228,300), according to ptsb/ESRI data.

The latest figures from ptsb/ESRI indicate that house prices have been falling right through 2009 at an accelerating year-on-year pace which culminated in national house prices being 18.5% lower at the end of 2009 compared with 12 months previously. National house prices in December stood at 31.5% below the February 2007 peak and further price reductions remain imminent. Similarly, Dublin house prices have been declining in recent months but at a much faster rate than the national average. They had 20.6% wiped from their value over the year, leaving prices at the end of 2009 35.1% lower than the peak in April 2007. This phenomenon of falling house prices has been a familiar characteristic of the current downturn, and although it has improved housing affordability, it has left thousands of homeowners facing the prospects of negative equity. Until signs begin to emerge that prices are beginning to stabilise, demand in the housing market will remain subdued.

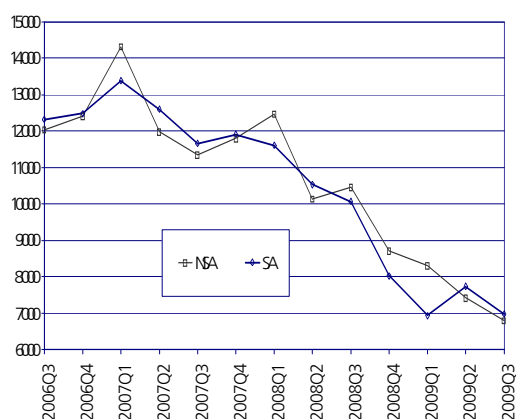
The most recent Ulster Bank Purchasing Managers Index, which measures confidence/activity levels in the construction sector, reveals that the year 2009 ended in a very weak position after an exceptionally challenging year. Having displayed signs of improving somewhat during the middle of the year, the final few months in 2009 have seen total activity levels descend even further below the benchmark level of no change in activity. In October, civil engineering was no longer contracting at the fastest pace due to sharper declines by the commercial and housing sectors in recent months. Measuring the overall performance of the construction economy by tracking output, new orders, employment and prices, this index has now been contracting continuously since June 2007.

A correction in the industry that will bring about a sharp and lasting fall from peak levels is now well underway. The December 2010 Budget offered little hope of a boost with an Exchequer capital allocation of €6,445 envisaged for 2010 – reduced by almost €1 billion on 2009 levels. This will undoubtedly exert a major drag on the economy given that capital spending has proved to be one of the most resolute sectors during the downturn. Based on current statistics and in the absence of a major stimulus package, the very sharp adjustment can be expected to continue into 2010.

Construction indicators

Figure 1: Gross domestic fixed capital formation

(Quarterly, constant 2007 chain-linked prices)



Source: CSO; National Accounts

Investment in fixed assets fell by 30.7% year-on-year in Q3'09

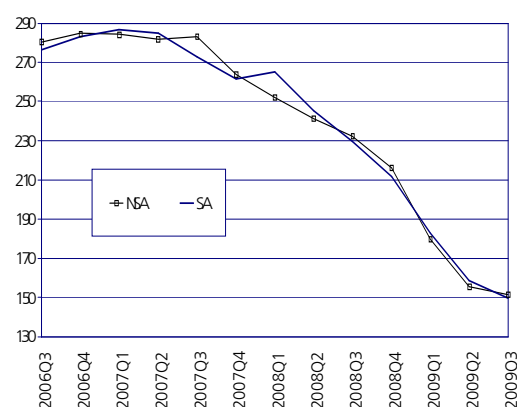
	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
nsa €m.	10,132	10,461	8,711	8,298	7,411	6,795
sa €m.	10,531	10,056	8,017	6,934	7,734	6,970
% change (qoq, sa)	-9.3%	-4.5%	-20.3%	-13.5%	11.5%	-9.9%
% change (yoy, sa)	-16.4%	-13.8%	-32.7%	-40.3%	-26.6%	-30.7%

The CSO's Quarterly National Accounts for Q3 2009 show that total investment in the economy (as measured by gross capital fixed formation, GFCF) fell by more than 30% in the year leading to Q3'09. Despite being lower than the 40% year-on-year decline recorded earlier in 2009, a 30.7% fall off remains very significant indeed and has left investment in Q3'09 almost half (48%) of what the peak value was in Q1'07. In absolute terms investment in Q3'09 was unchanged from the beginning of the year. Nonetheless, investment levels in Q3 09 are now at 1997 levels with 2009 by far the worst year of the decade (in constant 2007 prices).

The overall reduction in investment can be partially attributed to the persistent declines in residential investment, which was 55% lower in Q3'09 compared with the same quarter in 2008. However, residential investment is only one component of GFCF, and in Q3'09 each investment component experienced a decline of some sort, including 'improvements' (-21% yoy) which has been the most resilient component in the downturn. Investment in 'other building and construction' fell by 23% (yoy) in Q3'09, while the overall reduction in transactions is indicated by transfer costs, which was down 71% (yoy) in Q3'09 (approximately 12% of what peak levels were in Q4'06). Finally, machinery and equipment have not been immune to the lack of investment either having experienced a reduction of about 25% on Q3'08.

Figure 2: Construction employment

(000s, sa)



Source: CSO; QHNS

Construction job losses account for 43% of total jobs lost in the year to Q3'09

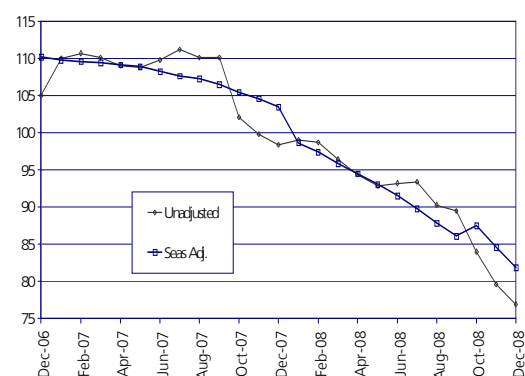
	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
sa (000s)	245.4	229.5	211.5	183.1	158.4	149.7
nsa (000s)	241.4	232.3	216.3	179.9	155.4	151.5
% change (qoq, sa)	-7.4%	-6.5%	-7.8%	-13.4%	-13.5%	-5.5%
% change (yoy, sa)	-13.8%	-15.9%	-19.1%	-30.9%	-35.5%	-34.8%

The enormous effect that the downturn has had on employment in the construction sector is illustrated by the CSO's latest Quarterly National Household Survey (QNHS) figures, which show that the largest decline in employment was recorded in the construction sector where total numbers employed fell by 70,800 (-34.8% sa) over the year to Q3'09. Since the peak of 286,600 (sa) construction jobs in Q1'07, 47.8% of these jobs have since been axed. This implies that as much as 136,900 jobs have been lost in the sector in just under 3 years. It also means that almost 1 in every 2 construction workers in Q1'07 are no longer employed by the sector. The total jobs lost in construction since the peak equates to 7.2% (sa) of total employment in Q3'09.

Intuitively, the largest decreases in employment in Q3'09 for non-Irish nationals occurred in the construction sector (-19,100 yoy). The gender composition of those employed in the sector has not changed however, with males continuing to dominate employment, accounting for approximately 93% of jobs in Q3'09. This partially explains why males have been shedding jobs at a much faster rate than females in overall employment figures. Total unemployment levels are expected to increase even further in 2010.

Figure 3: Construction employment index

(2000=100)



Source: CSO

Construction employment index declined by 21% in 2008

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

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

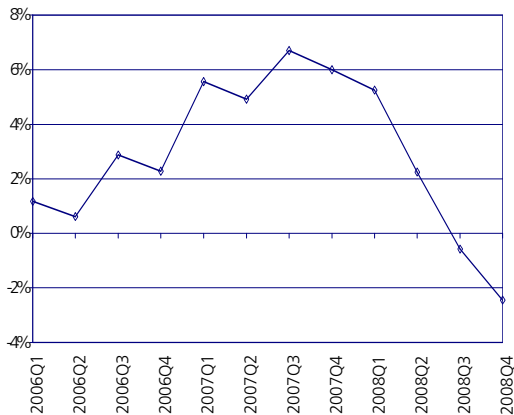
These figures provide further worrying evidence of the pace at which labour is being shed by larger firms in the construction sector. A combination of weakening demand and confidence, difficulty in shifting current stock and the stringent credit markets have led to liquidity issues in the industry, reduced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

**The Construction Employment Index is a monthly record of employment levels across 1,000 firms with 5 or more persons, as opposed to the QNHS which is a quarterly record of total employment from household surveys. The CSO decided to put an end to this index in December 2008, thus explaining why this index has not been updated in 2009.*

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Figure 4: Average weekly earnings in construction

(% change yoy, sa)



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

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

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

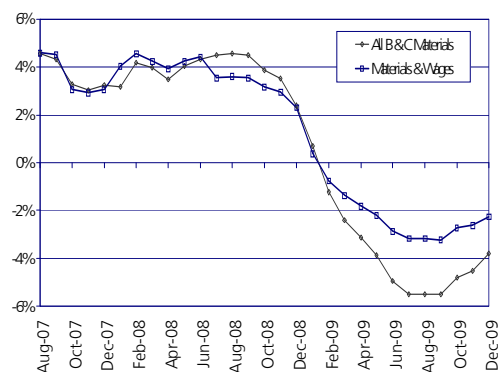
In contrast, average weekly earnings in the Public Sector (excluding Health) rose by 3.2% in the year to December 2008. At an average of €945.18 per week, earnings in this sector are €123 more per week than in the construction sector.

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

The CSO decided to put an end to this index in December 2008, thus explaining why this index has not been updated in 2009.

Figure 5: Wholesale price indices for building and construction materials

(% change yoy)



Source: CSO

Materials & wages in construction continue to decline throughout the latter half of 2009 – down 2.3% year-on-year

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
All B&C Materials, nsa	140.7	140.7	140.8	141.1	141.1	141.1
% change yoy, nsa	-5.5%	-5.5%	-5.5%	-4.8%	-4.5%	-3.8%
B&C Mat's & Wages nsa	155.9	155.9	155.9	156.1	156.1	156.0
% change yoy, nsa	-3.2%	-3.2%	-3.2%	-2.7%	-2.6%	-2.3%

The building and construction capital goods, materials and wages, have recorded negative annual growth in each consecutive month since Feb'09, a stark contrast to the positive growth rates experienced since records began in 1985. This measure now stands 2.3% lower than what it was in Dec'08, bringing the index back to 2007 levels.

All building and construction materials recorded growth of -3.8% over the course of 2009, a significant contrast to peak growth of 10% (yoy) in Oct'06. Structuring steel and reinforcing metal has contributed to this trend having fallen by 18.4% (yoy) in Dec'09. Electric fittings (-2.6%), timber (-2.7%) and other concrete products (-4.2%) have also recorded year-on-year declines although there were a few categories such as cement (8%) and bituminous emulsions (29.1%) that reported an increase in prices during 2009.

This very significant trend of decreasing capital goods prices has partially resulted from more intense competition amongst workers competing for employment and also suppliers competing for the limited work that is available. This trend of falling prices is one that will be welcomed by contractors, as they strive to stay competitive.

Figure 6: Construction cost inflation

(% change yoy, nsa)



Source: SCS, Bruce Shaw, Davis Langdon PKS.

...while construction cost inflation falls by 2.4% (yoy) in September

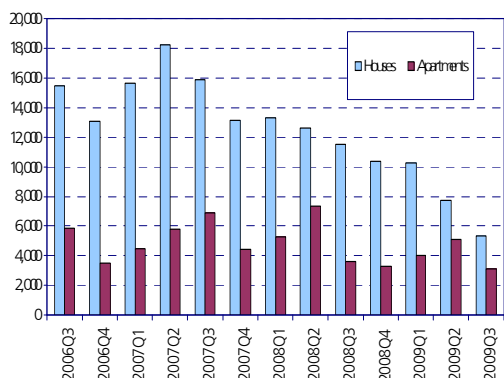
	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
SCS Const.Cost Index	297.4	296.9	296.4	296.4	296.4	296.5
Cost Inflation yoy	-0.9%	-1.5%	-1.9%	-2.2%	-2.4%	-2.4%

The Society of Chartered Surveyor's measure of construction inflation has followed a similar pattern to CSO data in recent months having increased its year-on-year declines. Despite having record year-on-year declines in costs during recent months, it is fair to say that the index has displayed signs of stabilising having stood at the same level for the previous three months. With building and construction materials falling annually at a much faster rate, this suggests that the other component of the SCS Index, labour costs, is falling at a much lower rate than the -2.4% (yoy) recorded in September and could possibly be unchanged on the previous year.

The fall in tender prices has continued during 2009 as contractors and sub-contractors chase increasingly diminishing volumes of work. According to the Bruce Shaw Index, however, the fall in 2009 will be less dramatic than in 2008 to the tune of around 5% as below cost tendering can only be regarded as a short-term solution at best. This levelling off of the SCS construction cost index in recent months may have resulted from the decreasing tendency to submit tenders at well below costs, which is clearly not sustainable.

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



Source: CSO

Planning permissions for houses & apartments fall by 43.9% year-on-year in Q3'09

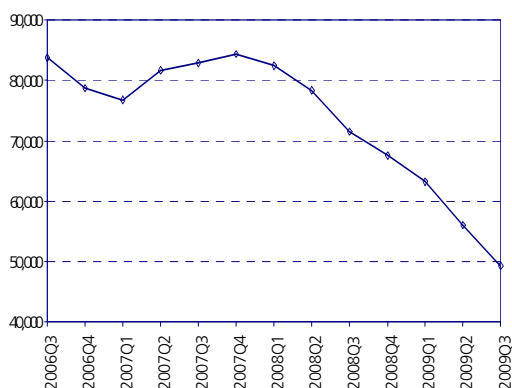
	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
# Houses						
nsa	12,598	11,532	10,375	10,256	7,739	5,362
% change yoy nsa	-30.8%	-27.2%	-21.0%	-22.9%	-38.6%	-53.5%
# Apartments						
Nsa	7,344	3,761	3,392	3,921	5,092	3,222
% change yoy nsa	26.9%	-40.3%	-26.2%	-25.8%	-30.7%	-14.3%
Total Units						
nsa	19,942	15,293	13,767	14,177	12,831	8,584
% change yoy nsa	-16.9%	-30.9%	-22.4%	-23.7%	-35.7%	-43.9%

The total number of houses and apartments granted planning permission in Q3'09 stood at 8,584 having recorded a substantial 43.9% decline on the previous year – down by more than 70% from the peak figure recorded in Q2'05. The reduction in the number of houses granted planning permission to 5,363 (-53.5% yoy) in Q3'09 would have significantly influenced overall figures but notwithstanding this, the number of apartments granted planning permission also fell in Q3'09, albeit at a more modest rate (-14.3% yoy).

In absolute terms, there were approximately 6,700 fewer planning permissions in Q3'09 than there was in Q3 the previous year. Short term conditions for the residential construction sector do not look very positive given that planning permissions have fallen to these levels especially as there is still scope for further declines over the coming quarters.

Figure 8: Total residential planning permissions

(four quarters, running total, nsa)



Source: CSO

...as the total no. of units granted planning falls below 50,000

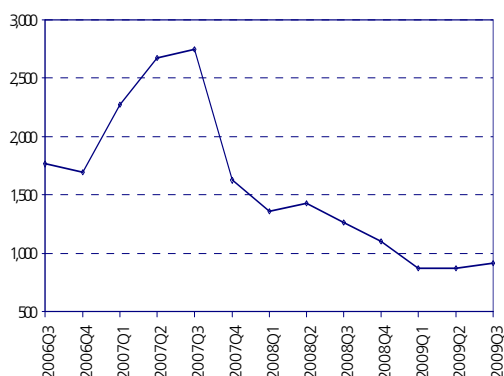
	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
nsa	78,395	71,550	67,584	63,179	56,068	49,359
% change yoy	-4.0%	-13.7%	-19.9%	-23.4%	-28.5%	-31.0%

The 12-month running total for residential units granted planning permission in Q3'09 fell by 31% to 49,459. This measure has now been falling rapidly since the beginning of 2008 and in the seven quarters that have followed, the number of units granted permission has fallen by approximately 33,000. It now stands at only 47% of what the peak level was in 2005 and remains by far the lowest level seen this decade.

As these latest figures suggest, confidence remains extremely low in the Irish housebuilding sector at present. Given that residential planning permissions have fallen below 50,000 and the likelihood that this indicator has yet to bottom out, it is quite possible that planning permissions could constrain the eventual recovery when it commences.

Figure 9: Floor area for new non-residential construction

(quarterly, 000s sq. metres, nsa)



Source: CSO

Non-residential floor area granted permission levels off around the 900,000sq. metre mark

	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
nsa	1,426	1,265	1,102	870	872	915
% change yoy, nsa	-46.6%	-53.9%	-32.2%	-36.1%	-38.8%	-27.7%

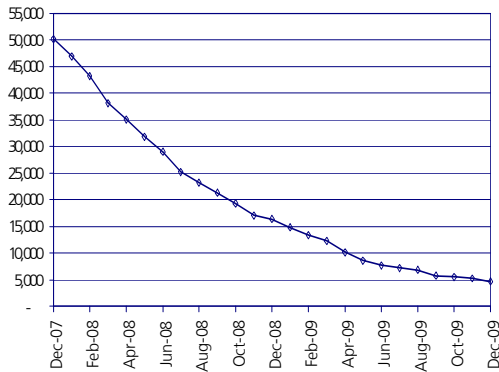
Non-residential floor area granted planning permissions in Q3'09 was reduced by 27.7% (yoy) to 915,000sq.metres. Despite such a sizable reduction, it can be seen from the graph that the floor area for non-residential construction has levelled off somewhat in 2009 to date. This by no means implies that this indicator has bottomed out and it could very well fall further given that confidence in the commercial construction sector is extremely weak at present. Nonetheless, it is the most stable that this indicator has been for some time and 2009 figures to date would suggest that floor area being granted is now back around 2003 levels.

The total floor area granted for new non-residential buildings fell by 7% in the year to Q3'09. The total reduction in overall floor area granted in Q3'09 could have been far greater had commercial buildings not accounted for as much as 62% of non-residential floor area granted permission, as buildings for agriculture (-27%), industrial (-79%) and health and education (-63%) all recorded sizable reductions in the year to Q3'09.

In summary, the 915,000sq.metres granted permission in Q3'09 is approximately 27% lower than the average floor space granted in this decade so far. Essentially, this implies that as a result of the downturn, the economy's long-term productive capacity is eroding at a rapid rate.

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Figure 10: Registrations
(12-month running total)



Source: Homebond, Premier Guarantee, DKM estimate

An average of 312 registrations per month in 2009

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
12 mrt *	7,268	6,894	5,806	5,590	5,325	4,755
% change mom	-5.3%	-5.1%	-15.8%	-3.7%	-4.8%	-10.7%
% change yoy	-71.2%	-70.3%	-72.8%	-71.1%	-68.8%	-71.0%

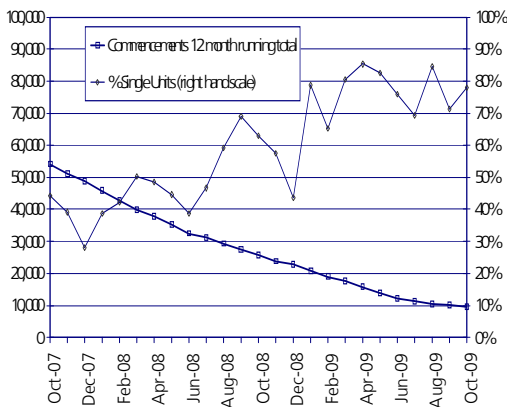
The latest published figures for registrations (as recorded by Homebond & Premier Guarantee) have fallen to as low as 3,743 in the 12 months to December 2009. This compares with much higher levels of 37,878 and 12,710 in 2007 and 2008 respectively. With 151 registrations nationwide in Dec'09, this signifies an overall decline of 75.0% (yoy), with no signs of the trend reversing anytime soon.

Registrations are made after commences and exclude all builders who are not registered with the national guarantee/insurance Homebond and Premier Guarantee schemes as well as one-off housing and public sector units. Adjusting the total* for the number of one-offs units not captured in the registrations, the total is down by 71.0% in the 12 months to Dec'09.

With construction investment, employment, and overall activity in general very much adversely affected by the downturn in construction, the magnitude of the fall-off of demand in residential construction is evident from the reduction in registrations (inc. est. for one-off houses), which have fallen by 94% since the peak in Sept'06.

* 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

In October, almost 8 in every 10 commencements were single units

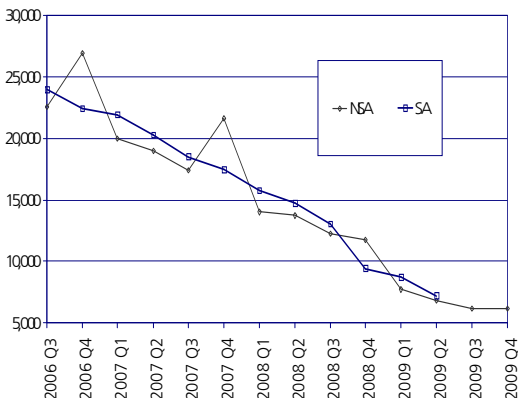
	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
12 mrt	13,914	12,267	11,193	10,468	10,142	9,611
% of single units	82.5%	75.9%	69.2%	84.6%	71.4%	78.0%
GDA 12 mrt	4,034	3,464	3,080	2,866	2,792	2,664
GDA as% of nat tot	29.0%	28.2%	27.5%	27.4%	27.5%	27.7%

Commencements capture the number of units (excluding public sector) for which the builder has commenced preliminary and other site works in advance of proceeding to construction. In the 12 months to Oct'09 commencements dropped below the 10,000 mark to 9,611 resulting in growth of -47.1% (yoy). The number of single units commenced was 6,879 or 72% of the annual total compared with 78% in the month of October alone and an average of just 47.5% during the whole of 2008. This shows that single units are continuing to dominate the greatly reduced number of commencements.

Residential commencements in the Greater Dublin Area have fallen by 65% in the 12 months to Oct'09 and currently stand at 2,664 units. Single units have however been less dominant in the GDA over the same timeframe when compared to national trends having accounted for just 15.2% of all commencements.

The construction industry is currently struggling as a result of the residential overhang throughout the country, which is guaranteed to ensure that commencements remain subdued throughout 2010. Although the above data does not include public sector commencements, there is the likelihood that such commencements will also be affected in 2010 as local authorities may opt towards a 'leasing initiative' to provide for social housing needs rather than meeting the bulk of the demand through new build.

Figure 12: Total dwellings completed
(Number, quarterly)



Source: DEHLG, based on ESB residential connections

Proxy for completions down by 47.5% year-on-year in Q4'09

	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Total Completions, nsa	12,250	11,738	7,711	6,768	6,178	6,163
% change qoq, sa	-11.3%	-28.1%	-7.5%	-17.3%	N/A	N/A
% change yoy, nsa	-29.7%	-45.7%	-45.0%	-50.7%	-49.6%	-47.5%

The proxy for total completions, ESB residential connections, fell in Q4'09 to their lowest level recorded since Q2'94. Total quarterly completions (i.e. connections) were down 47.5% to 6,163 compared to levels in Q4 the previous year. This translates to a 77% reduction from the peak level of almost 27,000 completions recorded in Q4'06.

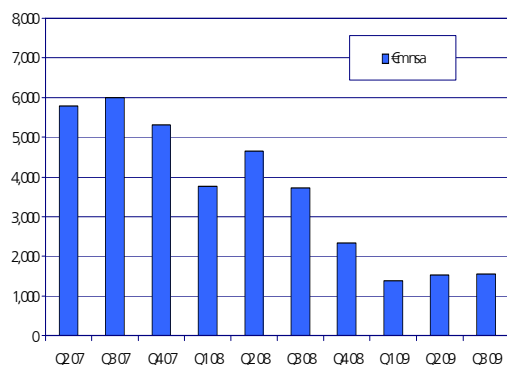
Latest figures indicate that there were 2,033 completions during the month of December. This suggests that completions totalled 26,820 over the course of 2009. This is most definitely an overestimate of the true level of house building, as trends in commencements, registrations and construction employment would suggest. The likelihood is that some of these 26,820 units were built in 2008 or 2007 and have only been connected for electricity this year, following a more recent transaction/sale.

As a result, this data series is no longer a reliable measure of the number of units built in a given year. Returning to the comments made under commencements above, we expect the actual level of new build in 2009 to be around 17,000, falling to around 10,000 in 2010.

Construction indicators

Figure 13: Value of housing loans paid out

(€m quarterly)



Source: Irish Bankers Federation

Average mortgage falls to €229,000 in Q3 2009...

	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
€m. nsa*	4,656	3,723	2,352	1,388	1,530	1,558
% change yoy, nsa	-19.7%	-38.1%	-55.7%	-63.2%	-67.1%	-58.2%
Avg. loan value, nsa €'000s	278.9	262.0	249.8	252.0	229.1	229.0

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

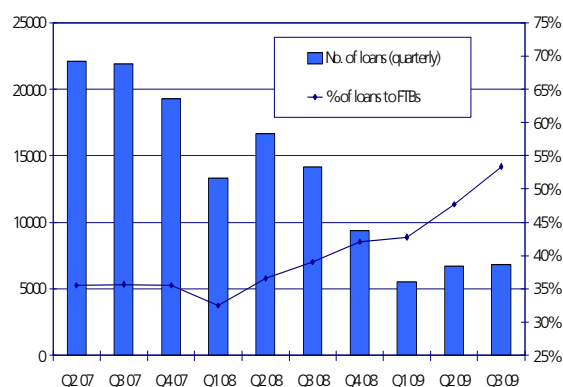
The latest data from the Irish Banking Federation shows that the value of mortgage lending (excluding re-mortgage and top-up loans) increased for the second quarter in a row in Q3, up 1.8% (qoq) and 12.2% since the beginning of the year. However, this is only modest growth from a record low point in Q1'09 – while Q3'09 stood significantly lower (-58.2%) than the same quarter the previous year. Overall, the value of mortgage lending in Q3'09 has fallen by approximately four-fifths (more than €6bn.) since its peak exactly three years ago.

The value of FTB mortgages fell in Q3'09 by 42.2% (yoy) while mover purchasers required mortgages that were 58.3% lower in value than what was required in Q3 the previous year. Mortgages for residential investment lettings experienced the sharpest decline in Q3'09 (-80% yoy) which is a clear indication that investors are swiftly withdrawing from residential property.

The average loan value is now back at 2005 levels having fallen to €229,000 in Q3'09 and with house prices continuing to fall, the average loan will fall further. It is possible that the total value of loans authorised may have bottomed out in Q1'09 but as stated in the previous issue of this publication, a lot will depend on the National Assets Management Agency's (Nama) ability to deliver an expansion in lending.

Figure 14: Total number of housing loans paid out

(Number, quarterly)



Source: Irish Bankers Federation

...while FTB loan now account for 53.4% of all housing loans

	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
nsa	16,694	14,208	9,415	5,508	6,678	6,804
% change yoy, nsa	-24.4%	-35.1%	-51.1%	-58.6%	-60.0%	-52.1%

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

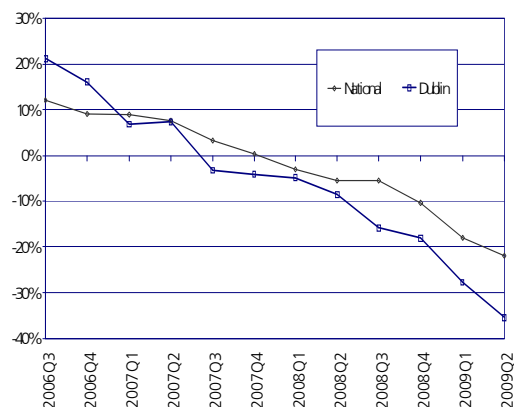
The number of mortgage loans (excluding re-mortgage and top-up loans) drawn down in Q3'09 has continued to plummet year-on-year despite having increased over the previous two consecutive quarters in 2009. Although the number of loans issued in Q3'09 were more than three-quarters below the peak in 2006, there was approximately 6,800 loans issued in the quarter. These latest figures do confirm that some Irish banks are continuing to provide mortgages, although it is not possible to ascertain consumer demand (i.e. mortgage applications) from this data.

From 2005-2007, the years that characterised the height of the construction boom, FTB's required approximately one-third of mortgages that were issued. However, since 2008 FTB's began to increase their share of total mortgages which has been continuing steadily since. In Q3'09, this category of home buyers passed the 50% mark and accounted for more than half (53.4%) of all mortgages administered.

FTB's dominance in the market is reflective of the markets unattractiveness to investors at present while 'mover purchasers' appear to be staying put during the downturn in a 'wait and see' approach. Until prices begin to stabilise and confidence returns to the market, FTB's are likely to dominate the greatly reduced activity in the mortgage market.

Figure 15: New house prices

(% change, yoy)



Source: DEHLG.

National new house prices fall 26% in Q2'09 from peak in Q2'07

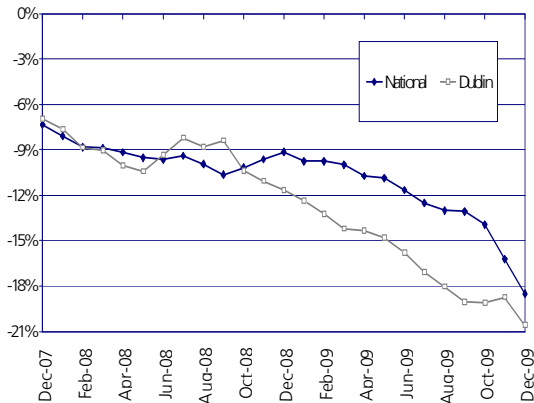
	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09
National (€) nsa	311,113	313,678	301,680	282,023	255,029	245,168
% change qoq, nsa	-1.0%	0.8%	-3.8%	-6.5%	-9.6%	-3.9%
% change yoy, nsa	-3.1%	-5.5%	-5.5%	-10.3%	-18.0%	-21.8%
Dublin (€) nsa	397,697	390,544	347,233	329,625	290,402	257,047
% change qoq, nsa	-1.2%	-1.8%	-11.1%	-5.1%	-12.8%	-12.4%
% change yoy, nsa	-4.8%	-8.5%	-15.8%	-18.1%	-27.7%	-35.5%

The average price of a new house in Ireland lost 21.8% of its value in Q2'09 over the previous 12 months, having fallen to approximately €245,000. New houses prices in Dublin declined at a much faster rate over the same timeframe, having come down by 35.5% to €257,047. This is a clear indication that new house prices in the capital are converging on such prices nationwide and this can be seen in Q2'09 in which there was a difference of just €12,000 between both localities, compared to a difference of €116,000 in Q3'06.

The latest Review of the Construction Industry 2008 and Outlook 2009-2011, as published by the DEHLG, estimates that the 'excess' overhang over what would normally be vacant at any point in time stands at about 136,000 units. Assuming an annual demand of 35,000 and that house prices stabilise, this is equivalent to almost four years of demand. On this basis, it is inevitable that new house prices in Ireland will fall further as attempts to shift their unsold stock are made.

Construction indicators

Figure 16: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

Nationwide house prices fall 31.5% since the peak in Feb'07

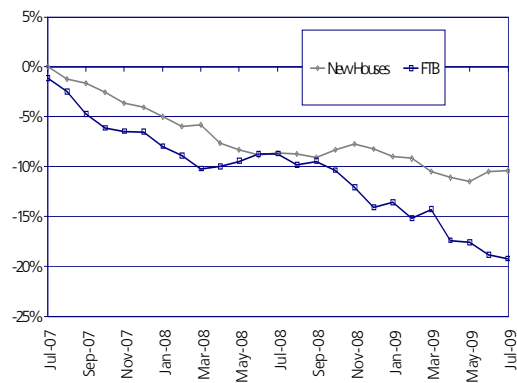
	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
National index, nsa	107.1	105.5	104.3	102.4	99.2	95.6
% change mom, nsa	-1.1%	-1.5%	-1.1%	-1.8%	-3.1%	-3.6%
% change yoy, nsa	-12.5%	-13.0%	-13.1%	-13.9%	-16.2%	-18.5%
Dublin Index nsa	103.8	101.8	99.7	97.1	96.7	92.5
% change mom, nsa	-2.2%	-1.9%	-2.1%	-2.6%	-0.4%	-4.3%
% change yoy, nsa	-17.1%	-18.0%	-19.1%	-19.1%	-18.7%	-20.6%

Average house prices across the State fell by 18.5% during 2009, according to latest figures from Permanent-TSB/ESRI. This data indicates that house prices suffered from a record monthly decrease in December having had 3.6% wiped off their value in a single month alone. It is also evident that year-on-year house prices nationwide have been declining in value at an accelerating rate in recent months with growth rates falling deeper into double-digit figures. The result is that national house prices have now fallen by almost one-third since they peaked in Feb'07.

Average house prices in Dublin have also been losing their value at an accelerating rate throughout 2009, with prices down by more than one-fifth (-20.6% yoy) in Dec'09. Dublin house prices declined by as much as 4.3% in December alone and this has contributed to a fall in value of 35.1% since they peaked in April'07.

In absolute terms, average house prices across the State stood at €213,200 in October while average house prices in Dublin were 30.8% higher at €278,800. Based on average earnings of around €40,000, these prices translate into 5.3 times earnings using the national average price and 7.0 times using Dublin prices. With price to earnings ratios likely to be closer to 3.5 or 4 in a 'normal' market, this suggests that prices have further to fall in 2010.

Figure 17: House prices
(% change, yoy)



Source : permanent-tsb/ESRI

Average FTB house prices fell below €200,000 for the first time since October 2003

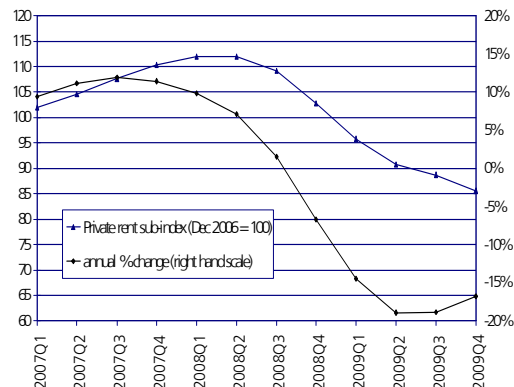
	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
New index, nsa	120.7	118.4	115.3	112.9	112.6	112.5
% change mom, nsa	-0.6%	-1.9%	-2.6%	-2.1%	-0.3%	-0.1%
% change yoy, nsa	-9.2%	-10.5%	-11.1%	-11.5%	-10.5%	-10.4%
FTB Index, nsa	109.1	108.8	104.3	102.8	101.1	100.2
% change mom, nsa	-2.8%	-0.3%	-4.1%	-1.4%	-1.7%	-0.9%
% change yoy, nsa	-15.2%	-14.3%	-17.4%	-17.6%	-18.8%	-19.2%

The average price of a new house in Ireland fell by 8.5% in the seven months to July 2009 bringing the year-on-year decline to -10.4%. The monthly decreases have slowed somewhat in July to -0.1% following a record monthly decline of -2.6% in April. In absolute terms, the average price of a new house in Ireland stood at €243,719, down 20% from the peak of €306,328 in February 2007.

Similarly, the monthly decline in the average price of a FTB house slowed considerably in July (-0.9%) compared to the record decline of -4.1% in April 2009. Despite this however, this measure has continued to decline much faster than the new house price index with average prices having dropped by 19.2% (yoy) in July 2009. The average price paid by FTB's in July fell below €200,000 for the first time since Oct'03 and was some 18.6% below the national average new house price in the same month and 29% lower than what FTB's were paying in March 2007 (€279,795).

* Data has not been available since July due to small sample size.

Figure 18: CPI private housing rents sub-index
(December 2006=100)



Source : CSO

Private rents fall by 16.8% in 2009

	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
CPI Rents Index	109.3	102.9	95.8	90.8	88.7	85.6
% change, qoq	-2.4%	-5.9%	-6.9%	-5.2%	-2.3%	-3.5%
% change, yoy	1.5%	-6.7%	-14.5%	-18.9%	-18.8%	-16.8%

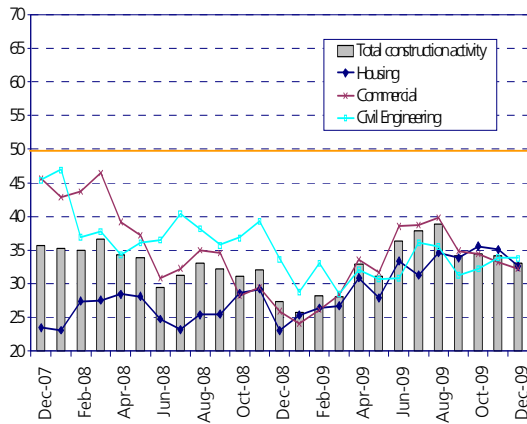
The CSO's private rents sub-index has now been contracting for its fifth successive quarter having fallen by 16.8% year-on-year in the final quarter of 2009. Having peaked in Q2'08 private rents have since fallen back by 23.6%.

According to the latest figures, quarterly reductions to date would have peaked in Q1'09 having decreased by as much as 6.9%. The quarterly declines have been scaled back somewhat since then but nonetheless a decline of 2.3% (qoq) in Q3 and 3.5% (qoq) in Q4 indicate that private rents are continuing to experience sharp reductions.

According to the latest Daft Rental Report for Q3'09, rents in Dublin have been falling sharper than elsewhere in the country. They are now at their lowest level in around ten years, similar to levels last seen in Q1'00. Cork, Limerick and Waterford have also fallen further from the peak than the national average. In October'09 the average rent stood at €775, down from more than €1,000 in 2008. This in turn would have fallen further in the final 2 months of the year, according to latest figures from the CSO.

Construction indicators

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



Source: Ulster Bank

Latest PMI figures cap off what has been a difficult year for 2009...

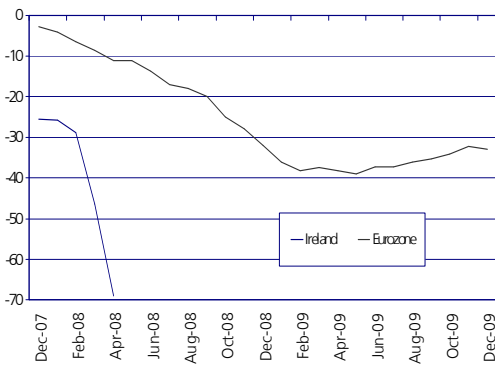
	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Total construction	37.9	38.8	34.2	34.5	34.2	33.1
Housing	31.3	34.6	33.8	35.6	35.1	32.6
Commercial	38.7	39.8	34.9	34.5	33.2	32.3
Civil engineering	36.1	35.5	31.3	32.2	33.9	33.8

The latest Ulster Bank PMI* reports that overall activity levels in the construction sector finished 2009 in an extremely weak position having stood at 33.1 in December – thereby indicating a severe contraction in activity as it is significantly below the benchmark level of 50. The improving trend noted earlier in the year has been halted by some poor performances in the previous few months with the latest reading of total construction activity now back at May'09 levels.

According to this index, *civil engineering* activity is no longer contracting at the fastest pace but despite this slight adjustment, each sector performed rather poorly in the final months of 2009. Activity in the *commercial* sector appears to have experienced the sharpest fall off in recent months having displayed comparative signs of resilience earlier in the year. Although we can be reasonably confident that the index has bottomed out at the beginning of 2009, more recent trends imply that demand for construction services is worsening. In summary, overall activity levels have now been contracting continuously for 37 consecutive months with the opening months of 2010 unlikely to bring about a reversal of such trends.

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

Figure 20: Construction confidence



Source: Eurostat

While EU confidence appears to have bottomed out in May 2009

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Eurozone (sa)	-37	-36	-35	-34	-32	-33

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

Construction confidence in the Euro area descended to extremely low levels during 2009, a year in which many countries experienced simultaneous declines in construction output volumes. These declines came on the back of years of very strong construction growth and coincided with the Eurozone economy descending into recession. Confidence levels began to show modest improvements mid-2009, as the Eurozone economy emerged from 5 quarters of negative growth in Q3'09. Nonetheless, December figures have stalled the recent improvements in Eurozone confidence and as residential output volumes in Europe may not recover until 2012, the coming months will prove very challenging for already feeble confidence levels.

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

*The latest data for Ireland relates to April 2008 only as there was a temporary discontinuation of the Business, Consumer and Building Surveys in Ireland in May.

Construction indicators

Indicator	Frequency	Source	Unit	Seasonally adjusted	
				Yes/No	By
1 Estimates of fixed investment in B&C	Quarterly	CSO	€m	Yes	CSO
2 QNHS construction employment	Quarterly	CSO	Number	Yes	CSO
3 Construction employment index	Monthly	CSO	Index	Yes	DKM
4 Average weekly earnings in construction	Quarterly	CSO	€	Yes	DKM ¹
5 Wholesale price index for B&C materials	Monthly	CSO	Index	No	DKM ²
6 Capital goods price index for B&C	Monthly	CSO	Index	No	DKM ²
7 SCS construction cost index	Monthly	SCS	Index	No	
8 Bruce Shaw tender price index	Annual	BS	Index	No	
9 Bruce Shaw construction cost index	Annual	BS	Index	No	
10 Planning permissions	Quarterly	CSO	Number	No	(3)
11 Floor area for non-residential new construction	Quarterly	CSO	Sq.mtrs.	No	(3)
12 Total registrations (incl. est. for one-offs)	Monthly	DKM est.	Number	No	(3)
13 Dwelling completions	Quarterly	DEHLG	Number	No	DKM
14 Total value of housing loans paid out	Quarterly	DEHLG/IBF	€m	Yes	DKM
15 Total number of housing loans paid out	Quarterly	DEHLG/IBF	Number	Yes	DKM
16 Average loan value (based on drawdowns)	Quarterly	DEHLG/IBF	€000	Yes	DKM
17 National average new house prices	Quarterly	DEHLG	€000	Yes	DKM
18 Dublin average new house prices	Quarterly	DEHLG	€000	Yes	DKM
19 Permanent TSB national house price index	Monthly	ptsb/ESRI	Index	No	(3)
20 Permanent TSB Dublin house price index	Monthly	ptsb/ESRI	Index	No	(3)
21 Permanent TSB new house price index	Monthly	ptsb/ESRI	Index	No	(3)
22 Permanent TSB FTB house price index	Monthly	ptsb/ESRI	Index	No	(3)
23 CPI private housing rents sub-index	Quarterly	CSO	Index	No	(3)
24 Ulster Bank purchasing managers' index (PMI)	Monthly	Ulster Bank	Index	Yes	NTC Econ.
25 EU construction confidence index	Monthly	Eurostat	Index	Yes	Eurostat
26 Construction confidence index for Ireland	Monthly	Eurostat	Index	Yes	Eurostat

-
- 1) Seasonally adjusted average weekly average earnings calculated using average earnings per hour (sa) and average hours worked (sa).
 - 2) Seasonal pattern rejected because of problem with the reliability of the data.
 - 3) Unadjusted data only presented and denoted nsa (not seasonally adjusted).