



Construction industry indicators

Issue 8

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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 eight 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 early 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>

Construction sector indicators suggest an acceleration in fixed investment, employment growth and material price inflation in Q3 2006; and a new record housing supply level in 2006

With GNP annual growth of 5.4%, gross capital fixed formation re-established its position as the fastest growing component of GNP in Q3, recovering from a decline in the previous two quarters. Accounting for 32% of total GNP, fixed investment recorded a strong quarterly increase (+5.8%, sa) in Q3 2006, well ahead of the quarterly growth in net government expenditure (+1.2%, sa) and the slight decline (0.1%, sa) in consumer spending. Residential and non residential investment grew an impressive 5.8% and 8.9% respectively year on year in Q3 2006.

Construction employment growth accelerated in Q3 2006 (QNHS) to reach 272,600 (sa) persons, reversing the moderating trend in place over the past four quarters. The sector accounted for 30% of annual employment growth in Q3, with over 11,000 (43%) of the annual increase in construction workers accounted for by workers classified as self employed. The short term employment index continues to suggest that employment growth is concentrated amongst small firms (4 or less employees) and the self-employed. It is difficult to see either the recent pick up in construction employment growth or in the proportion of new jobs accounted for by construction being reversed again given the recent publication of the National Development Plan 2007–2013, which contains the largest ever infrastructure investment programme in the State, unless the expected slowdown in housing supply materialises.

Construction earnings declined by 2.1% (sa) in Q3, resulting in a 3.3% 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 has been a substantial acceleration in building and construction materials inflation since the beginning of 2006, culminating in annual inflation running at or close to 10% in each of the four months up to November 2006. When compared with the pace of growth of the capital goods index (+7.6%); materials prices and not wage growth appear to be the key factor driving this inflation. However, construction costs inflation, measured by the SCS changed little over the five months to September 2006 and is substantially below current inflation in building materials and in the capital goods price index for building and construction. Whether the substantial increases in infrastructure investment expected under the National Development Plan 2007–2013 result in higher construction costs and tender prices over the medium term remains to be seen.

Housing output, measured by ESB connections, reached 93,419 in 2006. When adjusted to account for the backlog in ESB connections in 2005 (i.e. units built in 2005 but not connected until 2006), the true level of housebuilding in 2006 is 88,219, compared with the adjusted figure in 2005 of 86,157. This suggests a more modest growth of 2.4% in housing supply than that arrived at using ESB connections.

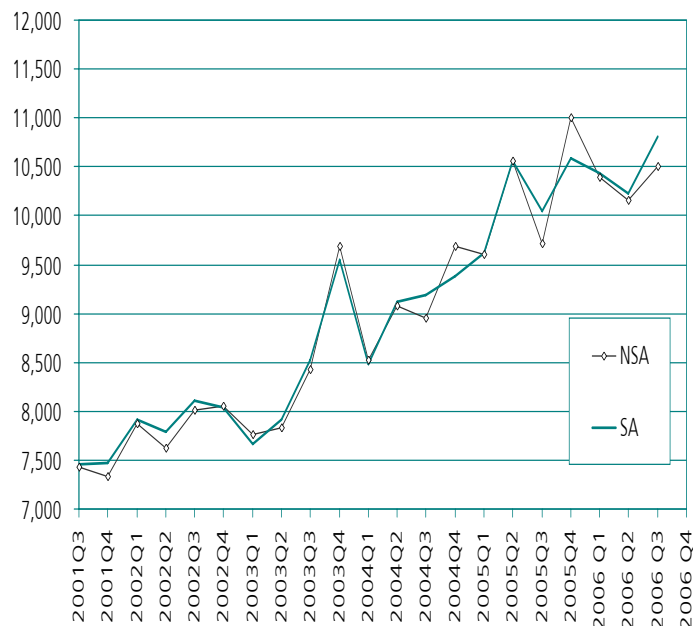
The prospects for housing supply in 2007 will depend on the current pattern of registrations, which were up 11.6% in 2006 compared with 2005, after adjusting for one-offs. With total residential units granted planning permission down 20% from the peak level in Q2 2005 to 83,704 (sa) in the year to Q3 2006, the likelihood is that completions will be lower this year compared with 2006. The trend in commencements would also support this view.

House price movements in Dublin in Q3 2006, according to permanent-tsb data, recorded a deceleration in the pace of growth in November but absolute prices continue to breach record levels. From the record growth rate in June 2006 of almost 2% in the month and even 1.7% as recently as in September, Dublin house price growth has slowed over the last two months, increasing by 0.8% in the month of November. Price growth at a national level virtually stagnated in November to 0.1%. The last time national house price movements were as modest was around the end of 2004. At €427,000, the average annual rate of increase in house prices in Dublin is still at a high level (+16.8%) compared with a national average of €310,400 (+13.1%).

The very positive developments in the budget in relation to the doubling of mortgage interest relief for first-time buyers as well as the taxation changes have boosted affordability significantly. There is a risk that the MIR changes, which are equivalent to three 0.25% increases in mortgage rates, could reignite the housing market again in the Spring.

Overall, there continues to be a general pessimism with regard to Irish construction confidence, according to the Eurostat survey. For the second successive month, there were negative expectations with respect to order books and employment levels in 2007. This is difficult to reconcile with the general mood of optimism that surrounded the launch of the largest ever infrastructure investment programme in the new National Development Plan 2007–2013 at the end of January.

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



Source: CSO; National Accounts

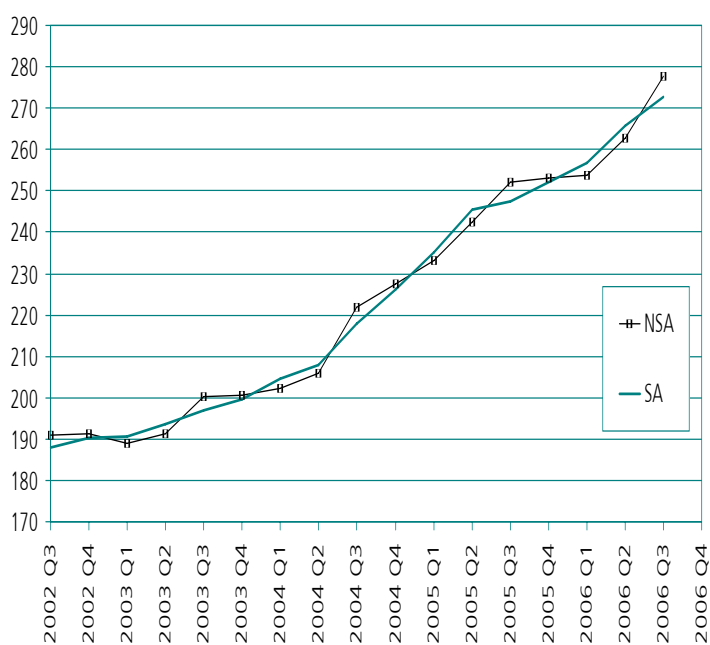
Fixed investment growth resumes in Q3 after two weak quarters of negative growth

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
nsa (€m)	10,560	9,714	10,999	10,389	10,154	10,507
sa (€m)	10,557	10,043	10,591	10,433	10,299	10,814
% change (qoq, sa)	9.8%	-4.9%	5.5%	-1.4%	-2.1%	5.8%
% change (yoy, sa)	15.8%	9.3%	12.8%	8.6%	-3.2%	7.7%

In Q3, 2006 gross fixed capital formation (GFCF) resumed its position as the strongest growing component of GNP, increasing by 8.2% (nsa) year-on-year. Accounting for 32% of total GNP, fixed investment recovered from the brief quarterly slump in Q2 2006 to record a strong quarterly increase of 5.8% (sa), well ahead of the quarterly growth in net government expenditure (+1.2%) and the slight decline of 0.1% (sa) in consumer spending. GNP increased marginally (0.3% nsa) in Q3 from Q2 but overall, it grew by 5.4% (nsa) in the 4 quarters to Q3 2006.

Fixed investment is made up of residential and non-residential construction investment, including investment in equipment and machinery. The seesaw pattern of GFCF investment is primarily attributable to a very volatile pattern of investment in airplanes, which are included under non-residential investment. Transfer costs, which are part of GFCF (and include the costs associated with residential and non-residential transactions) reached €1bn in Q3, rising by 17% year-on-year. While residential investment was up 5.8% yoy, non-residential building and construction rose an impressive 8.9% yoy (nsa) in Q3. With residential investment accounting for almost 50% of all GFCF, relative to 20.5% for non-residential construction, this non-residential growth is a welcome development.

Figure 2: Construction employment
(000s, sa)



Source: CSO; QNHS

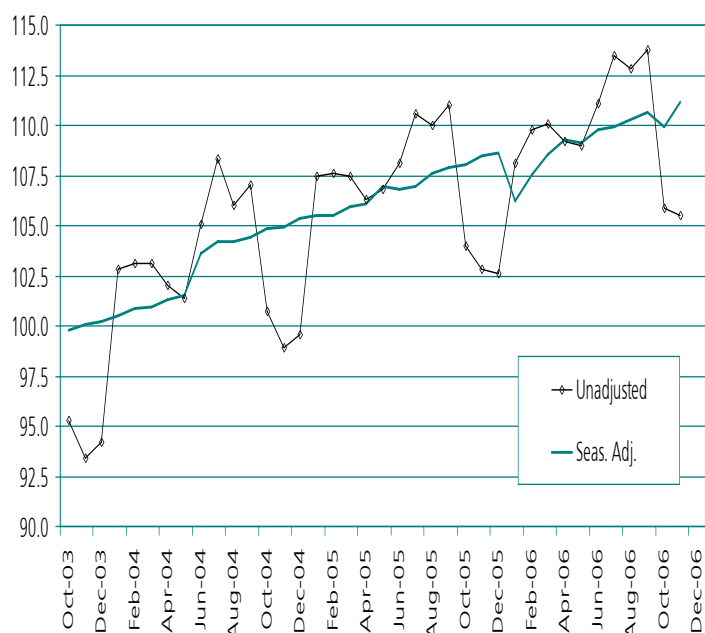
Employment growth picks up again to account for over 30% of all jobs created

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
(000s) sa	245,400	247,500	252,000	256,900	265,700	272,600
% change qoq, sa	3.8%	4.4%	0.9%	1.8%	1.9%	3.4%
% change yoy, sa	18.0%	13.6%	11.4%	9.3%	8.3%	10.1%

Growth in construction employment picked up again in Q3 (to 3.4%), accounting for 44% of the 15,800 jobs generated in the economy in Q3. This comes after the slight moderation in growth experienced over the previous three quarters. In the year to Q3, construction employment increased 10.1% (sa), almost 2.5 times that of total employment growth. The construction sector currently employs 272,600 (sa) persons.

In seasonally adjusted terms construction now accounts for 13% of total employment, up from 11% at the beginning of 2004. The sector accounted for 30% (sa) of annual employment growth in Q3, with over 11,000 (43%) of the annual increase in construction workers accounted for by workers classified as self employed. This follows a downward trend over the past 5 quarters in the construction sector's proportion of new jobs generated. It is difficult to see either the recent pick up in construction employment growth or in the proportion of new jobs accounted for by construction being reversed again given the recent publication of the NDP which contains the largest ever infrastructure investment programme in the State, unless the expected slowdown in housing supply materialises.

Figure 3: Construction employment index
(2000=100)



Source: CSO

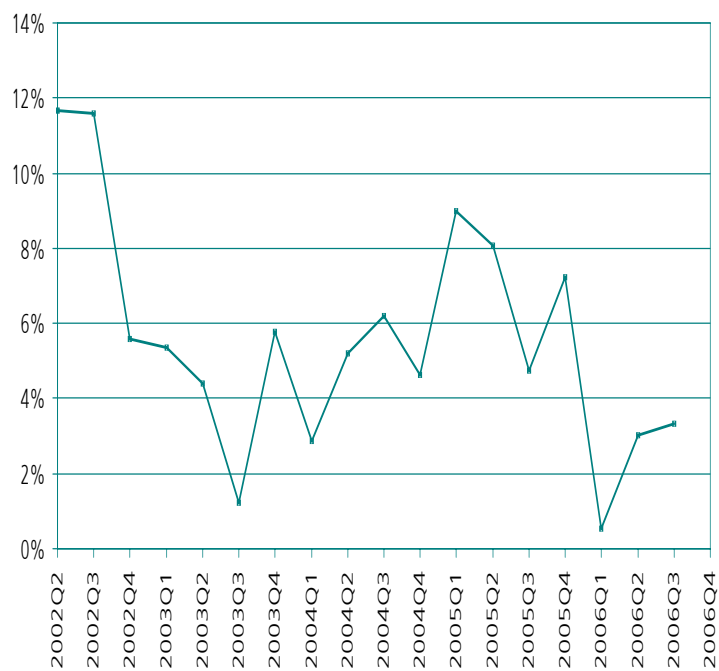
Small firms and self employed continue to fuel construction employment growth

	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06
nsa	111.1	113.5	112.8	113.8	105.9	105.5
sa	109.8	110.0	110.3	110.7	109.9	111.1
% change (mom, sa)	0.6%	0.1%	0.3%	0.3%	-0.7%	1.1%
% change (yoy, sa)	2.8%	2.8%	2.5%	2.6%	1.7%	2.4%

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. Employment growth recorded by this monthly index was up 1.1% (sa) in the month of November and 2.4% (sa) year-on-year. 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 have already noted that 43.2% of the growth in construction employment according to the QNHS, was accounted by those classified as self employed.

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



Source: CSO

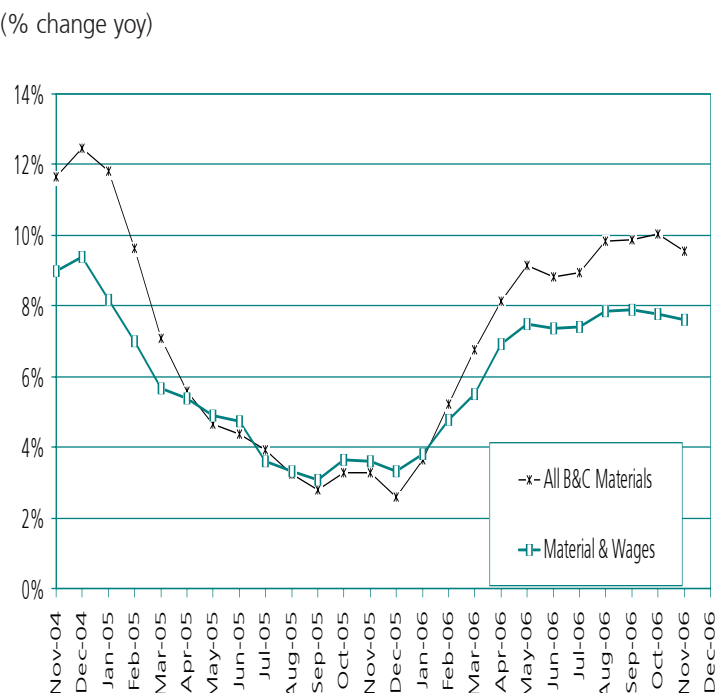
Annual wage growth in construction among the lowest for the sectors recorded by the CSO in Q3 2006

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
sa (€)	761.87	743.63	770.40	746.25	784.76	768.52
% change qoq, sa	2.6%	-2.4%	3.6%	-3.1%	5.2%	-2.1%
% change yoy, sa	8.1%	4.8%	7.2%	0.5%	3.0%	3.3%

Although a volatile series, annual construction wage growth significantly moderated over the first three quarters of 2006. Annual wage growth was 2.5% (nsa) in Q3 2006 compared with 5.6% in both Q3 2005 and Q3 2004. The corresponding seasonally adjusted annual growth rates were 3.3% in Q3 2006 compared with 3% in Q2. The annual wage growth rates (nsa) 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 Q3 2006, average annual gross earnings in construction were at €40,000 compared with under €43,000 in banking and insurance, €35,300 in distribution and services and €36,700 in the industrial sector.

Wages recorded for operatives and clerical workers in construction remain at high levels according to CSO figures, but these figures reflect wages for personnel in firms of 10 staff or more. Although there is an increasing level of small firms working in the sector, no data is available on their wage levels.

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



Source: CSO

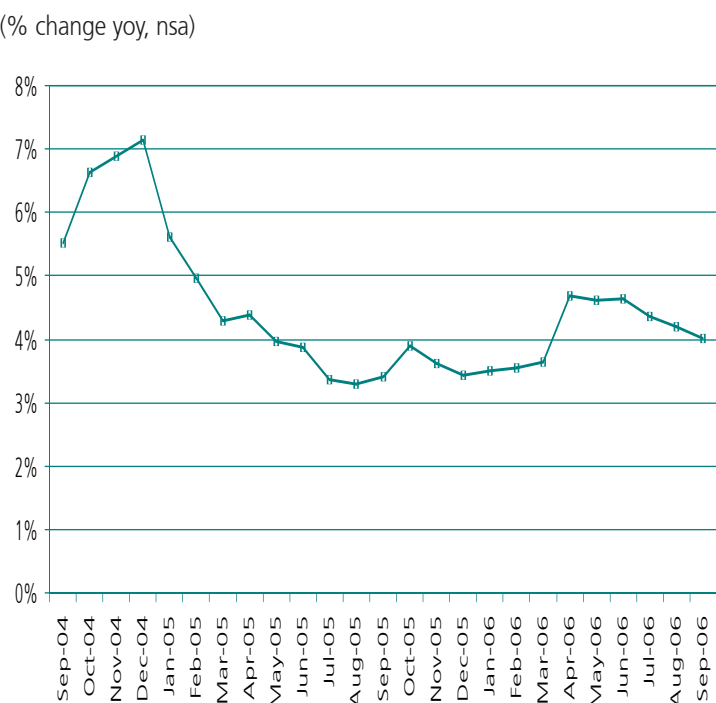
Building and construction materials inflation running at or close to 10% per annum for four months

	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06
All B&C materials (nsa)	134.6	135.1	136.2	136.7	138.2	138.6
% change (yoy, nsa)	8.8%	9.0%	9.8%	9.9%	10.0%	9.6%
B&C materials and wages (nsa)	147.6	147.9	148.6	148.9	151.0	151.3
% change (yoy, nsa)	7.3%	7.4%	7.8%	7.9%	7.8%	7.6%

There has been a substantial acceleration in building and construction materials inflation since the beginning of 2006, culminating in annual inflation running at, or close to, 10% in each of the four months up to November 2006. High oil price increases in early 2006 have generated high inflation in oil based materials such as bituminous macadam and asphalt (+17% per annum). In addition, high material price inflation has also been fuelled by rising inflation for electrical fittings (+14% per annum) and concrete blocks and bricks (10% per annum).

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 (+7.6% per annum in November 2006), reflecting 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

...while the Society of Chartered Surveyors measures construction cost inflation at only 4%

	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06
SCS construction cost index	274.7	274.8	275.0	275.1	275.1	275.2
Cost inflation (yoy)	4.7%	4.6%	4.6%	4.4%	4.2%	4.0%

The SCS construction cost index shows little change over the past five months. Cost inflation was running at 4% in the year to September 2006, down from a peak of 4.7% in April 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. Whether the substantial increases in infrastructure investment expected under the National Development Plan result in higher tender prices over the medium-term remains to be seen.

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



Source: CSO

Annual growth rates declines for the fifth quarter in a row in Q3 2006

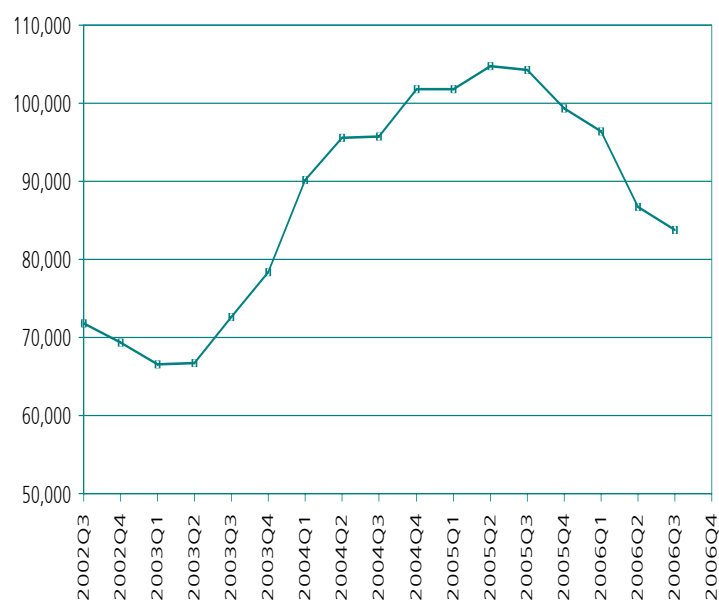
	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
Number of houses						
nsa	21,938	18,190	16,609	16,454	15,014	15,486
sa	20,740	17,801	17,672	16,977	13,817	15,097
% change qoq sa	6.7%	-14.2%	-70.0%	-3.9%	-18.6%	9.3%
% change yoy sa	18.8%	6.5%	-90.0%	-12.7%	-33.4%	-15.2%
Number of apartments						
nsa	880	5,791	4,594	6,070	4,083	5,397
sa	6,791	5,485	5,017	5,977	4,037	5,109
% change qoq sa	7.0%	-19.2%	-8.5%	19.1%	-32.5%	26.6%
% change yoy sa	-5.7%	-21.7%	-49.1%	-5.9%	-40.6%	-6.8%
Total units						
nsa	28,818	23,981	21,203	22,254	19,097	20,883
sa	27,531	23,286	22,689	22,954	17,854	20,207
% change qoq sa	6.8%	-15.4%	-2.6%	1.2%	-22.2%	13.2%
% change yoy sa	11.6%	-1.8%	-18.0%	-11.0%	-35.2%	-13.2%

Total residential units granted planning permission in Q3 2006 were up 13.2% compared with the previous quarter. House permissions rose 9.3% to 15,097 (sa), arresting the decline seen over the preceding four quarters, while apartment permissions increased 26.6% (sa). Over 52% (2,828) of these were in Dublin, a threefold increase on the number granted permission in Dublin in Q2.

However, when compared with Q3 of 2005 total permissions were down 13%, the fifth year-on-year decline in a row. Regionally, the year-on-year fall off in house permissions is due to sharp declines in the South-East (-87.2% yoy nsa) and South-West (-91% yoy nsa). The Mid-East was the only region to record an increase in the number of houses granted permission (+36.7% yoy nsa). The number of apartments granted permission in Dublin declined by 0.6% yoy in Q3, while the number of houses granted permission in the capital declined by 1.8% yoy. One-off housing continues to account for close to a quarter of all planning permissions; 23% of the national total is located in the Border counties alone.

Figure 8: Total residential planning permissions

(four quarters, running total, sa)



Source: CSO

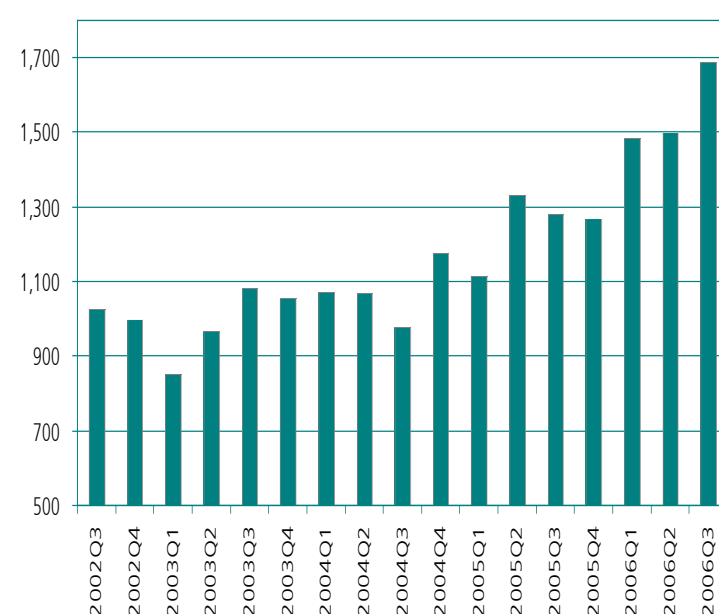
Four quarter running total in Q3 2006 was 20% down on peak level in Q2 2005

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
sa	104,715	104,287	99,291	96,461	86,783	83,704.0
% change yoy	9.6%	9.0%	-2.5%	-5.3%	-17.1%	-19.7%

In the twelve months to Q3 2006 a total of 83,704 (sa) residential units were granted planning permission, 20% less than the peak level reached in Q2 2005 (104,715). The annual rate of decline decelerated from -10% in Q2 to -3.5% in Q3 2006, however. This downward trend supports a lower level of housing supply this year.

Figure 9: Floor area for new non-residential construction

(Quarterly, 000s sq. metres, sa)



Source: CSO

Steady increase in non-residential building activity continues

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
nsa	1,487	1,327	1,167	1,399	1,612	1,764
sa	1,330	1,280	1,266	1,485	1,498	1,686
% change qoq	19.2%	-3.8%	-1.1%	17.3%	0.9%	12.6%
% change yoy	24.4%	30.9%	7.8%	33.1%	12.6%	31.7%

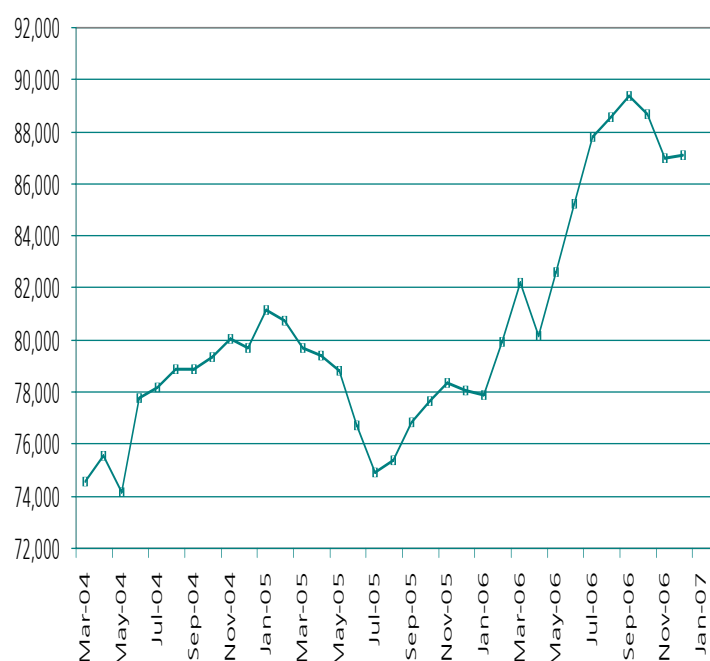
In contrast to the downward trend in residential permissions, non-residential planning permissions continue to increase steadily to record highs. The total non-residential floor area granted planning permission rose by 31.7% (sa) over the four quarters to Q3 2006. Just under half of the total floor area represented commercial buildings, with agricultural buildings accounting for one quarter of the total non-residential floor area.

Within the total, commercial construction volumes were unchanged on Q3, 2005 while industrial space planned was up 63% and the volume of agricultural building space planned more than doubled. Although residential construction continues to dominate, accounting for 63% of the total planned floor area, continued jobs growth and the current high levels of consumer spending 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

Adjusted registrations, i.e. including one-offs, up by 11.6% in 2006 to 87,103

	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06
12-month running total	87,782	88,546	89,352	88,698	86,981	87,103
% change mom	3.0%	0.9%	0.9%	-0.7%	-1.9%	0.1%

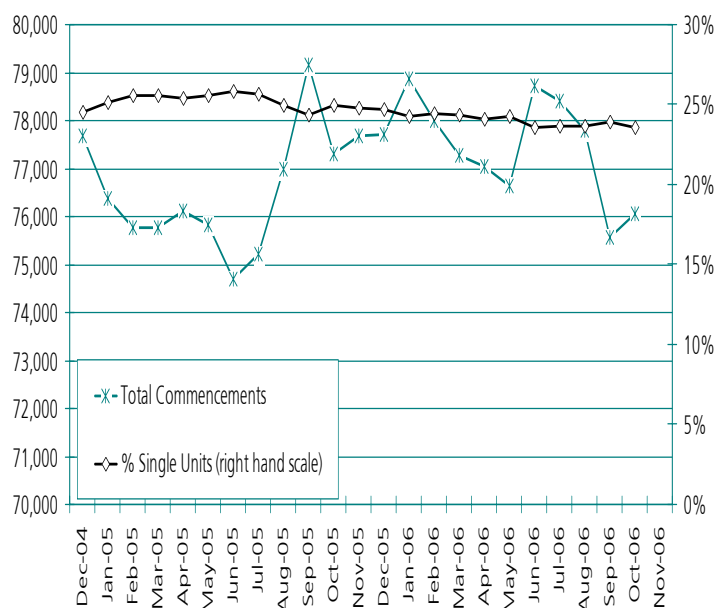
Before making any adjustment to the registrations data, the total for 2006, recorded by Homebond and Premier Guarantee, was up 7.1% to 66,711. When adjusted to include one-off houses, total registrations in 2006 amounted to 87,103, 11.6% up on the adjusted figure for 2005. The adjusted figure for registrations peaked in September at 89,352, close to the record ESB connections figure published for the full year 2006 (93,419 based on ESB connections).

Registrations (unadjusted) in the Greater Dublin Area were up 2.8% in 2006 and accounted for 38% of all registrations (unadjusted) last year. Longford (+163.5%), Monaghan (+49.7%) and Donegal (+42.4%) recorded the highest increases in registrations in 2006 while six counties recorded declines in excess of 13% (Kerry (-13%), Waterford (-17%), Kilkenny (-17%), Meath (-18%), Roscommon (-23%) and Louth (-28%).

* 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

Commencements data suggest a slowdown in housing supply

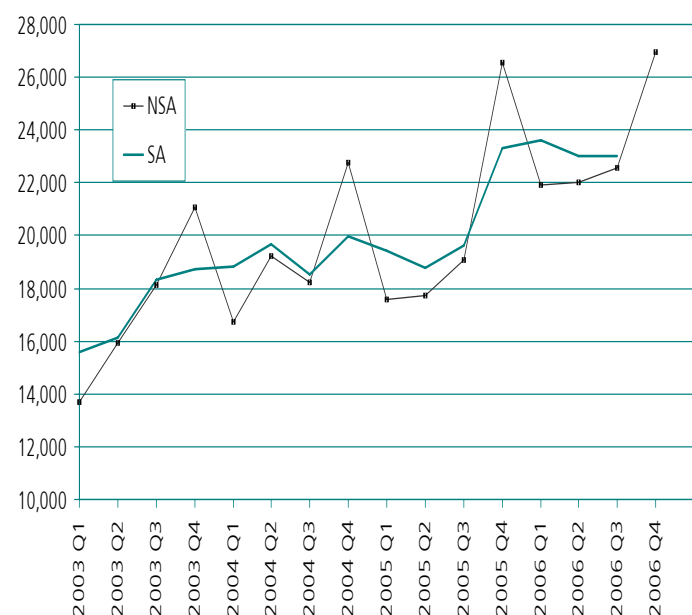
	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06
12-month running total	76,641	78,721	78,400	77,800	75,565	76,070
% of single units	26%	20%	25%	21%	26%	23%
Greater Dublin area 12 mrt	23,749	24,200	23,570	24,061	23,876	23,591
GDA as % of national total	31.0%	30.7%	30.1%	30.9%	31.6%	31.0%

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, well short of the ESB connections figure for 2006 (93,419). We understand that 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.

The latest figure for October 2006 shows the cumulative 12 month total at 76,070, indicating possibly a lower level of completions this year compared with 2006. Total commencements in the Greater Dublin Area (GDA) stood at 23,591 in the twelve months to October 2006. Looking at the monthly trends, activity in the GDA has fallen sharply in Q3 (-19.2%), with commencements in Kildare, Meath and Wicklow, down by almost 50% in October 2006 compared with October 2005.

Figure 12: Total dwellings completed

(Number, quarterly)



Source: DEHLG, based on ESB residential connections.

Total completions in 2006 were 88,219, up 2.4% on 2005 after adjusting for connections backlog

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
Total completions (nsa)	17,741	19,087	26,563	21,894	22,005	22,571
sa	18,780	19,609	23,315	23,618	23,623	24,230
% change qoq, sa	-3.2%	4.4%	18.9%	1.3%	0.0%	2.6%
% change yoy, sa	-4.4%	5.8%	16.9%	21.7%	25.8%	23.6%
Private completions (nsa)	16,692	17,804	24,211	21,136	20,647	21,365
sa	17,490	18,238	21,808	22,293	21,204	21,696
% change qoq, sa	-2.5%	4.3%	19.6%	2.2%	-4.9%	2.3%
% change yoy, sa	-3.4%	2.7%	17.1%	24.3%	21.2%	19.0%
Public completions (nsa)	1,049	1,283	2,352	758	1,358	1,206
sa	1,291	1,371	1,507	1,326	1,809	1,311
% change qoq, sa	-12.8%	6.2%	9.9%	-12.0%	36.4%	-27.5%
% change yoy, sa	-16.1%	73.7%	13.9%	-10.4%	40.1%	-4.4%

Total ESB residential connections (the generally-used proxy for housing completions) in 2006 were 93,419, compared with 80,957 in 2005, implying a growth rate of 15.4%. However, when adjusted for a backlog of 5,200 units built in 2005 but not connected until 2006, the true levels of completions were 88,219 in 2006 and 86,157 in 2005, indicating more modest growth of 2.4%.

The private/public split of housing connections is only available for the first three quarters of 2006. It shows total private connections up 2.3% (sa) qoq, while public sector connections were down 27.5% (sa) qoq, albeit after a 36.4% (sa) qoq increase in the previous quarter.

Overall, 21% of connections in 2006 were in Dublin (19,470), while 32% (29,987) were in the Greater Dublin Area. Sligo (+86%), Leitrim (+80%) and Roscommon (+66%) recorded the highest growth in the year, while Kildare connections rose 34%. By contrast, connections in Wicklow declined by 16% in 2006. Caution is required in interpreting these growth rates, however, since we do not know the regional distribution of the 5,200 unit backlog referred to above.

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



Source: DEHLG; Irish Bankers Federation

Overall slowdown in pace of annual lending growth in Q3 2006

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
nsa(€m)	5,885	6,755	7,434	5,936	6,915	7,714
% change qoq, nsa	37.4%	14.8%	10.1%	-20.2%	16.5%	11.6%
% change yoy, nsa	na	na	na	38.5%	17.5%	14.2%
Average loan value (€'000, sa)	220.93	367.80	236.15	234.55	248.17	255.00

In the absence of DOEHLG loan data for Q3 2006, we review figures from the Irish Banker's Federation (IBF) for the period Q1 2005 to Q3 2006. The value of loans (excluding re-mortgages and top-ups) increased by some 14% in the year to Q3 2006 compared with 17.5% in the previous twelve months and as much as 38.5% 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%. The highest average loan was recorded for investors (€291,230) in Q3 2006, followed by mover purchasers (€259,286). FTB purchasers had an average loan-to-value ratio of almost 85%.

Figure 14: Total number of housing loans paid out
(Quarterly)



Source: DEHLG; Irish Bankers Federation

Annual growth slows to 1% with almost 30,000 mortgages issued in Q3; one-third to FTBs

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
nsa	27,833	29,592	31,699	25,888	28,088	29884
% change qoq, sa	30.2%	6.3%	7.1%	-18.3%	8.5%	6.4%
% change yoy, sa	na	na	na	21.1%	0.9%	1.0%

As the total IBF figures (excluding re-mortgages and top-ups) are close to the DOEHLG figures reported, we use the IBF figures in the absence of Q3 data from the DOEHLG. Excluding re-mortgages and top-ups from the IBF total, the number of mortgages issued in Q3 2006 increased by 6.4% in the quarter and by 1% over the year to Q3 2006. There were almost 30,000 loans issued in Q3, including almost 10,000 (33%) to FTBs, 12,470 (42%) to mover purchasers and 7,530 (25%) to residential investors. Adding back re-mortgages and top-ups, the latter remain the largest market segment – almost one-third of the total. With the value of loans growing 14 times more than the numbers issued, this provides a clear reflection of the price inflation experienced in the housing market.

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



Source: DEHLG

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.

Construction indicators

Figure 16: House prices

(% change, yoy)



Source: permanent-tsb

National house price growth was almost flat in November while price growth in Dublin moderated to below 1% per month for second month in a row

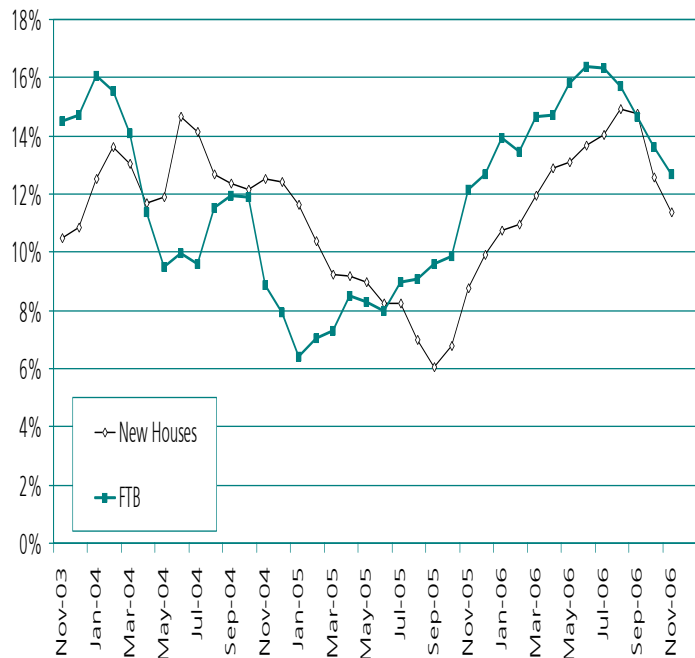
	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06
New index (nsa)	135.7	137.4	138.7	139.3	138.7	139.3
% change (qoq, nsa)	0.9%	1.3%	0.9%	0.4%	-0.4%	0.4%
% change (yoy, nsa)	13.7%	14.0%	14.9%	14.7%	12.6%	11.4%
First-time buyer index (nsa)	135.6	137.4	139.2	140.2	140.8	141.2
% change (qoq, nsa)	1.7%	1.3%	1.3%	0.7%	0.4%	0.3%
% change (yoy, nsa)	16.4%	16.3%	15.7%	14.6%	13.6%	12.7%

House price movements in Dublin in Q3 2006 recorded a deceleration in the pace of growth in November but absolute prices continue to breach record levels. From the record growth rate in June 2006 of almost 2% in the month and even 1.7% as recently as in September, Dublin house price growth has slowed over the last two months, increasing by 0.8% in the month of November. Price growth at a national level virtually stagnated in November to 0.1%. The last time national house price movements were as modest was around the end of 2004. At €427,000, the average annual rate of increase in house prices in Dublin is still at a high level (+16.8%) compared with a national average of €310,400 (+13.1%).

With another interest rate increase in prospect in March, the hope is that house price growth will continue to moderate, although the favourable taxation and related tax credit changes in the Budget which boosted disposable income could reverse this moderating trend. The impact will very much depend on the prospects for housing demand.

Figure 17: House prices

(% change, yoy)



Source: permanent-tsb

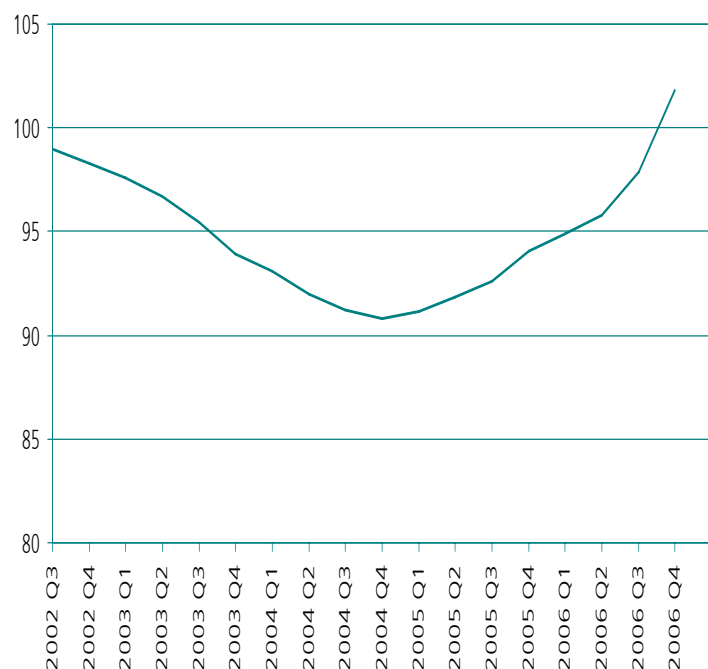
National moderating trend is mirrored for new and FTB house prices

	Apr 06	May 06	Jun 06	Jul 06	Jul 06	Aug 06
New index (nsa)	133.1	134.5	135.7	137.4	138.7	139.3
% change (qoq, nsa)	1.4%	1.1%	0.9%	1.3%	0.9%	0.4%
% change (yoy, nsa)	12.9%	13.1%	13.7%	14.0%	14.9%	14.7%
First time buyer index (nsa)	131.7	133.3	135.6	137.4	139.2	140.2
% change (qoq, nsa)	1.5%	1.2%	1.7%	1.3%	1.3%	0.7%
% change (yoy, nsa)	14.7%	15.8%	16.4%	16.3%	15.7%	14.6%

A welcome development over the past three months has been the moderation in FTB house price growth from 1.3% per month in July and August to 0.3% in November. The rate of growth in new house prices has similarly slowed to 0.4% in September and November, although October recorded a decline of 0.4%. In the 12 months to November, new house prices grew by 11.4% whilst first time buyer prices increased by 12.7%. The very positive developments in the budget in relation to the doubling of mortgage interest relief for first-time buyers as well as the taxation changes have boosted affordability significantly. There is a risk that the MIR changes, which are equivalent to three 0.25% increases in mortgage rates, could reignite the housing market again in the Spring.

Figure 18: CPI private housing rents sub-index

(mid-December 2001=100)



Source: CSO

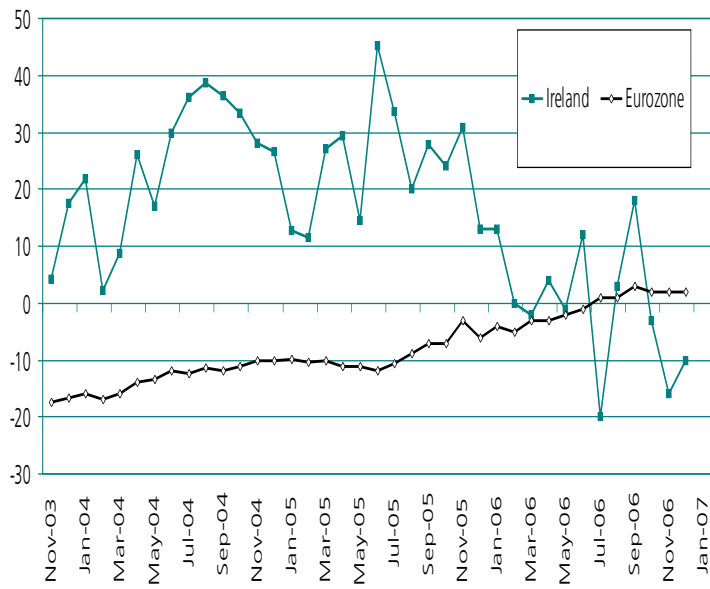
Annual private rental growth accelerates sharply to 8.3%

	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.

Figure 19: Construction confidence



Source: Eurostat

End of year pessimism on prospects for construction industry is difficult to reconcile with publication of recent NDP

	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06
Ireland (sa)	-20	3	18.1	-3.3	-15.5	-10
Eurozone (sa)	1	1	3	2	2	2

Notwithstanding the volatile patterns of this construction confidence survey, a general pessimism regarding the immediate future for the construction industry was apparent at end of 2006. From the high levels recorded in mid-2005, there has been an overall downturn in confidence, fluctuating from positive to negative since February 2006.

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. Nonetheless, concerns about sustaining current levels are evident with three successive months of negative expectations for employment levels to the end of the year along with expectations for order book activity also down in December. It is difficult to square this view with the recent publication, at the end of January 2006, of the largest ever infrastructure programme for the State in the National Development Plan 2007–2013. In contrast, Eurozone confidence levels were positive but stagnated at the end of year.

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).