AIB Global Treasury
Economic Research

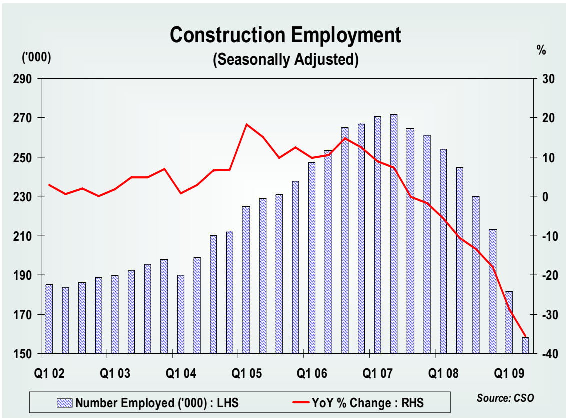
Housing Market Bulletin - October 2009

Fall in Construction Activity Driving Down Employment

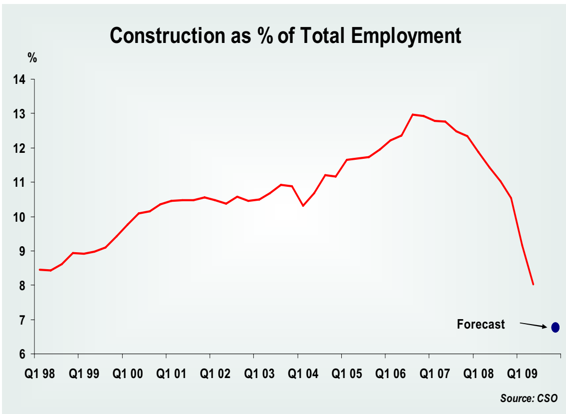
The sharp fall in housing output, along with similar sharp declines in non-residential construction activity, is inevitably being reflected in declining construction employment.

The latest Irish labour market data published by the CSO showed that employment continued to fall at a rapid pace in the second quarter of 2009. Total employment fell by over 174,000, or by 8.2%, in the year to June. Employment peaked at 2.14 million in the first quarter of 2008. Since then, employment levels are down by almost 195,000 or by 9.1%.

A significant part of this decline in employment comes from the collapse in the construction sector, where employment has fallen from a peak of almost 273,000 in the second quarter of 2007 to 158,000 at mid-2009 (a fall of some 42%).

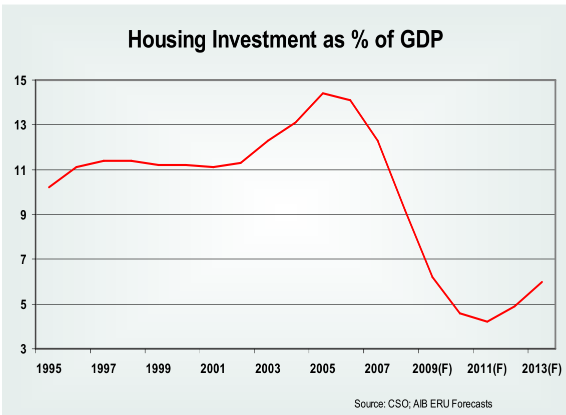


Though down significantly on the level of output in recent years, new house completions are still running at 36,500 in the year to July 2009 (compared to 78,000 and 51,700 in 2007 and 2008, respectively). However, they have slowed to a monthly rate of around 2,250 over recent months and at this stage it looks as if some 26,000 units will be completed this year.



Lead indicators (see over leaf) point to continuing declines in output and we are expecting that the level of new housing output will fall further towards about 10,000 units. With other private non-residential construction also expected to remain very weak, the level of construction employment is likely to fall further over the next twelve months, perhaps to as low as 125,000, an additional fall of 20%. As such, construction would then represent less than 7% of overall employment, compared to 13% in H2 2006.

Not only is construction's share of employment declining but its share of overall economic activity is also falling sharply. In 2005/2006 construction accounted for some 21.5% of overall GDP, with housing investment alone accounting for over 14% of activity in the economy.



The contraction in housing activity means that housing investment now accounts for only just over 6% of GDP with its share expected to decline even further to under 5% in 2000/2011.

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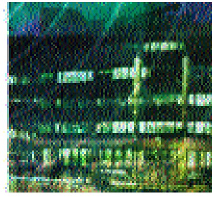
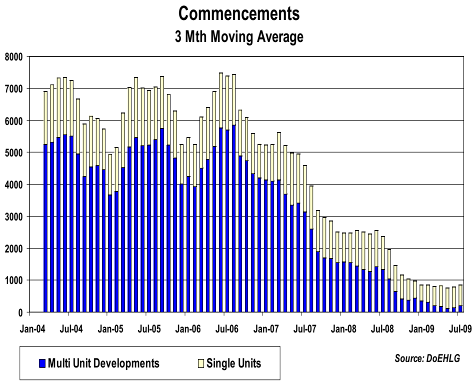
All data quoted are sourced from official and reliable sources unless otherwise stated



Completions/Registrations/Commencements

There were 16,833 units completed in the first seven months of 2009 (-48% yoy) and it looks as if there could be around 26,000 units completed this year (down from 51,724 and 78,027 in 2008 and 2007, respectively). Lead indicators, though, suggest that completions could eventually fall to about 10,000 units. Commencements, which exclude local authority builds, are currently running at a seasonally adjusted rate of about 9,000 per annum. This largely reflects single-units which now account for some 75% of all commencements. Registrations (for largely multi-unit developments) continue to be very weak, running at a seasonally adjusted rate of only around 3,000 per annum.

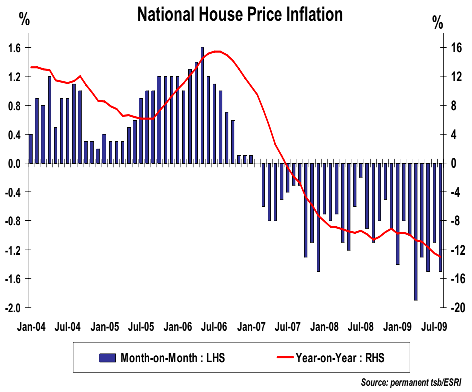


	Aug-09	Jul-09	Jun-09	May-09	Apr-09
Registrations (HomeBond & Premier)					
Year to Date Y/Y	-73.1	-74.9	-75.9	-77.4	-75.7
Cumulative 12 Mth Total	5,407	5,691	6,005	6,733	7,940
Cum 12 Mth Tot Y/Y	-70.2	-71.0	-73.4	-72.6	-70.4
Commencements (DoEHLG)					
Year to Date Y/Y	N/A	-66.7	-68.5	-69.2	-68.6
Cumulative 12 Mth Total	N/A	11,204	12,278	13,916	15,761

	Jul-09	Jun-09	May-09	Apr-09
Completions (DoEHLG)				
Month	2,354	2,117	2,121	2,430
Year to Date	16,833	14,479	12,262	10,141
Y/Y %	-47.6	-47.8	-47.6	-46.2
Cum 12 Mth Total	36,448	38,467	40,588	43,007
Y/Y %	-44.9	-42.4	-40.8	-39.3

House Prices

The debate about the true extent of Irish house price declines continues. Most market commentators put the fall in Irish house prices to date at somewhere between 30 and 40% from the peak. However, the closely watched permanent tsb/ESRI index shows that, while house prices nationally fell by a further 1.5% in August (-13.0% yoy), this leaves them only some 24% below their peak levels. This index, though lags to an extent market movements as it is based on mortgage drawdowns and is reported as a three month average. Meanwhile, the property websites Daft.ie and MyHome.ie report that asking prices at Q3 2009 had declined by 27% and 22% from their respective peaks.

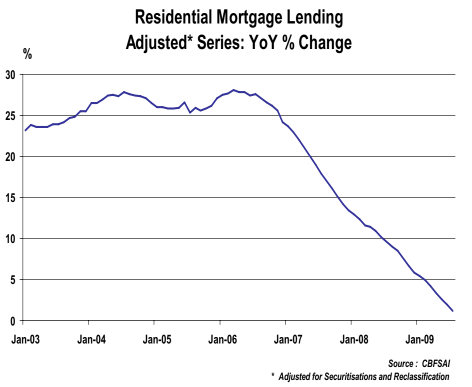


	Aug-09	Jul-09	Jun-09	May-09	Apr-09
permanent tsb/ESRI House Price Inflation %					
National M/M	-1.5	-1.1	-1.5	-1.3	-1.9
National Y/Y	-13.0	-12.5	-11.7	-10.9	-10.7
Average House Price €					
National	238,828	241,504	245,295	248,640	253,546

	Aug-09	Jul-09	Jun-09	May-09
permanent tsb/ESRI %				
Dublin Houses Y/Y	-18.0	-17.1	-15.8	-14.8
Outside Dublin Y/Y	-12.1	-11.1	-10.4	-10.5
Average House Price €				
Dublin	312,822	319,754	323,973	331,206
Outside Dublin	209,485	211,965	213,491	214,445

Mortgage / Loan Growth

The level of mortgage lending outstanding fell by €84m in August, the fifth consecutive monthly decline. These declines have been the first such since the monthly series began in 1990. As a result, the yoy growth rate decelerated further to an historic low of just 0.8% (July 1.2%). Reflecting the depressed level of housing market activity, stamp duty receipts (from all sources, not just housing) were down by 50% in the year to September, having declined by 48% in 2008. Meantime, Irish Banking Federation data show a 64% yoy fall in the number of mortgage drawdowns in Q2 2009, with house purchase mortgages down 50% yoy (FTB: -48%; investors: -79%; mover purchaser: -59%).



	Sep-09	Aug-09	Jul-09	Jun-09	May-09
Residential Mortgages (CBFSAI)					
Adjusted Y/Y %	N/A	0.8	1.2	1.9	2.6
Stamp Duty Receipts (Dept of Finance)					
YoY %	142.9	-72.6	-63.5	-67.9	-61.7
Cum YTD YoY %	-49.9	-64.9	-64.1	-64.2	-63.5

	Q2 09	Q1 09	Q4 08	Q3 08
Irish Banking Federation				
Total Drawdowns	12,686	10,997	18,706	27,937
Y/Y %	-63.9	-61.4	-50.4	-31.8
First Time Buyer Y/Y %	-47.9	-45.6	-42.2	-29.0
FTB Average Value €	206,517	221,734	226,041	238,064
Investor Y/Y%	-79.4	-74.6	-59.0	-41.9
Mover Purchaser Y/Y %	-58.7	-57.7	-54.1	-36.3

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