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BNP Paribas Real Estate Ireland Construction PMI®

Growth of activity slows further amid fall in new orders

- New orders down for second month running as prices rise sharply
- Activity up at slowest pace in 13 months
- Business confidence weakest since October 2020

Growth of Irish construction activity slowed further during May as substantial price pressures continued to impact the sector. New orders decreased for the second month running, while business confidence slumped. The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index posted 51.5 in May, remaining above the 50.0 no-change mark but falling from 52.5 in April to signal a slower pace of expansion. In fact, the rate of growth in activity has now softened in three successive months. While some companies were able to continue raising activity, others reported that strong cost pressures had hit demand and led to lower workloads.

Sector data suggested that the main source of the slowdown in growth in May was the commercial category, where activity increased at the softest pace in the current 13-month sequence of expansion. The housing category bucked the wider trend and posted a sharper increase in activity during May. Meanwhile, civil engineering work continued to fall, but at a softer pace.

New orders decreased for the second month in a row. The fall in May was only modest, but stronger than seen in April. According to respondents, strong cost pressures was the main reason for declining new business, with some customers postponing projects until prices begin to come down.

The rate of input price inflation remained elevated, with close to three-quarters of panellists reporting a rise in their cost burdens over the month. Among the items most widely reported as having increased in price were copper, fuel and oil. Some firms indicated that the war in Ukraine was behind price rises. Meanwhile, sub-contractor rates rose at the sharpest pace on record.

As well as hitting customer demand and causing a slowdown in growth of activity, sharp price rises also led to a slump in business confidence midway through the second quarter. Sentiment was at its lowest level since October 2020, with any lingering confidence largely reflecting hopes that economic conditions will start to improve soon.

The main positive from the latest survey was a marked and accelerated increase in employment as firms made efforts to rebuild capacity. The rate of job creation quickened to the fastest since January.

PMI®

by **S&P Global**



Purchasing activity also continued to rise in May, but the rate of expansion eased for the third successive month and was the weakest in the year-to-date. While some firms indicated that they were looking to rebuild inventories, others were put off from purchasing by high material prices.

Construction firms continued to face severe delivery delays due to material shortages, shipping issues, the war in Ukraine and Brexit. Lead times lengthened to a greater extent than in April.

Comment

Commenting on the latest survey results, John McCartney, Director & Head of Research at BNP Paribas Real Estate Ireland, said:

"Conflict in the Ukraine and Covid restrictions in China ensured a further rise in materials costs during May. This fed into weaker demand for construction services and a fall in new orders for the second successive month. However the overall picture remains broadly positive. Construction activity continued to expand last month, particularly in the residential sector. Moreover, construction firms remain quite upbeat about the future; The business expectations index stood at 52.7, indicating that more firms expect activity to increase than contract over the next 12 months. In a further sign of confidence, survey respondents hired new staff at the fastest rate since January. Taking the data as a whole, it appears that construction firms have been able to pass a proportion of higher input costs onto the consumer, and are confident that this can continue."

****Ends****

BNP Paribas Real Estate Ireland Construction PMI Total Activity Index

sa, >50 = growth since previous month



Sources: BNP Paribas Real Estate Ireland, S&P Global.

Latest Construction PMI Readings	May'22
Total Activity	51.5
Housing Activity	56.6
Commercial Activity	52.2
Civil Engineering Activity	44.6



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Survey Methodology

The BNP Paribas Real Estate Ireland Construction PMI[®] is compiled by S&P Global from responses to questionnaires sent to a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month.

A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Data were collected 12-30 May 2022.

Survey data were first collected June 2000.

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