



Embargoed until 0101 GMT (0101 UTC) 14 November 2022

BNP Paribas Real Estate Ireland Construction PMI®

Renewed fall in construction activity as demand remains subdued

- Slight fall in demand leads to drop in activity
- Cost inflation remains elevated despite easing
- Employment rises amid stronger business confidence

Demand in the Irish construction sector remained subdued in October, leading to a renewed reduction in activity at the start of the fourth quarter of the year. As such, firms also scaled back their input buying. On a more positive note, employment continued to increase and business confidence picked up.

The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index dipped back below the 50.0 no-change mark during October, posting 47.4 from 50.2 in September. The reading signalled a solid reduction in activity. Output has now decreased in four of the past five months.

All three monitored categories saw activity decrease during October, albeit to varying degrees. Housing activity was down only marginally following a slight rise in September. A renewed fall in commercial activity was also recorded, while civil engineering activity decreased for the eighth month running.

The reduction in total construction activity reflected softening demand amid caution among clients, price pressures and supply shortages.

Project delays and softer demand, often due to price pressures, resulted in a further reduction in new orders at the start of the final quarter of the year. That said, the rate of decline was only marginal and broadly in line with that seen in September.

With demand remaining muted, construction firms scaled back their purchasing activity for the fifth month running, and to a greater extent than in the previous survey period. A number of respondents indicated a preference for using up existing inventory as opposed to purchasing new inputs.

Input costs continued to increase at a rapid pace in October, albeit one that was softer than in the previous month. Higher raw material prices were often mentioned by panellists.

Meanwhile, there was further evidence of supply-chain disruption easing as the incidence of delivery delays was the least pronounced since the outbreak of the COVID-19 pandemic. Where lead times lengthened, companies reported some ongoing issues in supply chains, with the war in Ukraine also hampering deliveries.

On a positive note, business confidence strengthened to an eight-month high amid expectations that

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demand will recover over the coming year. In particular, respondents were optimistic regarding housing demand. That said, there were still concerns around the wider economic environment.

Business confidence, and recent signs of new orders stabilising, encouraged construction firms to expand their staffing levels again in October, extending the current sequence of job creation to three months.

Sub-contractor usage also increased slightly, while their availability continued to decline.

Comment

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

“The October PMI brought further positive news about residential construction in Ireland, with housing activity holding broadly unchanged from September. This follows recent CSO data which showed a 53% rise in housing completions between January and September compared with the same period in 2021. With 20,800 dwellings completed in the first three quarters, our forecast of 28,000 units for the full year is looking good.

Overall activity was dragged lower in October by a continued contraction in civil engineering and commercial building. The pull-back in commercial reflects slowing office starts in Dublin where a strong pipeline of projects will be coming to completion over the next 18 months to meet occupier demand. However we expect to see further strong activity in the logistics sector as occupier demand for warehousing space has led to low vacancy rates and solid rental growth.

Construction input costs continue to rise quite strongly, but the rate of inflation has now been moderating for one year. Any slowdown in cost increases is helpful for development margins and, perhaps reflecting this, building firms generally expect to be busier in 12 months’ time and are still taking-on additional staff.”

****Ends****

BNP Paribas Real Estate Ireland Construction PMI Total Activity

sa, >50 = growth since previous month



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



Latest Construction PMI Readings	Oct'22
Total Activity	47.4
Housing Activity	49.7
Commercial Activity	45.1
Civil Engineering Activity	37.2

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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 12-28 October 2022.

Survey data were first collected June 2000.

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