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BNP Paribas Real Estate Ireland Construction PMI®

Activity falls for third month running at end of 2022

- Further declines in output and new orders
- Employment scaled back
- Cost inflation softest in 21 months

The end of 2022 saw the Irish construction sector remain in contraction territory as challenging economic conditions hit market demand. Falling workloads led firms to reduce their staffing levels. Meanwhile, supply-chain delays remained pronounced and input prices continued to rise sharply, albeit the rate of inflation was the softest since early-2021.

The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index dropped to 43.2 in December, down from 46.8 in November and below the 50.0 no-change mark for the third month running. Moreover, the latest decrease was sharp and the fastest since July 2022. Panellists reported a general market slowdown amid challenging economic conditions.

All three monitored categories of construction saw activity decrease during December, again led by civil engineering. The softest fall in activity was seen on commercial projects, despite the rate of decline quickening from November. Meanwhile, housing activity decreased for the third month running.

The drop in total construction activity coincided with a similarly-sized reduction in new orders as market demand struggled. New business decreased for the ninth month running, and to the greatest extent since last August.

After having been broadly unchanged in November, employment decreased in December as firms responded to lower workloads. Although modest, the reduction in staffing levels was the sharpest since March 2021.

Lower input buying was also a result of reduced activity requirements, with purchasing activity down for the seventh month running.

Where companies purchased inputs, they were faced with a further marked increase in prices. A number of panellists reported cost rises across the board. That said, the rate of inflation was softer than in November and the least marked in 21 months.

Suppliers' delivery times lengthened substantially again in December, and to the greatest extent in six months. Delivery delays were less pronounced than the 2022 average, however. Longer lead times reportedly reflected general issues in supply chains, but deliveries were also impacted to some extent by poor weather conditions.

Companies scaled back their usage of sub-contractors in December, thereby ending a three-month sequence of expansion. The drop in demand for sub-contractors relieved some pressure on supply, contributing to the softest reduction in their availability in just under two years.

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Hopes that demand conditions will improve over the course of 2023 supported confidence in the year-ahead outlook for activity. Sentiment improved from November but remained below the series average amid challenging economic conditions. Some firms predicted a rise in development activity.

Comment

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

“2022 was a year of two halves for construction. Strong expansion between January and May gave way to slowing activity from June, and the year petered-out with a further pronounced slowdown in December.

Some clear trends are now emerging. Firstly, the slowdown is happening across-the-board with the PMI’s residential, commercial and civil engineering indicators all well below the 50-point watershed. Secondly, building firms appear not to be expecting an immediate rebound; They initially took a wait-and-see approach to shrinking order books, maintaining their staff headcounts and continuing to purchase materials. But after nine months of new business contraction, panellists have now begun running down stocks and not replacing employees who leave.

Critically, however, Ireland’s construction firms retain a positive medium-term outlook, with a solid majority expecting to be busier this time next year. This may reflect recent developments which should assist with current viability challenges. Input price inflation has moderated to its slowest rate for 21 months. In addition, the Government’s Croí Cónaithe scheme is being rolled out to subsidise apartment developments that would otherwise not be profitable to build. Further Government actions, including relaxing mortgage restrictions and raising the shared equity scheme price ceilings, may also underpin builders’ confidence that they will be able to sell properties at prices that make development viable.”

****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	Dec'22
Total Activity	43.2
Housing Activity	40.6
Commercial Activity	46.9
Civil Engineering Activity	38.9

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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 06-22 December 2022.

Survey data were first collected June 2000.

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