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BNP Paribas Real Estate Ireland Construction PMI®

Further steep contraction in construction new orders

- New orders fall sharply, but rate of decline in activity softens
- Slight rise in employment
- Rate of input cost inflation slows further

Irish construction activity continued to decline midway through the third quarter of the year as new orders fell sharply again. That said, the latest reduction in activity was less marked than in July. Meanwhile, firms increased their staffing levels slightly despite muted sentiment. Inflationary pressures remained pronounced, but softened further.

The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index posted 46.9 in August, up from 41.8 in July. Although signalling a further solid decline in activity, the latest reading pointed to a weaker pace of reduction than in the previous month.

According to respondents, the third successive reduction in total activity generally reflected the impact of sharp price increases.

Activity decreased across each of the three categories of construction covered, although all three matched the wider trend in seeing softer reductions in activity than in July.

As well as impacting construction activity, inflationary pressures also affected the ability of firms to secure new orders. A number of companies reported that enquiries had dropped off, leading to a further steep contraction in new business. The latest decline was the fifth in as many months, and broadly similar to those in June and July.

The rate of input cost inflation remained elevated and well above the series average, despite easing for the fourth month running to the softest since March 2021. Close to half of all respondents indicated that their input prices had risen over the month.

A combination of higher input costs and weakening demand led constructors to lower their purchasing activity, the third month running in which this has been the case. Moreover, the rate of decline was the sharpest in just under a year-and-a-half.

Meanwhile, suppliers' delivery times lengthened at the same pace as in July, and to the joint-least degree in two-and-a-half years. Lead times continued to lengthen markedly, however, often due to shortages of electronic chips.

PMI®

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Although firms lowered their input buying in August, employment returned to growth. Staffing levels were up slightly.

Sub-contractor usage decreased for the third month running, and at a solid pace. The recent drop in demand for sub-contractors alleviated some pressure on their supply, with the availability of sub-contractors falling at the softest pace since January 2021. In line with the picture for costs of purchases, the rate of inflation of sub-contractor rates softened from July, with the latest rise the weakest in 16 months.

Worries about the wider economic outlook and continued price pressures meant that business sentiment remained negative in August. A modest degree of pessimism was signalled for the third month running.

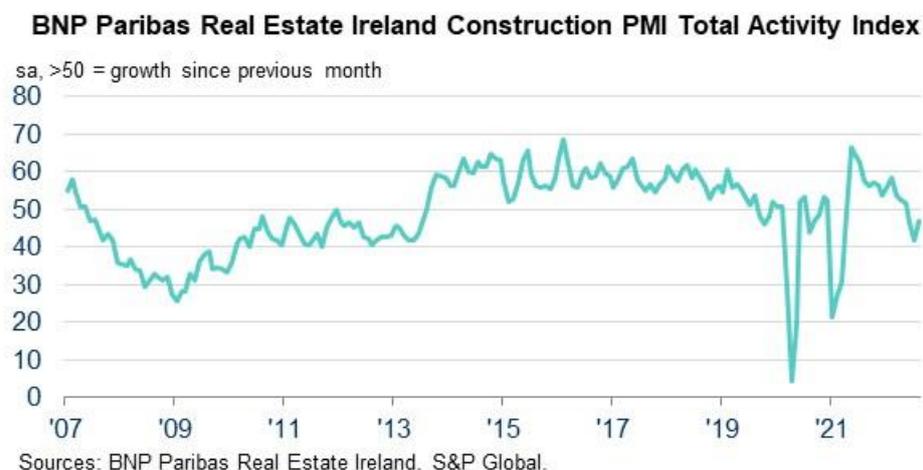
Comment

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

“Two factors have defined the path of construction activity over the last year. Activity picked-up strongly last summer as Covid restrictions were lifted and stalled projects got the green light to resume. However, surging construction inflation and increased macro uncertainty have since begun to pull in the other direction. The PMI data for August flag a continuation of this more recent trend. Order books are down for the fifth month in succession, industry expectations remain tilted towards contraction, and materials purchases are sharply lower. The Labour Force Survey revealed that construction was Ireland’s second strongest sector for employment growth in the year to June. However, this more timely PMI information suggests that the rate of construction jobs growth is now flattening-out.

Of particular note in the August survey is a pull-back in housing activity for the third month in a row. Pricing signals from the sales and, particularly, the rental market indicate continued under supply. We believe 28,000 new dwellings can be delivered this year. However, given the sharp re-acceleration in population growth, the positive trend in housing output needs to continue.”

****Ends****





Latest Construction PMI Readings	Aug'22
Total Activity	46.9
Housing Activity	47.4
Commercial Activity	47.5
Civil Engineering Activity	42.0

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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 August 2022.

Survey data were first collected June 2000.

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