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BNP Paribas Real Estate Ireland Construction PMI®

Contraction in activity accelerates sharply

- Steep drop in activity amid price pressures and falling new orders
- Companies remain pessimistic for year-ahead outlook
- Employment broadly unchanged

July data pointed to an accelerated decline in Irish construction activity as demand fell sharply amid strong inflationary pressures. In turn, firms scaled back their purchasing activity and took a cautious approach to hiring. Companies were pessimistic towards the 12-month outlook for activity for the second month running. The headline seasonally adjusted BNP Paribas Real Estate Ireland Construction Total Activity Index fell to 41.8 in July from 46.4 in June, signalling a sharp and accelerated decline in Irish construction activity. The fall was the fastest since March 2021 when pandemic restrictions impacted the sector. In fact, excluding periods of COVID-19 disruption, the contraction was the most marked for a decade.

Where activity fell, firms linked this to lower demand and rising costs.

The pace of reduction in housing activity accelerated sharply over the month, with civil engineering activity also down at a rapid pace. Although commercial activity also fell, the rate of contraction was less pronounced than elsewhere.

New orders decreased for the fourth month running, with the rate of decline little-changed from the previous month. Panellists reported weak demand, with clients deterred by steep inflationary pressures.

Construction firms themselves also reined in spending amid higher prices for inputs, reducing purchasing for the second month running. The latest decline also in part reflected lower new orders.

Input costs rose sharply again amid widespread inflationary pressures. That said, there were signs that inflation has peaked, with the latest rise the softest since April 2021.

There was also a further lessening in the extent of supply-chain disruption in the construction sector. Lead times lengthened markedly again, but to the smallest degree since just before the outbreak of the COVID-19 pandemic in February 2020. Where delivery times lengthened, respondents linked this to staff shortages at vendors, difficulties sourcing materials and high fuel costs.

As was the case in June, constructors kept their staffing levels broadly unchanged in July. Falling workloads and efforts to limit company expenses led some firms to reduce workforce numbers.

Sub-contractor usage decreased for the third time in the past four months in July, although the latest fall

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was only slight. The availability of sub-contractors continued to decline, but to a lesser extent, while their rates increased rapidly again.

For the second month running, construction firms expressed a pessimistic outlook for activity over the coming year. Worries about the potential for an economic downturn, plus the impact of sharply rising costs, were behind negative sentiment. Confidence dropped to the lowest since the first wave of the COVID-19 pandemic in early-2020.

Comment

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

“After slowing in June, construction activity experienced a sharper contraction in July. This reflects several factors. Building costs continued to rise in July, laying down a challenge to the viability of marginally profitable projects. The pull-back may also reflect strong activity in the opening half of the year. Over 130,000 sq m of new office space was added in Dublin during this time, while 13,316 new dwellings were completed – a 49% year-on-year increase. In this context, month-on-month expansion naturally becomes harder to sustain.

“Based on projects that are already underway, we expect continued strong residential, office and logistics completions through the remainder of 2022. However continued cost inflation means that new project commencements may struggle to keep up with completions, causing a drag on activity in the longer term. Notably, for the second month in succession, the number of building firms expecting to be less busy in one year’s time exceeds the number expecting to be busier.

“One positive note is that, while remaining elevated, input cost inflation has eased to its lowest level since April 2021, and is now well below last October’s peak.”

****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	Jul'22
Total Activity	41.8
Housing Activity	37.9
Commercial Activity	44.5
Civil Engineering Activity	34.6

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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 12-28 July 2022.

Survey data were first collected June 2000.



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