

Ulster Bank Construction PMI Report (RoI)

News Release: 9th November 2009

Further substantial decline in activity as new orders fell again in October.

The Irish construction sector remained some way from recovery in October, the latest PMI data showed. Activity continued to fall at a considerable pace, largely reflecting a further decline in new business. Employment was also cut sharply again during the month. The **Ulster Bank Construction Purchasing Managers' Index[®] (PMI[®])** – a seasonally adjusted index designed to measure the overall performance of the construction economy – rose only slightly in October to 34.5, from 34.2 in September. Activity has contracted in each month since June 2007.

Commenting on the survey, Simon Barry, Chief Economist Republic of Ireland at Ulster Bank, noted that:

“The October reading of the Ulster Bank Construction PMI confirms that conditions in the Irish construction sector remain highly challenging. The headline index of activity did edge slightly higher in October but it remains at very low levels historically, consistent with a sector that is still very much in contraction mode. The improving trend that had been evident earlier in the year looks to have stalled. This stands in contrast to the ongoing improvement which has been maintained in equivalent surveys of manufacturing and services.”

“The breakdown of this month’s results reveals that employment continues to fall, as firms respond to weakness in orders and attempt to cut costs. At a sectoral level, commercial activity declined at an accelerating pace, while there was some modest easing in the rate of contraction in civil engineering and housing. Indeed, the housing index rose to its highest level in some 2 ½ years – an indication that while the decline in activity in this area is still substantial, it is reversing some of the extreme weakness seen around the end of last year. Looking forward, respondents continue to believe that the sector can move towards recovery in about a year’s time.”

Civil engineering sector led the overall decline

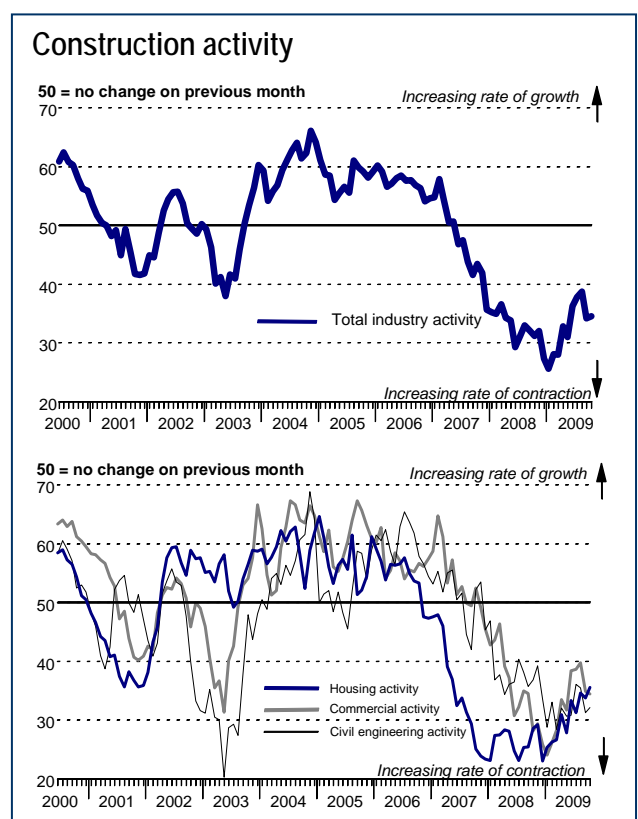
All three broad sectors monitored by the survey continued to record falling activity, led by civil engineering. Activity on these projects has now declined in each of the past twenty-three months. The rate of contraction in commercial activity accelerated over the month to its fastest in five months. Housing activity decreased at the slowest pace of the three categories, but the pace of reduction was still considerable.

Latest Construction PMI readings

	Sep'09	Oct
Total Activity	34.2	34.5
Housing Activity	33.8	35.6
Commercial Activity	34.9	34.5
Civil Engineering Activity	31.3	32.2

Index readings above 50 signal an increase in activity on the previous month and reading below 50 signal a decrease. All indexes given above and displayed in the charts are seasonally adjusted.

Source: Markit Economics.



Further sharp fall in new business

Fragile confidence among clients was the main cause of the latest drop in new orders, which was substantial. There were also reports that intense competition meant that available tenders were increasingly hard to win. The rate of contraction in October was the same as that recorded in the previous month.

Employment continued to fall

Although employment declined at a marginally weaker pace in October, the latest round of job cuts was still sharp. Lower staffing levels largely reflected falling new orders, as well as attempts by constructors to reduce costs.

Weakest improvement in vendor performance since September 2007

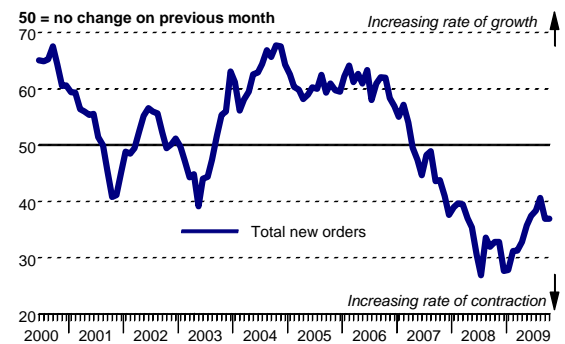
Excess capacity was prevalent at the suppliers of Irish construction companies, as signalled by a further steep improvement in average vendor performance. However, the pace of lead time shortening eased to its slowest since September 2007.

Lower workloads led firms to reduce their purchases of building materials in October. Moreover, the latest fall was the sharpest since May. Input costs decreased at the slowest pace in a year during October, although they still fell considerably as suppliers competed fiercely for new business.

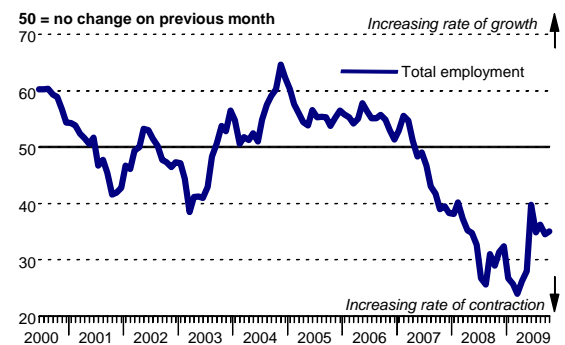
Optimism remained fragile

The level of optimism regarding future prospects for activity remained weak in October, after easing slightly from the previous month. Close to one-third of respondents expect activity to be higher in twelve months' time, with economic conditions and banking sector liquidity forecast to improve. However, around 31% of panellists still see activity falling due to the continued fragility of the wider economy.

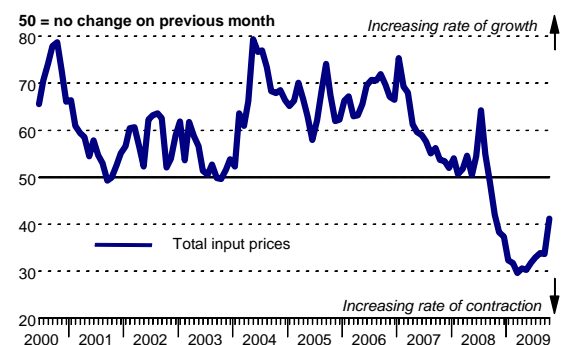
New business



Employment



Input prices



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Source: Markit Economics.

Press information

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Purchasing Managers' Indexes (or PMIs) are monthly surveys of carefully selected companies which provide an advance indication of what is happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The PMI surveys are based on fact, not opinion, and are the first indicators of economic conditions each month. The data are collected using identical methods in all countries and regions so that accurate comparisons may be made. Questionnaires are completed in the latter half of each month and are collected and processed by economists at Markit Economics. Respondents are asked to state whether business conditions for a number of variables have improved, deteriorated or stayed the same compared with the previous month.

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