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COVID-19 pandemic leads to sharpest fall in construction activity for 11 years

The Ulster Bank Construction Purchasing Managers’ Index® (PMI®) – a seasonally adjusted index designed to track changes in total construction activity – fell to 28.9 in March from 50.6 in February. Index readings above 50 signal an increase in activity on the previous month and readings below 50 signal a decrease. The latest figure pointed to a considerable reduction in construction activity during the month, and the strongest for 11 years. Respondents indicated that COVID-19 and associated company shutdowns led to the contraction in activity.

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

“The coronavirus outbreak and associated containment measures led to a collapse in Irish construction activity last month, according to the latest results of the Ulster Bank Construction PMI survey. The headline PMI index fell to levels that have only previously been seen at the height of the global financial crisis, with the largest monthly drop in the survey’s 20-year history underscoring the extent of the disruptions faced by Irish construction firms last month. Meanwhile, the detail behind the headline reading highlighted that the large-scale declines in activity were widespread, with respondents reporting notably weaker activity patterns across all three main subsectors.

“The forward-looking elements of the PMI survey also painted an extremely weak picture, signalling that the sector is likely to remain under significant pressure in the near-term. Notably, the New Orders index plummeted to an 11-year low in March as respondents mentioned that the cancellation of projects and company shutdowns contributed to the sharp contraction in new business inflows. Meanwhile, the Employment PMI signalled a very sudden and abrupt change of direction for Irish construction employment as the index pointed to rapid contraction in staffing levels following 6½ years of growth. Moreover, confidence about the coming year also plunged in March, leaving the Future Activity Index at its lowest level since early-2009. Around 45% of respondents anticipate a fall in activity over the coming year as the coronavirus and uncertainty about its duration are leaving a huge mark in construction sector sentiment.”

All three categories see activity fall sharply

The virus hit all three categories of construction covered by the survey in March, with steep declines recorded in housing, commercial and civil engineering activity. Civil engineering posted the sharpest reduction.

<table>
<thead>
<tr>
<th>Latest Construction PMI® readings</th>
<th>Feb ’20</th>
<th>Mar ’20</th>
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<tbody>
<tr>
<td>Total Activity</td>
<td>50.6</td>
<td>28.9</td>
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<tr>
<td>Housing Activity</td>
<td>49.7</td>
<td>32.4</td>
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<tr>
<td>Commercial Activity</td>
<td>52.1</td>
<td>28.2</td>
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<tr>
<td>Civil Engineering Activity</td>
<td>42.7</td>
<td>25.2</td>
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</table>

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. Sources: IHS Markit, Ulster Bank.
Considerable reduction in new orders

The cancellation of projects, suspension of work and company shutdowns all contributed to a severe decline in new orders at construction firms in March. The fall ended a three-month sequence of growth and was the sharpest since April 2009.

Marked job cuts recorded

With companies shutting down due to COVID-19, a reduction in staffing levels was recorded. The decline in employment in March ended a six-and-a-half year sequence of job creation. Moreover, the pace of reduction was marked and the sharpest in over nine years.

Constructors also scaled back their purchasing activity at the end of the first quarter, in line with a reduction in requirements for items. As was the case with many of the variables covered by the survey, the decline in input buying was substantial. In this case, it was the steepest since January 2010.

Despite a marked drop in demand for inputs, disruption to supply chains both in Ireland and across the world meant that suppliers’ delivery times lengthened in March. In fact, the extent to which lead times were extended was the greatest since the survey began almost 20 years ago.

Although input prices continued to rise in March, the rate of inflation eased markedly to a six-month low. Where an increase in input costs was recorded, panellists linked this to shortages of materials.

Uncertainty regarding how long the COVID-19 disruption will last contributed to a sharp decline in sentiment at Irish construction firms. Companies were pessimistic about the prospects for activity over the coming year, with expectations the lowest since January 2009. Around 45% of panellists forecast a fall in activity, with 17% remaining confident that activity would expand.

Press information

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