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Construction activity growth slows to eight-month low at end of second quarter

At 53.1 in June, down from 54.9 in May, the Ulster Bank Construction Purchasing Managers’ Index® (PMI®) – a seasonally adjusted index designed to track changes in total construction activity – signalled the weakest rise of Irish construction activity for eight months. That said, the rate of activity growth was solid and faster than the long-run series average.

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

“The Irish construction sector continued to enjoy rising activity levels as Q2 drew to a close, according to the latest results of the Ulster Bank Construction PMI. However, the June results also point to a further slight loss of momentum in the growth rate of construction activity as the headline PMI eased to 53.1 in June from 54.9 in May. That still leaves the sector comfortably in expansion territory, albeit that the June reading marked the slowest pace of growth in eight months. This cooling reflects weaker activity patterns across Commercial and Civil Engineering. Commercial activity remains in expansion mode, but a fourth consecutive decline left the Commercial PMI at a near six-year low in June. More encouragingly, the residential sector continues to perform strongly with the pace of Housing activity growth holding steady at very solid rates – a very welcome sign of sustained expansion in a key part of the sector.

“Respondents also reported a notable pick-up in the pace of job creation, with the employment index rising to a very solid reading of 56 in June, up from May’s four-year low of 53.5. The demand for construction workers continues to be underpinned by new business which continued to rise solidly in June, with respondents citing greater residential activity and availability of new projects as important sources of support for new orders. Furthermore, firms themselves remain optimistic about the coming year. While sentiment eased back a little last month, almost 40% of respondents are anticipating higher output levels in the coming 12 months, with stronger economic conditions expected to result in further increases in demand for construction work.”

Residential construction fastest of all sectors

For the sixth month in a row, the housing sub-category recorded the fastest rise in activity of the three monitored sectors in June. Commercial activity increased solidly, though the rate of expansion was the second-slowest in the current 71-month sequence of growth. Meanwhile, civil engineering activity declined for the tenth successive month and at the fastest pace since November 2018.

<table>
<thead>
<tr>
<th>Latest Construction PMI® readings</th>
<th>May ’19</th>
<th>Jun ’19</th>
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</thead>
<tbody>
<tr>
<td>Total Activity</td>
<td>54.9</td>
<td>53.1</td>
</tr>
<tr>
<td>Housing Activity</td>
<td>58.3</td>
<td>58.4</td>
</tr>
<tr>
<td>Commercial Activity</td>
<td>53.1</td>
<td>52.8</td>
</tr>
<tr>
<td>Civil Engineering Activity</td>
<td>46.3</td>
<td>42.3</td>
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</tbody>
</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.
New order growth sustained

Anecdotal evidence from panellists attributed the growth in activity to an upturn in new orders. Inflows of new business increased sharply in June amid reports from panellists of greater residential building and the commencement of new projects. However, the pace of growth was little changed from May’s five-month low. New business inflows among Irish construction firms have now increased on a monthly basis for exactly six years.

Business confidence dips to three-month low

Employment across the Irish construction sector increased for the seventieth consecutive month during June. The rate of job creation was sharp and quickened from May’s 50-month low. The expansion of workforce numbers was attributed to an increase in construction activity.

Mirroring the trend for overall construction activity, input buying increased at a softer pace during June. The rate of growth, whilst solid, eased to the slowest since March 2015. June marked the sixty-fourth consecutive month of rising input buying among Irish construction firms.

On the price front, the rate of input price inflation picked up slightly from May’s 32-month low. Rising material costs (notably for steel and insulation) were stated by panellists as being behind the rise in cost burdens.

Finally, optimism among Irish construction firms dipped to a three-month low in June. Nonetheless, just over 39% of panellists expect activity to increase over the coming year, with positive sentiment linked to predictions of greater sales activity and a stronger Irish economy.

Press information

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