

Ulster Bank Construction PMI Report (RoI)

News Release: 12th October 2009

Rates of decline of both activity and new business accelerated in September.

September data signalled a further sharp worsening of business conditions in the Irish construction sector. Both activity and new business contracted at steeper rates during the month, while job shedding intensified. The **Ulster Bank Construction Purchasing Managers' Index[®] (PMI[®])** – a seasonally adjusted index designed to measure the overall performance of the construction economy – dropped to 34.2 in September, from 38.8 in the previous month, ending a run of three successive rises in the index. The rate of contraction was the fastest since May as the wider economic downturn in Ireland continued to impact negatively on the construction sector.

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

“The latest reading of the Ulster Bank Construction PMI was somewhat disappointing, with the headline index pointing to renewed weakness in the construction sector in September. The deterioration in the month was broad-based. The housing index of activity fell back relative to its August level and the declines in the commercial and civil engineering indexes were even greater. Overall, the construction PMI remains well off the record lows seen earlier in the year, but the downside surprise in the latest reading serves to highlight the ongoing contraction in the sector.”

“Jobs in the sector clearly remain under pressure, as the employment index slipped back to a 4-month low in September. However, one relative bright spot again this month was the ongoing improvement in the expectations index. This measure of confidence amongst constructors has been above the key 50 mark for four months running, and rose to its highest level since February 2008 in September. Thus, while the sector continues to experience pronounced weakness at present, survey respondents continue to believe that the construction environment will be improving as they look 12 months ahead.”

Steep reduction in civil engineering activity

Civil engineering was the worst-performing of the three monitored areas during September. The decline in activity in the category was severe, and the fastest since June. The two remaining sectors also posted sharper contractions during the month. Housing activity decreased for the thirty-fifth consecutive month. Despite registering the weakest decline of the three categories in September, commercial activity still fell at the steepest pace in four months.

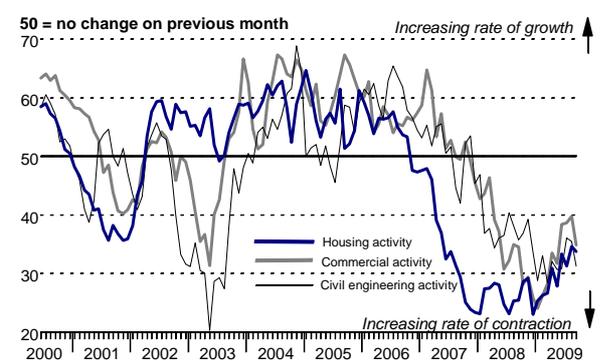
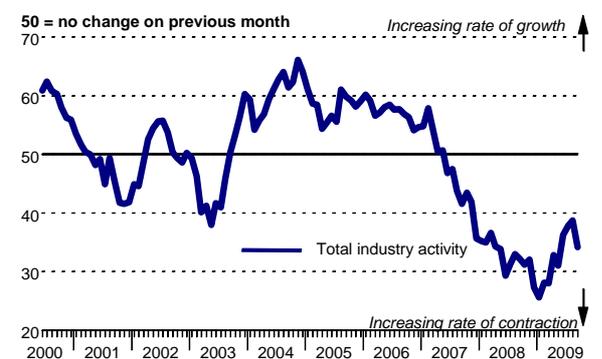
Latest Construction PMI readings

	Aug'09	Sep
Total Activity	38.8	34.2
Housing Activity	34.6	33.8
Commercial Activity	39.8	34.9
Civil Engineering Activity	35.5	31.3

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.

Construction activity



New business fell as clients remained cautious

New business also fell in September, extending the current period of decline to thirty months. Anecdotal evidence suggested that clients remained cautious in committing to new projects given the fragility of the wider economic climate.

Job shedding intensified

As new orders continued to decrease, Irish constructors reduced workforces accordingly. Moreover, jobs were cut at the fastest pace since May.

Input buying declined at faster pace

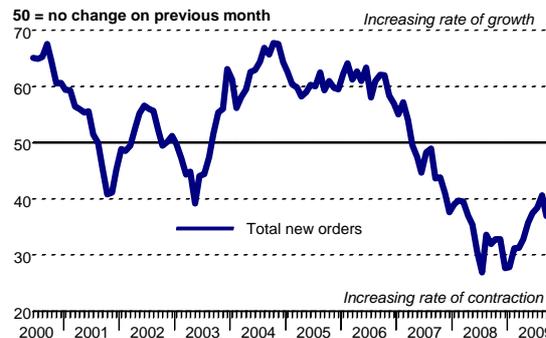
In line with trends for activity and new business in September, purchasing activity fell at a faster pace during the month. Panellists reported that the severe decline was mainly due to a drop in new order levels.

With workloads at suppliers continuing to decrease, vendors were able to shorten lead times again during the month. The rate of improvement in supplier performance was considerable, despite easing to its weakest in four months. Input costs decreased substantially in September, with the pace of decline broadly similar to that seen in the previous month. According to panellists, falling demand for inputs was the principal reason for the reduction, as competition amongst vendors for new business intensified and respondents were able to negotiate discounts.

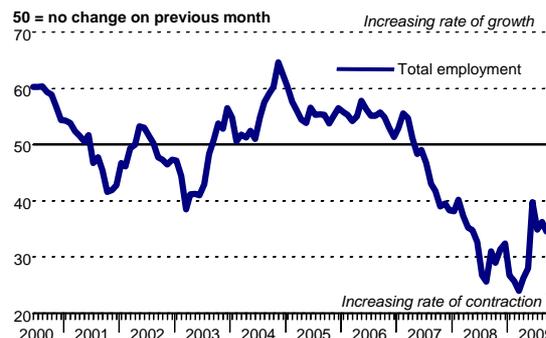
Sentiment improved in September

Modest optimism regarding future prospects for activity was recorded. Although sentiment was at its most positive since February 2008, it remained weaker than the long-run series average. Optimism largely reflected an expectation that the housing market would stabilise over the coming year.

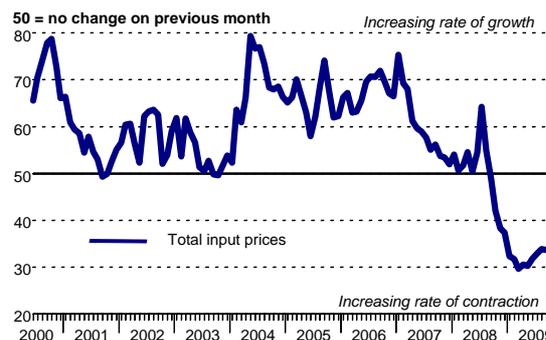
New business



Employment



Input prices



Index readings above 50 signal an increase in activity on the previous month and reading below 50 signal a decrease.

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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