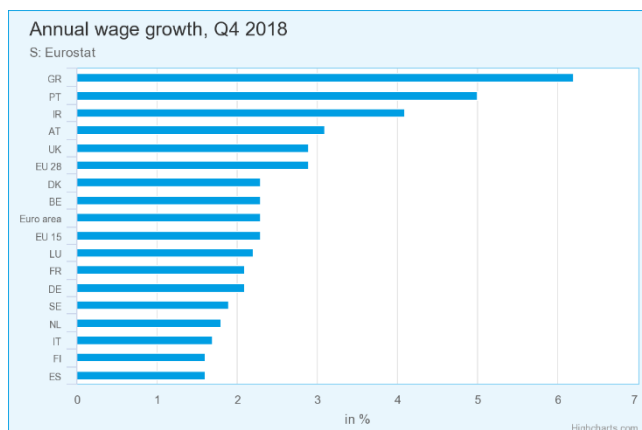


## Ireland's growing pains

### Enviably economic growth brings challenges for the construction sector

Despite slower growth across its main trading partners and the spectre of Brexit hanging over the nation, Ireland's economy continues to outperform even the most optimistic of expectations. This is encapsulated in the stellar performance of the jobs market of late. In 2018 the total number of people at work finally surpassed its 2007 peak, while the latest batch of data show growth accelerated further in Q1 2019. Employment grew by 3.7 per cent in the year to Q1, accelerating from 2.3 per cent in Q4 2018. Unemployment now stands at just 4.6 per cent – the lowest rate since 2007. The recovery in Ireland's labour market has been remarkable since the unemployment rate peaked at 16 per cent in February 2012. Since then, Ireland's workforce has expanded by nearly a quarter to 2.3 million people, and business surveys suggest no let-up in hiring by businesses in the near term.

A rapidly tightening jobs market has inevitably fed into wage pressures. Indeed, Irish workers have been enjoying amongst the strongest gains in earnings in the EU 15 over the past two years. Average weekly earnings in the private sector grew by 4.1 per cent in the year to Q1 2019 following a 3.3 per cent rise in 2018. At a sectoral level, annual construction wage inflation was 3.6 per cent in Q1 2019, easing from a 5.6 per cent rate in 2018. With annual inflation averaging just 1 per cent so far in 2019, Irish households are now enjoying substantial real income gains.



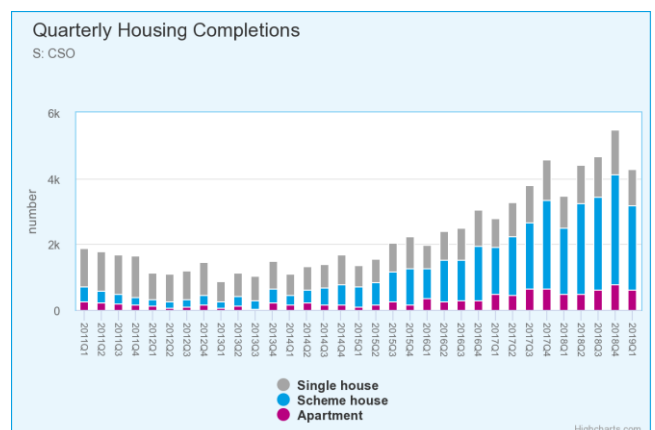
In this context, an increase in inward migration will be vital to sustaining growth, but bottlenecks in infrastructure and housing are the price of Ireland's economic success. Ireland's urban centres have acted as a magnet for both internal migration from rural areas and inward migration from abroad. Net migration increased to 34,000 in 2018 (0.7% of the population), and recent

labour market data suggest net inward migration has accelerated further in 2019, with over half of net new jobs filled by foreign workers. Dublin, in particular, is the economic powerhouse of the nation, accounting for a greater share of Ireland's GDP than London does for the UK. Since 2012, Dublin's population has expanded by 8.7 per cent to 1.3 million, and employment has increased by 30 per cent to 705,000. However, Dublin is also one of the most congested cities in the world, according to transport data firms INRIX and TomTom.

The challenge now is for the construction sector to deliver on the major goals of the Government's National Development Plan to ease these bottlenecks and the more immediate requirement of delivering new housing.

The National Development Plan envisages an extra 1 million people living in Ireland by 2040 and sets out goals and priorities for infrastructure delivery in the next decade. This includes a new underground metro system for Dublin, a second runway in Dublin airport and a new motorway connecting Cork and Limerick – Ireland's second and third cities.

While new housing supply is now ramping up sharply, it is still running at about two-thirds of annual demand of 30-35,000 per annum. A confluence of factors has meant the recovery in housing has not mirrored that of the non-residential construction. Many construction firms did not survive the economic recession and workers exited the sector, with only a trickle of newly qualified workers to replace them in recent years. The cost of construction has adjusted little from the Celtic Tiger era, while material and labour cost inflation has been running at a strong rate in recent years. Finally, a sluggish planning system has acted as a brake on housing development, while projects have been stalled as the Government updated building standards in recent years.



This means supply is unlikely to meet housing demand for the foreseeable future, but the public sector looks set to take a more active role in the delivery of new housing in Ireland. In 2018 it established the Land Development Agency (LDA) which is currently developing plans to deliver on its mandate of building 150,000 new homes over the next 20 years. The immediate focus of the Agency will be on managing the State's lands to develop new homes and regenerate under-utilised sites. Its Chairman has recently stated that it will initially focus on re-development of core areas in Ireland's major urban centres and expects the Agency to begin delivering new homes from 2020. It is expected that a minimum of 40 per cent of houses built on these lands will be in the form of social and affordable housing.

Ireland's first public-private partnership (PPP) contract for social housing was also initiated in March 2019 and will deliver 534 homes in the Greater Dublin Area. This will be in part financed by the National Development Finance Agency and the European Investment Bank. It is first of three PPP bundles which will deliver 1,500 social houses over the next few years in conjunction with local authorities, housing bodies and private developers. This is welcome in a sector of the housing market with acute supply-shortages.

The National Housing Agency put the number of households on social housing waiting lists at 71,858 nationally in June 2018. Dublin accounts for 43 per cent of the national waiting list, disproportionately higher than the city's share of the general population of 28 per cent. Most of these households are subsidised and housed within the private rental sector. Therefore delivering more social housing will free up supply for new households joining the rental sector.

The hope is that public sector and particularly LDA will take a more holistic approach to development, building not just new housing, but communities well served by public amenities and sustainable transport than was the case during the housing boom of the 2000s.



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