WOLSELEY Ireland

Market Update

A Communications Publication



May 2008 Issue 4

Welcome to the fourth edition of *Market Update*, your monthly update of what is happening in the Irish economy and the building and construction market in particular. It features articles and publications of note from the month.

Irish Economic Update

ESRI - Medium Term Review 2008-2015

On May 14th, the ESRI published their long awaited medium term review and forecast for the Irish economy up until 2015. This review is published every second year, providing a comprehensive analysis of prospects for the Irish economy over a seven year time horizon.

Despite the very real difficulties that are currently being encountered, the essential message of the ESRI review is that the economy will eventually rebound, and return to its medium growth path. The analysis in the review suggests that the Irish economy is resilient in the face of adverse circumstances. If properly managed, the slowdown that is occurring in the economy today should pass and the economy should recover fully in the early years of the next decade.

Here are some of the main findings of this review:

- **The economy has the potential to grow at around 3.75% a year over the coming decade, despite significant short-term problems.** When the current global economic slowdown ends, with appropriate policies the economy should recover quite rapidly. Even if current difficulties prove more severe than anticipated, the economy is resilient and a global recovery would still see it rebound. The prospect of continuing medium-term growth above the EU average is underpinned by favourable trends in labour supply and in productivity. While unemployment is currently rising, with a flexible labour market there should be a return to full employment. Despite current difficulties in building and construction, the economy needs continuing substantial investment in housing and infrastructure over the coming decades.
- **The drivers of Irish economic growth are changing.** Exports of business and financial services are a vital contributor to growth. Business and financial services are in the process of *'taking over the baton'* from the manufacturing sector as the key channel through which growth in world trade is transmitted to the Irish economy. Domestic factors, including fiscal policy and labour market, now have an increased influence on competitiveness.
- **Progress on environmental protection** is likely in a number of areas such as acid rain and hazardous waste. The renewable target in electricity generation is likely to be met. With a plausible carbon tax – the cheapest means of reducing greenhouse gas emissions – Ireland will reduce emissions but still miss its target by a considerable margin. The EU targets for reducing landfill waste are also likely to be missed.
- **Policy implications.** Structural policies, such as investment under the NDP, will play a key role in delivering on the favourable growth scenario in this review. Developing good health care, excellent education, and a clean environment will be increasingly important in making Ireland an attractive location to live and work. In the future fiscal policy will need to be used to manage economic cycles more actively.

Source: ESRI Medium Term Review 2008-2015, May 2008

Forecast Summary Benchmark

Average Annual Growth %

	1995-2000	2000-2005	2005-2010	2010-2015	2015-2020
GNP	8.6	4.4	4.1	3.8	3.5
GNP per head	7.5	2.6	2.4	2.6	2.4
GNP per worker	3.5	1.2	2	2.5	2.4
Non-Agricultural Wage Rates	5.9	6	4.2	4.3	4.8
Consumption Deflator	3.4	3.3	2.4	2.8	3.2
Employment, April	5	3.2	2	1.2	1.1
Labour Force, April	3.4	3	2.6	0.9	0.9
Energy Use	6.2	3.2	1.9	1.6	1.7
Greenhouse Gas Emissions	3.1	0.4	0	0.1	1
For end Year:	*2000*	*2005*	*2010*	*2015*	*2020*
Net Immigration, thousands	26	55	10	15	15
Unemployment rate, ILO Basis %	4.3	4.2	6.6	5.3	4.4
Balance of Payments, % of GNP	-0.3	-4.2	-5.6	-0.6	3
General Government Balance, % of GNP	5.1	1.2	-1.4	1.2	3.8
Debt/GNP Ratio	34	25.5	21	21.1	5.8
Housing Completions, thousands	49.8	81	46.8	48.6	47.1

ESRI medium term review 2008-2015, May 2008

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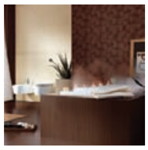


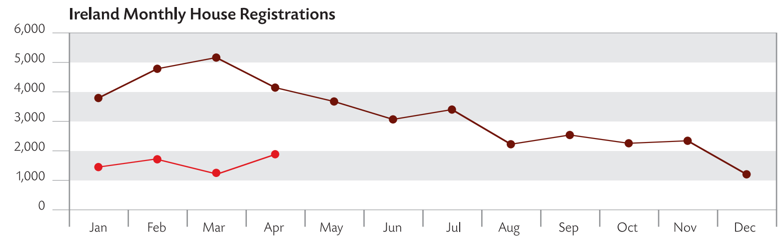

House Completions, Starts and Registrations Update

The latest housing statistics from the Central Statistics Office show that April 2008 figures are well down on April 2007. At time of publication, house start figures for April 2008 had not been published by the CSO. However, we have included provisional figures using details published by Home Bond for April registrations.

If the current number of house completions continues for the next eight months, the total number of houses completed in Ireland in 2008 should reach about 54,000 homes. These figures would indicate that the actual number of houses completed this year could be higher than expectations; currently between 45,000 and 50,000 house completions for 2008.

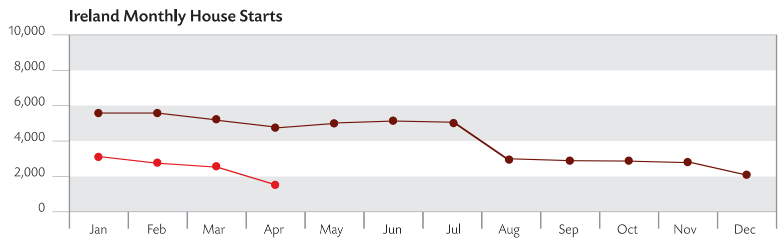
Monthly House Registrations 2007 v 2008

Registrations	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2007	3,776	4,833	5,142	4,069	3,670	3,092	3,458	2,134	2,531	2,185	2,293	1,168	**38,353**
2008	1,430	1,623	1,312	1,929	-	-	-	-	-	-	-	-	**6,294**



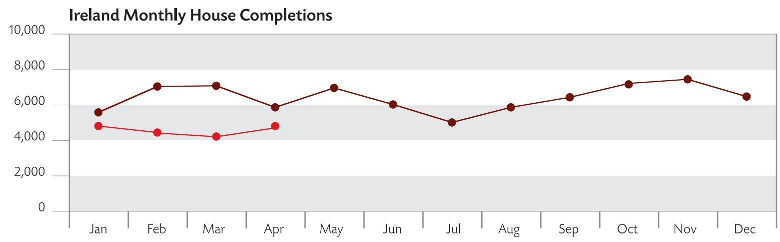
Monthly House Starts 2007 v 2008

Starts	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2007	5,782	5,774	5,299	4,613	5,017	5,262	3,497	3,097	2,982	2,835	2,749	2,013	**49,920**
2008	3,255	2,723	2,414	1,595*	-	-	-	-	-	-	-	-	**9,987***



Monthly House Completions 2007 v 2008

Completions	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2007	5,788	7,052	7,078	5,964	6,832	6,064	5,062	5,903	6,362	7,397	7,696	6,429	**77,627**
2008	4,858	4,328	4,023	4,848	-	-	-	-	-	-	-	-	**18,057**



**Provisional based on Home Bond figures + 20%*

Source: CSO

Latest House Prices Update - permanent tsb/ ESRI Index

On May 2nd, the permanent tsb/ESRI published their latest House Price Index which indicates that house prices in March declined by a further 0.7%. This follows a similar reduction of 0.8% in February and 0.7% in January of this year. While house prices are still falling, there is a glimmer of hope for sellers as the reductions are not as great as experienced for the last three months of 2007. Then, between October and December 2007 house prices declined by 1.3% in October, 1.1% in November and 1.5% in December.

Here are the main points of note from the index;

- In the first three months of 2008 average national prices fell by 2.2%.
- Measuring the rate of growth in the 12 months (year on year) to March, average national prices were down by 8.9%. This compares to a decline of 8.8% recorded in the 12 months to February.
- The average price paid for a house nationally in March 2008 was €281,643. This compares to €287,887 in December 2007.

Commenting on the results, Niall O'Grady, General Marketing Manager for permanent tsb said: *"This result in March confirms the continuing softening in both house prices and transactions numbers across the spectrum as the market moves to more realistic levels of affordability. The data also clearly shows that sellers who are targeting first time buyers have adjusted their prices very significantly in an attempt to reignite demand."*

Source: permanent tsb/ESRI House Price Index May 2008

What the Papers said...

There has been a significant fall in small business start-ups this year with entrepreneurs cautious in an unstable economic climate...Much of the decrease has been the result of the significant downturn in the real estate and construction sectors, which fell by 36% and 48% respectively.
(Irish Independent May 1st)

Earlier this month Experian noted that first quarter footfall figures across the country slipped 2.1% compared with the same period in 2007. According to CBRE, the number of shoppers on Dublin City's main thoroughfares – Grafton Street and Henry Street – dropped by 9% and 12% respectively in the first quarter compared to the five year averages for both. **(Irish Independent May 1st)**

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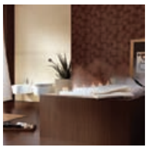



What the Papers said...

The domestic housing market is still pretty dead and the only houses selling are those where vendors have discounted heavily. Prices on average could fall by 15% this year, coming on top of the 10% or so seen last year. **(Irish Examiner May 2nd)**

And there was a slight downward adjustment to the bank's (Ulster Bank) new housing completion forecast to 42,500 – but it added the outlook for commercial building has deteriorated and the construction slowdown will extend into next year. **(Irish Examiner May 2nd)**

A fall of almost 21% in new car sales last month has been attributed to the general economic slowdown and consumer confusion over upcoming tax changes... A further indication of the general economic downturn is the fall in sales of commercial vehicles, often a bellwether for economic performance of the construction and retail trade. **(Irish Times May 3rd)**

It's still all Bob the Builder's fault – or nearly all. If it had not been for the collapse in house construction since last year, the economy and public finances would still appear to be in rude good health. **(Irish Independent May 3rd)**

Britain's construction industry, which accounts for 6% of the economy, shrank in April at the fastest pace in almost a decade, a survey showed. **(Irish Examiner May 3rd)**

Faced with a slowing economy and an international banking crisis, an increasing number of Irish firms are reducing their workforce in an effort to manage their overheads and costs. **(Sunday Business Post May 4th)**

During the year to April there has been an unadjusted increase of 41,279 joining the Live Register, a rise of 26.7%. The lowest increase over that period was the 19% recorded in Dublin, while the largest was the 37.1% increase in the midlands. **(Irish Times May 6th)**

Ireland cannot return to normal growth and stable unemployment until the US economy gets over its difficulties. And few expect that to happen before 2010. **(Irish Independent May 7th)**

Wholesale Price Index – April 2008

Just published this month by the Central Statistics Office (CSO), the Wholesale Price Index shows increases in the price of goods for the building and construction industry.

All material prices increased by 3.5% in the year since April 2007. The most notable yearly changes were increases in bituminous emulsions (+23.2%) and reinforcing metal (+10.2%). Collectively all building and construction material prices increased by 0.3% in April 2008. Full price increases and decreases are shown in tables 1 and 1A.

Table 1: Wholesale Price Indices (excluding VAT) for Building & Construction Materials *Base: Year 2000 as 100*

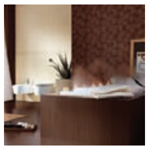
	Index		Monthly & Change			Annual % Change
Materials	*Mar-08*	*Apr-08*	*Feb-08*	*Mar-08*	*Apr-08*	*Apr-08*
Stone, sand and gravel	175.6	174	3.7	0.7	-0.9	9
Cement	134.2	134.2				5.9
Ready mixed mortar and concrete	126.4	126.5	0.2	1.5	0.1	3
Concrete blocks and bricks	130.7	132.3	-0.2	0.5	1.2	
Other concrete products	123.8	123.8	-0.6	-1.7		-4.2
Structural steel and reinforcing metal	171.7	174.5	3.7	0.5	1.6	8.2
Structural steel	178.4	179.3	5.6	-0.1	0.5	6.9
Reinforcing metal	160.2	166	0.6	1.4	3.6	10.2
Rough timber (including plain sawn)	110.1	111.4		3.3	-0.1	-1.2
Other timber (including joinery)	122.5	122.4	0.1		3.3	6.3
Bituminous macadam, asphalt and bituminous emulsions	172.2	172.4	-0.9	0.1	0.1	5.7
Bituminous macadam and asphalt	176.6	176.7	1	0.1	0.1	5.1
Bituminous emulsions	180.2	181.4	-1.1	0.3	0.7	23.2
Electrical fittings	134.3	134.3	0.1	0.1		1.1
All other materials	155.9	156.3	0.8	0.3	0.3	3.2
All materials**	**145.7**	**146.2**	**1**	**0.6**	**0.3**	**3.5**

Table 1A: Detailed Wholesale Price Indices (excluding VAT) for Building & Construction Materials* *Base: Year 2000 as 100*

	Index		Monthly & Change			Annual % Change
Materials	*Mar-08*	*Apr-08*	*Feb-08*	*Mar-08*	*Apr-08*	*Apr-08*
Stone, sand and gravel	175.6	174	3.7	0.7	-0.9	9
Stone	138	136.1	4	1.1	1.4	8.6
Sand gravel	187.7	185.9	1.7	-1	1.4	11.6
Cement	134.2	134.2				5.9
Ready mixed mortar and concrete	126.4	126.5	0.2	1.5	0.1	3
Concrete blocks and bricks	130.7	132.3	-0.2	0.5	1.2	
Other concrete products	123.1	123.1	-0.6	2		-4.9
Precase concrete	118	118				0.4
Other	107.7	107.7	-1.3	-4.7		-11.8
Structural steel and reinforcing metal**	168.4	172.7	1.5	0.5	2.6	6.8
Structural steel**	172	175.2	1.8		1.9	4.5
Fabricated steel	161.2	162.8	2.4	-0.7	1	4.3
Other	166	169.2	1.8		1.9	4.5
Reinforcing metal	161.9	167.8	0.9	1.4	3.6	10.6
Other steel products	153.1	153.1				0.8
Rough timber (including plain sawn)	109.4	111.4	-		1.8	-1.2
Hardwood	106	109	0.1		2.8	-2.7
Other	111.9	113.1	-0.1	-0.1	1.1	0.4
Other timber	118.5	118.5	0.1	0.7		5.1
Windows and doors	110.8	110.8	0.1	0.4		5.1
Other	111.7	111.6			-0.1	4.9
Bituminous macadam, asphalt and bituminous emulsions	172.2	172.4	0.9	0.1	0.1	5.7
Bituminous macadam and asphalt	176.6	176.7	1	0.1	0.1	5.1
Bituminous emulsions	180.2	181.4	-1.2	0.4	0.7	23.2
Electrical fittings	134	134		0.1		1.1
Lighting equipment	135.7	135.7				0.4
Protection and communication equipment	144.8	144.8				2
All other materials	155.9	156.3	0.8	0.3	0.3	3.2
Plumbing materials incl. sanitary ware	126.6	126.6				4.9
HVAC (heating and ventilation equipment)	117.1	117.1				0.9
Insulating materials	130.2	130.2				4.1
Pipes and fitting	252.9	254.4			0.6	2.6
PVC	138.5	138.5	0.1			2.9
Copper	421.4	425.2	0.1		0.9	3.1
Plaster	160	163.9	3.5	1.7	2.4	10.5
Paints oil and varnishes	123.5	123.8			0.2	3.4
Glass	238	238				
All other metal fittings	137.7	138.9			0.9	2.1
All other products	142.2	142.2	1.4	0.4		3.6
All materials**	**145**	**145.7**	**0.7**	**04**	**0.5**	**3.2**

*Note * Table 1A is under development. Differences between Table 1 and Table 1A are primarily due to sample sizes.*
*** The index in respect of structural steel has been revised and as a consequence structural steel and reinforcing metal and all materials have been revised accordingly.*

Source: CSO Wholesale Price Index Report April 2008


Watching the Key Players

The papers this month carried stories of AGMs and interim reports for the largest construction/related companies in Ireland. The interim results published provided a very different outlook to business prospects going forward owing to the downturn in house building in both Ireland and the UK. In Ireland we have become familiar with reading about the downturn in the Irish new build market but it now appears that the main focus has turned to the fortunes of the UK property market and Irish companies exposure to it.

Here are the main points of note from May for the main construction companies in Ireland.

Grafton

Grafton held their AGM in Dublin on Thursday May 8th. According to its media statement prior to the AGM and subsequent interim update at the AGM, business is and will be a lot more difficult for the company in 2008 and beyond due to a drop in the number of new houses built in Ireland and the UK.

The Irish Independent on May 10th remarked how even the largest construction companies are not immune to such difficulties in the industry when it reported *"This week's downbeat trading statement from builders merchant and DIY group Grafton shows the impact the construction slowdown is having on even the best-run companies in the sector...Now after 14 years of uninterrupted profit growth 2008 looks set to be the year when the Grafton growth engine stalls, at least temporarily. This week's interim management statement was extremely downbeat...It revealed that the group's Irish turnover was down by a hefty 16% during the first four months of the year."*

According to the Irish Independent on May 10th Grafton's Woodies DIY chain of stores had a turnover in 2007 of €340 million and 47 outlets. If the RMI market doesn't really kick off or consumer sentiment continues to remain negative it is likely this will fall. The Sunday Times support this sentiment when it reported on May 11th *"Poor old Grafton Group. The buildings material supplier headed up by the wily Michael Chadwick, has been mercilessly pummelled by the stock market...Tightly run, well financed and a market leader, it is a true victim of wider economic circumstances beyond its control. With the house building sector under pressure in its core UK and Irish markets, things were bad enough. Now though, consumer retail sentiment is on the point of collapsing, putting paid to any growth in its consumer-facing DIY market."*

Other points to note for Grafton in May were its difficulty in selling three prime retail sites. It is believed they were on the market to help cover certain costs and boost profitability in 2008 when the market itself was flagging. The Sunday Tribune on May 18th wrote *"DIY retailer and builders merchants Grafton Group has admitted that it is unlikely to find a buyer in the short term for its three major development sites in Dublin, Cork and London which it earmarked for sale last year...the company had hoped to pocket €200m from the sales."* This clearly demonstrates that once valuable assets are not going to be the saviours they were once thought to be.

CRH

CRH despite its AGM on May 7th received little coverage in the papers in May. CRH like most other construction related companies issued profit warnings for 2008 and said it was down to more challenging market conditions. The Irish Independent on May 10th recorded *"Back in Dublin, CRH slid almost 5% on Tuesday as investors braced themselves ahead of the group's annual meeting the next day. At the meeting, the group warned that its goal of achieving another year of profit growth had become more challenging."*

Kingspan

The fortunes for Kingspan like most other construction companies are tied to the weakening residential markets in Britain and Ireland and the devaluation of sterling.

On May 4th, The Sunday Business Post published comments by NCB Stockbrokers regarding Kingspan when it noted *"NCB remains cautious on Kingspan's near term prospects...Merrion Stockbrokers cut Kingspan's 2008 earnings per share by 15% on reduced sales and margin forecasts."* The Irish Daily Star on May 6th reported also that Kingspan's prospects are bleak this year when it stated *"Building materials group Kingspan says it expects earnings to drop this year, as it is hit by slowing growth and 'challenging' trading conditions in Ireland and Britain."*

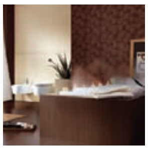
At Kingspan's AGM on May 15th *"The group told the AGM its order books have been affected by the dip in residential demand, where orders were down considerably, reflecting the drop in new house starts in Ireland"* as reported by The Irish Examiner May 16th.

Readymix

Readymix's fortunes continue to be battered due to the housing downturn. The Irish Examiner on May 2nd reported *"Readymix plc, the maker of concrete and crushed stone controlled by Cemex SA, has forecast a first quarter loss of €3.9 million after a slowdown in the construction industry reduced demand...Readymix gets about 60% of Irish sales from new housing construction, according to securities firm Davy. In March, Readymix said profit fell 42% to €21.4 million due to the housing slump."*

McInerney

McInerney's fortunes again appear to be worsening due to the slowdown in the residential construction market in Ireland and the UK. This month they announced measures they need to take to adjust the company to the present decline in sales. The Irish Independent on May 16th reported *"Ireland's largest listed house builder McInerney plans to slash €30million of costs this year mainly through layoffs in its main market in the UK, as it battens its hatches against the housing slowdown on both sides of the Irish sea."* The announcement by McInerney unfortunately is only the start of what we will begin to see throughout the industry both sides of the Irish sea.


What the Papers said...

Economists at consultants PricewaterhouseCoopers say the combined effects of squeezed incomes, falling house prices and job losses is likely to lead to weak, or even falling consumer spending over the next two years.
(Irish Independent May 7th)

New car sales have slumped in Northern Ireland, house prices are falling and the unemployment rate is creeping up. All the signs point to a definite chill and economists are warning the temperature is likely to fall further before the economic climates improves. **(Irish Times May 7th)**

Beyond this, the economy faces structural challenges caused by a loss of competitiveness on a range of fronts in recent years. Put simply, the boom years are over and we are not sure what is coming next. The resilience of the economy and the enormous successes in areas of the services sector give hope over the next few years, but the era of more than 5% annual growth is behind us. **(Sunday Business Post May 11th)**

Construction companies have become less confident of any potential short term business upturn as new orders, employment and general building activity – in every area of the industry – continued to fall away last month.
(Irish Examiner May 12th)

Nor can the sector take much solace from what is in the pipeline. Figures released showed just 1,600 new dwellings registered in April, a 45% fall on the same month last year. For the first four months of this year, registrations are down 62% on last year and 72% lower than the peak year of 2006.
(Irish Independent May 12th)

Shares in Arklow based bathroom products firm Qualceram Shires tumbled almost 10% yesterday in London as the company said that first quarter turnover fell 30% year on year, with weak sterling compounding the effects of slowing housing construction. **(Irish Independent May 13th)**

According to the FAS/ESRI employment and vacancies survey, the amount of building work across the country has dramatically fallen over the last few months. Economists said the three-month average of construction jobs continued to decline in April, falling by two points to 5%. This is the lowest figure in the sector since the survey began in May 2002.
(Evening Echo May 13th)

Despite the downturn in house building over the past year, the ESRI foresees a continuing solid demand for new homes in the years to 2025, due principally to population growth. Housing completions are forecast to average 48,000 annually between 2010 and 2020. **(Irish Times May 14th)**

Rather than focus on tighter funding conditions, he singled out (Andrew Fitzpatrick, BOI) investor confidence as the root of the market malaise. *"Investors are sitting on their hands at the moment. It's not the case that we are turning customers away. We are very much open for business. The problem is confidence. Investors don't believe there are opportunities in the current market."*
(Irish Times May 14th)

Ulster Bank Construction PMI - April

Published on May 12th, Ulster Bank's PMI for April points to the sharpest deterioration in the health of the Irish construction economy since the survey began in June 2000. The PMI has now signalled contraction in each month since June 2007. April's reading of 34.3 shows a substantial fall in construction activity during April and is largely attributed to lower new order volumes, which also declined at a record pace.

Housing remained the worst performing of the three featured construction areas in April. Data pointed to further contraction in activity in all three construction areas monitored by the survey in April, although varying trends were evident. Housing remained the worst performing, with the rate of contraction of residential activity still substantial, albeit the weakest for seven months. Commercial activity fell at the sharpest pace since May 2003, while the decrease in civil engineering activity was the strongest for over four and a half years.

Latest Construction PMI readings

	Mar 08	*Apr 08*
Total Activity	**36.6**	**34.3**
Housing Activity	27.6	28.4
Commercial Activity	46.4	39.2
Civil Engineering Activity	37.8	34.4

Please note: *Index readings above 50 signal an increase in activity on the previous month and readings below 50 signals a decrease. All figures are seasonally adjusted.*

New orders
Falling demand for housing, worsening economic conditions and greater competition all contributed to a record survey decline in Irish constructors new order levels in April. More than 47% of firms indicated that new work had fallen since March extending the current period of contraction to 13 successive months

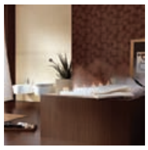
Staffing levels
The reduction in constructors workloads led many to adjust their staffing levels accordingly in April. In line with activity and new orders, employment contracted at a record pace. The rate of decline in employment has accelerated to a new record in four of the past five months.

Input prices
The average price paid for inputs increased at a robust pace at construction firms in April. Anecdotal evidence pointed to higher costs for metals and fuel. The rate of cost inflation was the sharpest for seven months, but was well below the average for the current period of rising costs.

The Ulster Bank also found that construction firms were negative regarding the outlook for the year ahead in April. Panellists were pessimistic overall for the third time in five months with negative expectations attributed to shortages of new work for tender, worsening economic conditions and the strength of the euro.

Commenting on the index, Pat McArdle, Chief Economist at Ulster Bank stated: *"There is little cheer in the PMI surveys this months. The construction PMI registered a new low in April. While housing has levelled off in recent times indicating that the monthly falls in activity are at least no longer accelerating, output has contracted in each month since November 2006. April was no exception, with falling demand, deteriorating economic conditions and greater competition cited as the key factors. Though it remains the case that the faster the contraction in output, the sooner the eventual turnaround, respondents were more pessimistic regarding the future, expecting that activity in a year's time will be slightly below current levels. This is consistent with our view that new house completions next year will remain low as the overhang of supply is cleared."*

Source: Ulster Bank Construction PMI April 2008


Latest Consumer Sentiment Index – April 2008

According to the IIB Bank/ESRI Consumer Sentiment Index consumer sentiment sank to its lowest level in the history of the index in April. The Index stood at 56.0 in April, compared to a figure of 63.3 in March. The corresponding figure for April 2007 was 83.0. The previous record low of 60.9 was recorded in July 2003.

The Consumer Sentiment Index comprises two sub-indices; an index of consumer expectation that focuses on how consumers view prospects over the next 12 months and an index of current economic conditions, focusing on the present situation.

Commenting on the results David Duffy of ESRI said *"The recent decline in consumer sentiment means that the index is now at an all time low. Consumers remain concerned about the job losses, rising prices and the outlook for the property sector...One out of every three consumers expected their household finances to disimprove over the next 12 months. Consumers responses to the survey questions show that April was the worst assessment of the overall economic outlook in the history of the index."*

Austin Hughes, Chief Economist with IIB Bank commented *"A sharp increase in job fears, together will enveloping gloom about Irish economic prospects and surging food and energy costs, meant it was almost inevitable that consumer sentiment would hit a record low in April. The key uncertainty is whether Irish consumers have now prepared themselves fully for a tough year or sentiment and spending might weaken further."*

However Hughes does point to a glimmer of optimism when he notes *"The details of the April survey indicate that Irish consumers are notably worried about the general economic climate than about their own personal finances. This may suggest that consumers have braced themselves for a difficult period but are not experiencing acute problems. If this is the case, the sentiment survey may hint that spending could remain sluggish but it lessens the risks of a 'panic' fuelled pull-back in coming months."*

Source: IIB/ESRI Consumer Sentiment Index April 2008

FAS/ESRI Employment & Vacancies Report April 2008

The 13th of May saw the latest FAS/ESRI published report on monthly vacancies and employment survey for April 2008. Key finding of the survey for April 2008 include;

- The percentage of firms reporting vacancies in the private sector fell by 3 percentage points to 7%, which is the lowest the economy-wide vacancy rate has been since August 2005. The month's fall was driven by a decline in reported vacancies in the industry, retail and services sectors. Compared to this time last year the economy-wide vacancy rate has fallen by 9 percentage points.
- Reported vacancies in the construction sector increased by 2 percentage points to 5%. However, the 3-month moving average, which is a figure that smooths out monthly fluctuations, continued to decline, falling by 2 percentage points to 2%. This is the lowest this figure has been since the survey began in May 2002.
- The percentage of firms reporting vacancies in the industry sector fell by 4 percentage points to 13%, which brings to an end the upward trend that began in January 2008.
- There was a 4 percentage point decline in the number of firms reporting vacancies in the services sector to 10%. The corresponding figure for April 2007 was 25%, which indicated that year-on-year there has been a considerable decline in the number of firms reporting vacancies in the services sector.
- The number of firms reporting vacancies in the retail sector fell marginally by 1 percentage point to 1%.
- The Net Employment Expectations (NEE) indicator for all sectors increased by 3 percentage points to -4%. However, employment expectations deteriorated in three of the four sectors covered by the survey. This -4% NEE indicator means that the percentage of employers expecting a fall in employment levels in their firms over the coming months is 4 percentage points higher than that predicting an increase. Thus, while there has been a slight improvement in employers employment outlook this month, a higher proportion of firms still expect employment levels to fall rather than rise over the coming months.
- The employment outlook of construction employers continued to deteriorate with the NEE indicator for the sector falling to -43%. This is the lowest the sector's NEE indicator has been since the survey began in May 2002. Although construction employers were gloomy about future employment in the sector this time last year, this month's NEE indicator suggests that their outlook has become much more pessimistic since then.
- Both industry and retail sector employers employment outlook declined considerably with each sector's NEE indicator falling by 9 and 4 percentage points respectively to -17% and -11%.
- The service sector was the only sector surveyed that recorded an improvement in their future employment outlook: the NEE indicator for the sector increased by 8 percentage points to 6%. However, there was more optimism in the sector this time last year.

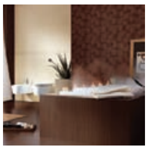
The most frequently reported difficult-to-fill vacancies in each sector were:

- **Construction:** quantity surveyors, managers and estimators
- **Industry:** engineers, managers and general operatives
- **Retail:** mechanics and sales staff
- **Services:** accounting and legal personnel

Source: FAS/ESRI employment and vacancies report May 2008

WOLSELEY Ireland

Market Update



2008 Irish Macro Forecast

	2006	2007E	2008F	2009F
Expenditure components of GNP				
(% change in volume)				
Consumer spending	5.7	5.4	2.5	2
Government spending	5.3	6.7	4.5	3
Investment	3.1	0.2	-13.4	-9.2
Residential investment	3.5	-8.8	-33.9	-31.4
Non residential building	9.5	6.4	5	0
Total building	-5.1	12.6	5	5
Exports	4.4	8.2	6	6
Imports	4.4	6.4	1.7	2.8
GDP	5.7	5.3	1.7	2.6
GNP	6.5	4.5	1	2
Balance of payments				
Current account (€m)	-7,276	-9,391	-3,038	2,362
% of GNP		-5.9	-1.8	1.4
Inflation (% yoy, annual average)				
Consumer price index (CPI)	4	4.9	4.1	1.8
Retail prices (HICP)	2.7	2.9	3.3	1.7
Wage inflation	5	4.5	4	3.75
Labour market (% change yoy)				
Employment (Q4 on Q4)	4.5	3.6	0.8	0
Unemployment rate (end year sa)	4.2	4.6	6.1	7
Public finances (€m)				
Exchequer Balance (€m)	2,265	-1,623	-8,295	-10,328
% of GNP	1.5	-0.5	-5	-5.9
General Government Balance (€m)	4,390	900	-5,275	-6,913
% of GDP	2.5	0.5	-2.7	-3.3
Government debt				
% of GDP	25.1	25.1	27.5	29

Last updated: 28.05.08
Source: Davy Stockbrokers

Davy's Cut Forecasts for 2008 & 2009

Hot off the press on May 28th was news that Davy's were cutting their macro forecasts for Ireland for 2008 and 2009. Their reasoning behind the new forecasts were because of *"tighter credit conditions, ECB hawkishness and associated rate appreciation."*

The new forecasts suggest GNP volume growth of 1% (compared to 1.7%) in 2008 and 2% (from 3.4%) in 2009. Conditions in general have deteriorated for households in 2008.

They had forecast consumer spending at 2.5% in volume. They have now revised this to 1% due to a weakening in the labour market, tighter credit, higher inflation and a negative wealth effect. However, their expectation for the export of goods remains unchanged.

For 2008, their biggest revision to growth forecasts is 2% for real GNP down from 3.4%. New home sales which had been improving in the initial months of 2008 have since stalled. They now predict 25,000 house completions in 2009 versus their previous forecast of 40,000 for 2009. Unemployment rates too been revised upwards and is set to reach 6.1% by year end and 7% by the end of 2009 with the rise in 2009 limited by lower net migration they predict. Davy's suggest that overall the Irish economy may not recover until at least 2010.

What the Papers said...

If you leave out one-off houses in Ireland, probably 65,000 to 70,000 units were started in 2006. This year will be down to 15,000, with 5,000 starts in the first four months of this year.
(Irish Independent May 16th)

It predicted (FAS) further job losses, and forecast there would be almost 50,000 fewer jobs in construction by the end of next year than at the start of 2007, when the sector employed 286,000.
(Irish Independent May 16th)

Furthermore, the recent closure of Habitat indicates that this negative employment effect has begun to spill over into the construction-related services sector. **(Irish Times May 16th)**

FAS reckons the industry (construction) will have lost 50,000 jobs by the end of the year compared to the start of last year; a survey by Merrion Stockbrokers estimates half of our building firms are not constructing any houses at all; meanwhile the two listed house builders, Abbey and McInerney, this week had their earnings forecasts for 2009 slashed with wild abandon by Dublin brokers. **(Sunday Tribune May 18th)**

The CSO reported last Friday that the volume of Irish retail sales fell by over 2% in March compared with the same period last year. Sales were down 1.8% on February, following a similar decline in that month on January. For the first quarter as a whole, therefore, sales were 1.6% lower than in the last quarter of 2007 and 0.2% down on the first quarter of 2007. **(Irish Examiner May 20th)**

According to new date from the Department of the Environment, house completions in Ireland fell by 28% in the first four months of the year, although this represented some improvement from the trend seen in the first quarter of the year, when completions fell by 30%.
(Irish Independent May 22nd)

Two out of three people plan to eat out less and almost half have cut their grocery budgets. Expenditure on clothes, shoes, jewellery, home improvements and family treats also faces the chop, according to Mintel. **(Sunday Times May 25th)**

The economists (Davy's) estimate that commercial property prices will fall by 20%, while house prices will by drop by 10% this year and 7% in 2009. **(Irish Times May 29th)**

Canny investors are buying up scores of properties, which have been discounted in recent months. **(Irish Independent May 30th)**