



Rialtas na hÉireann
Government of Ireland

Focus on Construction

August 2020



Construction

Description

The sector contains a range of construction products companies, materials manufacturers, and construction services firms, including:

- Construction products companies are involved in developing advanced building materials, off-site construction, timber products, building systems, insulation products, and a range of fittings used in construction and building fit out.
- Construction service firms operate across civil and structural engineering & contracting, mechanical & electrical contracting and power, energy maintenance and generation, quantity surveying and consulting.
- The construction sector has a dual economic role – both as a sector in its own right, and as an input to wider socio-economic activity providing the housing and infrastructure required to sustain economic growth and competitiveness and attract FDI. It is highly labour intensive with a diverse range of occupations and has a high multiplier effect. The sector is also highly dispersed, providing employment and economic growth in communities across Ireland.

Snapshot

		Market Size	Growth Forecast
Global	Construction ⁱ	\$10 trn (revenues) (2016)	\$15 trn (revenues) by 2025
	Construction ⁱⁱ	\$1,225.6 bn (2017)	\$1,573.3 bn by 2022
Europe	Residential construction ⁱⁱⁱ	\$674.8 bn (2017)	\$929.2 bn by 2022
	Construction materials ^{iv}	\$66,673.6 m (2017)	\$83,616.6 m by 2022
Ireland ^v	Construction	11,191.8 m (2017)	22,755.5 m (2022)
Ireland	Exports ^{vi}	€1.4bn (2017)	DEE €2.5bn (2017)
	Employment ^{vii}	149,300 (Q3 2019)	

i. Shaping the Future of Construction, A Breakthrough in Mindset and Technology, World Economic Forum, May 2016

ii. Construction in Europe, Marketline, October 2018

iii. Residential Construction in Europe, Marketline, October 2018

iv. Construction Materials in Europe, Marketline, June 2018

v. Construction in Ireland, Marketline, October 2018

- vi. Department of Business, Enterprise and Innovation, Annual Business Survey of Economic Impact. Enterprise Ireland ABR 2018 data shows Irish Exports at €1.969bn and DEE of €5.508bn. CSO data shows: Exports of Goods €148.5m (2018) 0.1% National Export 5 Year CAGR 6.0%; and Services €194m (2017) 0.1% national Exports, 5 Year CAGR -0.76%. Source CSO External trade, TSA06, Goods Exports figure includes Prefab buildings; plumbing and electrical fixtures and fittings and CSO External Trade, International Trade in Services includes Architectural, engineering and other technical services, BPA04: Exports and Imports of Services by Geographic Location, Component, Year and Statistic
- vii. CSO, Labour Force Survey, Q3 2019, seasonally adjusted. QLF03: Person aged 15 years and over in Employment by Sex, NACE Rev 2 Economic Sector, Quarter and Statistic (NACE Rev 2 F 41-43). Enterprise Ireland ABR 2018 data: Employment 37,946 in EI supported clients. DBEI Annual Employment Survey shows 15,330 in full time employment for agency clients.

This Construction Sector Brief should be read in conjunction with the Energy, Sustainability and Natural Resources Brief.

Pre-COVID-19 Position

The global construction sector was growing in strength fuelled by population growth, economic growth and increased urbanisation. Sustainability, new technologies and digitisation were driving transformation in the sector.

- With total annual revenues of almost \$10 trillion and added value of \$3.6 trillion, the construction industry accounted for about 6% of global GDP employing more than 100 million people.¹
- There was increasing demand for green construction to reduce carbon footprint, building information systems (BIM) for efficient building management, off-site construction and the use of fibre-reinforced polymer composites for the rehabilitation of aging structures.²
- The increased focus on sustainability (green build) is a major challenge and opportunity for the sector. The percentage of firms expecting to have more than 60% of their projects certified as green build was anticipated to double from 27% in 2018 to 47% in 2021.³ The challenge will relate to how the sector adapts its products to meet energy performance and efficiency standards/regulations. Opportunities are diverse as innovative 'green' products and materials are constantly being developed.

In Ireland, construction is a fragmented sector recovering after being severely impacted by the economic downturn.

- The construction industry plays a significant role in Ireland in providing housing, non-residential buildings and infrastructure to support economic growth and facilitate inward foreign direct investment.

¹ Shaping the Future of Construction, A Breakthrough in Mindset and Technology, May 2016, WEF

² Growth Opportunities in the Global Construction Industry, December 2017, Research and Markets

³ World Green Building Trends, 2016-World Green Building Council

- Construction is an important economic sector and supports employment in all regions. Most direct employment comes from sub-contractors and roles are increasingly specialist. Non-specialist and traditional trades are generally provided by labour agencies and self-employment is relatively high in the sector.
- From a high of 240,000 in 2007, employment in the sector fell to 81,000 in 2013 ⁴. Although the construction sector was impacted severely by the economic downturn employment has increased rapidly over the last 5 years with employment of 148,300 (Q4 2019).⁵
- Construction was experiencing a period of strong growth, having been severely impacted during the economic downturn. Recovery started during 2013 with output rising to €27 billion in 2018, 10% of GNI* in 2018. Total investment in Building and Construction in Ireland was projected to increase to €30 billion in 2019 or 14% as a share of GNI*.⁶
- The sector includes a number of large internationally trading companies as well as a large number of SMEs that primarily supply the local market. The sector is highly fragmented ⁷ which poses challenges to productivity generally. In 2016, 95% of the 50,673 construction enterprises were classed as micro enterprises, i.e. 0-9 persons engaged.⁸ In addition, construction activity is spread regionally across the country.
- There is a considerable amount of technology innovation in the wider construction sector industry with adoption of IOT 4.0 technologies which drive efficiencies and it is important that Ireland is developing these capabilities through our skills development and our research programmes.
- Skills shortages continue to be a major concern with 91% of engineering leaders listing this as a barrier to growing their workforce. The National Skills Bulletin again highlights the growing demand for engineering skills across R&D, construction, climate action and other sectors.⁹

Impact of COVID-19

GLOBAL

- MarketLine predicts that global construction output growth in 2020 will be just 0.5%, a sharp downward revision compared to the previous forecast of 3.1% (in the Q4 2019 update).¹⁰

⁴CSO Data

⁵Source CSO, Labour Force Survey, seasonally adjusted figures

⁶BUILD – Construction Sector Performance and Prospects 2019

⁷ A fragmented industry is one that has no major players. The businesses tend to be small, and business practices vary widely.

⁸ CSO Enterprise Statistics on Construction

⁹ Engineers Ireland- Engineering 2020

¹⁰ Market Watch: Overseas Construction Industry Bulletin. Enterprise Ireland

- Even if the spread of the virus is contained in the short term, companies will feel the effect for months to come. We will shortly see the impacts of the Coronavirus in terms of contract and project delays, but also supply chain disruptions.
- Construction was one of the most severely impacted sectors by COVID-19 restrictions. It underwent a 50% reduction in activity in the Euro Area at the start of lockdown according to analysis by Copenhagen Economics. Analysis by the ECB estimated the initial economic loss from the lockdown in the construction sector at 40%.¹¹

NATIONAL

- COVID-19 restrictions on construction impacted on over 150 private sites, involving 17,300 homes (IHBA), and 325 social housing sites involving some 6,500 homes. In addition, over 20% of overall annual housing production relates to single houses, mainly in rural locations, which also stalled.¹²
- At the peak of the restrictions, some 86% of construction employment was reliant on State through the Pandemic Unemployment Payment or the Temporary wage Subsidy Scheme. By mid-June around 59% of those previously working in this sector are estimated to be on the PUP or TWSS.
- The Purchasing Managers' Index, which tracks changes in total construction activity, posted a reading of 19.9 in May. This was up from 4.5 in April as the construction sector opened up again after shutdown. A figure above 50 signals an increase in activity on the previous month and a figure below 50 signals a decrease. May marked the third month in a row where the index had remained below the 50 figures.
- Housing completions are expected to fall to just 13,800 with dwellings investment forecasted to fall by 35% and non-residential construction activity declining by 36%. A partial rebound in 2021 is expected with activity up 22.5%. This is accompanied by a 5% decline in house prices through 2020 followed by a 3.5% rebound in 2021.¹³
- Before COVID, annual housing demand hit 35,000 and in 2019, 21,000 homes were built. Ibec forecasts that there will be only 15,000 completions in 2020.¹⁴ In separate analysis by Davy, housing completions are projected to fall to just 13,800 with dwellings investment forecasted to fall by 35% and non-residential construction activity declining by 36%. A partial rebound in 2021 is expected with activity up 22.5%. This is accompanied by a 5% decline in house prices through 2020 followed by a 3.5% rebound in 2021

¹¹ ECB, Alternative scenarios for the impact of the COVID-19 pandemic on economic activity in the euro area, 1 May 2020

¹² <https://dbei.gov.ie/en/Publications/Economic-Considerations-for-Reinstating-Economic-Activity.html>, 2020

¹³ Davy Research: Irish Economy

¹⁴ Ibec Reboot & Reimagine, 2020

Issues, Opportunities and Challenges for the Sector

- The construction sector is well positioned to return to high levels of activity relatively quickly given underlying demand, the implementation of the NDP and the nature of the sector.¹⁵
- According to the recent Building Innovation report, to facilitate economic recovery from impacts of COVID-19, the Government will continue to progress its strategy to deliver Project Ireland 2040 and expand the capacity of the construction sector, thereby acting as an important economic stabiliser.
- Recovery in the construction sector will have regional and rural impact and through projects that support rural regeneration and development as part of Project Ireland 2040 and support local employment. It will also enable the deployment of broadband services under the NBP, including the early connection of c. 300 Broadband Connection Points in some of the most remote parts of the country.
- The sector is dependent on other sectors and functioning supply chains, and freight transport.
- A concern is that highly specialised workers and business travellers will not travel to or from Ireland for one-off engagements if required to self-isolate for 14 days. This could result in delays in construction projects.
- Training for construction workers and supply of skills is reliant on education and training capacity.

¹⁵ Economic Considerations for Reinstating Economic Activity Update for Phase 2