

House price inflation continues to ease, supply remains solid

The slowing trend in Irish residential property prices, that started to take hold over the course of 2022, has gathered further momentum in the first half of this year, with outright monthly declines. The most recent official CSO data showed that prices nationally fell by 0.2% in May, marking the fifth straight month of declines. The last time prices fell for this length of time was late 2011/early 2012. The average monthly fall this year is at 0.3%. On a year-over-year basis, the rate of growth slowed to 2.4% in May. This is its slowest rate since December 2020 and is well down from the 15% pace of increase registered in the February-March 2022 period. The notable deceleration in house price inflation is occurring against the backdrop of improved supply and a rising interest rate environment over the past year.

Slowing price growth is most notable in Dublin. In May, prices in the capital fell for an eighth consecutive month, declining by 0.2% m/m.

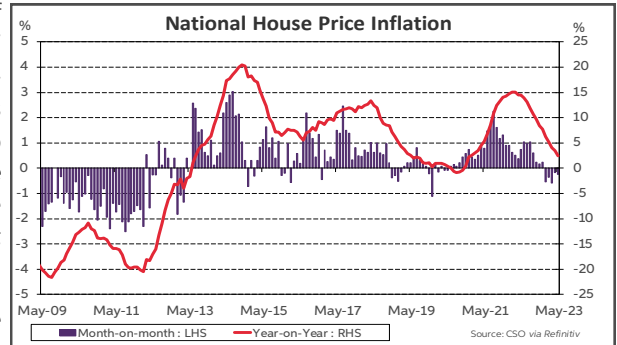
The average monthly fall in Dublin prices since October'22 is now at 0.5%. In year-on-year terms, prices in Dublin were down 0.2% in May. This marked their first negative yearly reading since 2020, when the pandemic impacted the market. Meantime, outside of Dublin, prices fell in May by a modest 0.2%, which followed a 0.4% increase in April. Non-Dublin prices, though, have now fallen for four of the last five months. Prices rose 4.5% y/y in May, which represented their slowest pace of growth since early 2021.

Supply metrics suggest that homebuilding activity registered a solid performance in the first half of the year. The most recent figures from the CSO show that completions in the second quarter totalled 7,353 units. This was 3.5% below its level in Q2 2022. However, completions were up strongly in the first quarter. Overall they are around 6% higher compared to the first half of last year. The four quarter total is running at around 30,500 units. In 2022, new supply totalled just under 30,000 units. **Recent forward looking supply indicators suggest the construction sector may fall short of matching last year's level.** Commencement notices have been running around 27,000-28,000 on a 12-month cumulative basis during H1 2023, below their peak level of 35,000 reached in early 2022. Meanwhile, the housing component of the construction PMI has been in contractionary territory since October of last year. Its latest reading, though, suggested a slower pace of contraction, with the index rising to 48.4 in June, its highest level since October'22. Elsewhere, the total number of dwelling units granted planning permission in the 12 month period to Q1 2023 stood at 37,313, which was 16% lower than the same period in 2022.

Based on underlying demographics, the economy needs at least 30,000 new units to be built per annum. However, new supply has been running well below this level since 2009. Indeed, the recently released 2022 Census data showed that similar to the 2016 survey, population growth (+8% vs 2016) has been outpacing the growth in the housing stock (+5.0%). Although, this was mitigated to some extent by the number of vacant homes falling by 11% (circa 20,000) compared to 2016. Taking this into account, growth in occupied dwellings averaged 23,000 in the period 2016-2021 versus estimated annual demand of 30,000. In short, it means that significantly more than 30,000 units are required to be built on an annual basis to meet yearly demand as well as the pent-up demand that has been accumulating. At the same time though, the supply outlook faces a number of challenges. These include higher building costs, shortages of workers, increased uncertainty regarding the general macro-economic outlook, rising interest rates, availability of funding and delays in the planning process. Government policy is very much focused on boosting housing supply. The latest forecast from the Central Bank of Ireland is that housing completions could amount to 27,500 units this year, while the ESRI is pencilling in 27,000 units, rising to 29,000-30,000 in 2024.

In terms of demand indicators, underlying mortgage market metrics suggest homebuyer activity remains solid. Activity in the mortgage market last year, which totalled €14bn in drawdowns, was distorted by a sharp increase in the 'switcher' segment, which was mainly driven by one-off factors such as the exit of two banks. This is illustrated in the increase last year in 'remortgage' lending to €3.6bn from €1.6bn in 2021. This sector of the market has slowed in the first half of the year. However, the first time buyer segment (FTB) of the market continues to exhibit some strength. Drawdowns for the FTB cohort rose by 7.6% y/y in value terms in Q2. There has been some signs of a softening in demand, though, against the backdrop of higher interest rates, with the FTB drawdown volumes falling by 0.4% y/y in Q2, their first decline since 2020. Meanwhile, the number of mortgage approvals (excluding 'Remortgage/Top Ups') were around 5% higher in H1'23 compared to the same period last year.

Looking ahead, the rising interest rates environment will likely continue to act as a headwind to homebuyer activity and exert some further downward pressure on prices. As a result, we would expect a further moderation in house price growth over the remainder of this year. Given the current downtrend in prices, there is a distinct possibility that prices could end the year below where they started it, albeit the on-going supply shortfall may mean the magnitude of these falls should be modest.



MONTHLY DATA	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23		
RESIDENTIAL CONSTRUCTION ACTIVITY										
S&P BNP Paribas Construction PMI										The Housing component of the Construction PMI improved to 48.4 in June. However, the index has now been in contraction mode for nine consecutive months Commencements rose sharply by 14.8% YoY in Q2. They are up 10% YTD in H1. 12 mth rolling total above 28k
- Housing Activity	41.6	40.6	45.2	46.2	46.5	42.8	45.4	48.4		
Commencements: Month	2,402	1,795	2,108	1,997	3,244	2,579	3,059	2,574		
- Cum 12 Mth Total	26,898	26,957	27,204	26,874	27,309	27,542	27,855	28,369		
- 3 Month Avg YoY %	-19.0	-7.1	10.4	-0.4	5.0	4.5	12.4	14.8		
HOUSING / MORTGAGE MARKET ACTIVITY										
BPFI Mortgage Approvals : Month	3,786	2,650	2,820	2,744	3,896	3,373	4,282	4,175		Mortgage approvals rose by 6.7% YoY in Q2. 12 mth total up to circa 42k Transactions levelling off. They are down 2.7% YoY in Q2, but are flat YTD in H1. 12 mth total just below 62k Stock of mortgages up 0.4% YoY in June
- 3 Month Avg YoY %	-6.2	-8.2	-5.6	-6.9	2.8	2.8	9.0	6.7		
- 12 Mth Total	41,426	40,988	41,046	40,814	41,249	41,323	41,764	41,992		
RPPR Transactions : Month	5,963	6,693	3,618	4,291	5,175	4,170	5,150	4,971		
- 3 Month Avg YoY %	6.2	11.8	14.0	7.0	0.1	-2.5	2.9	-2.7		
- 12 Mth Total	60,884	62,184	62,174	61,840	62,202	61,829	62,248	61,805		
Residential Mortgages (Central Bank of Ireland)										
- Amount Outstanding (Adj.) YoY %	-0.7	-0.9	-0.8	-0.5	-0.4	-0.1	0.0	0.4		
HOUSING MARKET PRICES										
CSO Price Index - MoM %	0.2	0.2	-0.5	-0.3	-0.6	-0.1	-0.2	#N/A		House prices fell for the fifth month running, down by 0.2% in May. YoY rate declined to 2.4% YoY. Ex-Dublin price inflation (-0.2%) outpaces the capital (+4.5%) Asking prices on Daft.ie were around 0.5% lower in YoY terms in Q2. RPPR house price data starting to level-off in recent months
- YoY %	8.4	7.7	6.2	5.2	4.0	3.4	2.4	#N/A		
- Dublin YoY %	6.9	5.9	4.3	3.1	1.9	0.7	-0.2	#N/A		
- Ex Dublin YoY %	9.7	9.1	7.6	6.8	5.6	5.5	4.5	#N/A		
RPPR Transaction Price (Simple Average)										
- 12 Month Average €	372,105	375,728	376,810	384,189	388,307	385,678	384,683	386,179		
Daft List Prices: YoY %	3.8	5.2	1.7	1.0	-0.7	-0.9	-0.2	-0.3		
RENTS & AFFORDABILITY										
RENTS: CSO Private Rents - MoM %	0.5	0.3	0.2	1.0	0.3	0.1	0.6	0.6		CSO rental index rose by 0.6% in June. YoY rate at 7.7%, down from a peak of 12.7% last July
- YoY %	11.0	10.6	10.4	10.6	10.0	8.8	7.8	7.7		
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB										
- Mort as % of Disposable Income	20.7	20.6	20.3	19.8	19.3	#N/A	#N/A	#N/A		Affordability improved slightly in Q1, as wage increases outpaced house price growth

QUARTERLY DATA	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23		
CSO Dwelling Completions										
- YoY %	-7.9	-5.2	41.9	52.9	59.1	31.5	18.4	-3.5		New dwelling completions fell by 3.5% YoY in Q2, with the 12 mth running total edging back to 30.5k Having plunged lower in H2 last year, permissions rose strongly by 37.8% YoY in Q1. 12mth total above 37k
- Cum 12 Mth Total	20,928	20,544	22,205	24,841	27,588	29,776	30,812	30,546		
CSO Planning Permissions										
- YoY %	-8.4	41.0	21.5	1.5	-41.0	-43.5	37.8	#N/A		
- Cum 12 Mth Total	39,077	42,991	44,491	44,655	39,970	34,117	37,313	#N/A		
BPFI Mortgage Drawdowns										
Purchase Drawdowns (Volume)	9,124	10,620	7,654	8,695	9,770	10,689	8,152	8,286		Purchaser drawdowns were down by 4.7% YoY in Q2, led by a fall in lending to movers/investors/switchers. Lending volumes to FTBs flat. In value terms, drawdowns were down by 11.9% YoY in Q2, with the fall more than accounted for by the decline in switching activity. Value of drawdowns over past 12 mths falls to €14.0bn in Q2
YoY % (Volume)	43.3	4.5	4.9	16.9	7.1	0.6	6.5	-4.7		
FTB YoY % (Volume)	43.8	5.2	9.9	22.5	8.9	2.7	6.8	-0.4		
Total Drawdowns (Value, € Mln)	2,783	3,312	2,513	3,134	4,057	4,353	2,867	2,761		
- YoY % (Value)	42.1	12.3	17.3	40.5	45.7	31.4	14.1	-11.9		
- Cum 12mth Drawdowns (Value, € Mln)	10,106	10,467	10,839	11,742	13,016	14,057	14,411	14,037		

Sources: Central Bank of Ireland, CSO, Daft.ie, DoEHLG, HomeBond, BPFI, PSRA, BNP Paribas, AIB ERU Calculations

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