

**SUBMISSION TO  
THE MINISTER FOR FINANCE  
IN ADVANCE OF BUDGET 2010**

**BY**

**CONSTRUCTION INDUSTRY COUNCIL**

**OCTOBER 2009**



### **Importance of the construction industry to the economy...**

The construction industry is a key component of any developed economy. It plays a vital role in each of the following areas:

- An important contributor to economic growth;
- An important source of employment in the economy and stimulus of economic activity;
- An important industry for the achievement of Government policy including improved public infrastructure (schools, hospitals, transport, utilities) that leads to an improvement in competitiveness.

### **Construction industry optimum output level...**

At its peak, construction represented 25% of GNP equating to €38.4bn. This level was unsustainable.

However, all modern economies need a strong, diverse and dynamic construction industry in order to deliver for public and private clients. Across the European Union, construction industries tend to represent approximately 12% of GDP<sup>1</sup>. Given Ireland's relative infrastructural shortfall, the CIC estimates that the optimum size for a healthy construction industry in Ireland is around 15% of GNP. The rapid deterioration in all sectors of the Irish construction industry means that by 2010, the real level of construction output will be significantly below its optimum size.

The outlook for construction industry output in the absence of any policy intervention is less than €10bn or around 8% of GNP in 2011. This is far below the size which is needed to deliver future growth.

### **Construction jobs being shed at a rapid pace...**

At its peak, the construction industry employed c.382,000<sup>2</sup> people in a range of jobs and professions representing 18% of Ireland's total employment. This was unsustainable. The appropriate level of construction employment on the basis of the recommended optimum output in the industry is c.170,000 persons.

By Q1 2009, employment in the construction industry had already reduced to c.221,240 – a loss of almost 161,000 jobs. The CIC expects further job losses through to the end of 2009 which will see employment in the construction industry hitting a low of c.190,000 jobs – 50% of its peak employment levels.

However, a significant number of major infrastructure projects will complete in the first half of 2010 and arising from the lack of new orders over the period 2008-2011, construction output volumes are forecast to decline by 52.5% or by an average of 22%

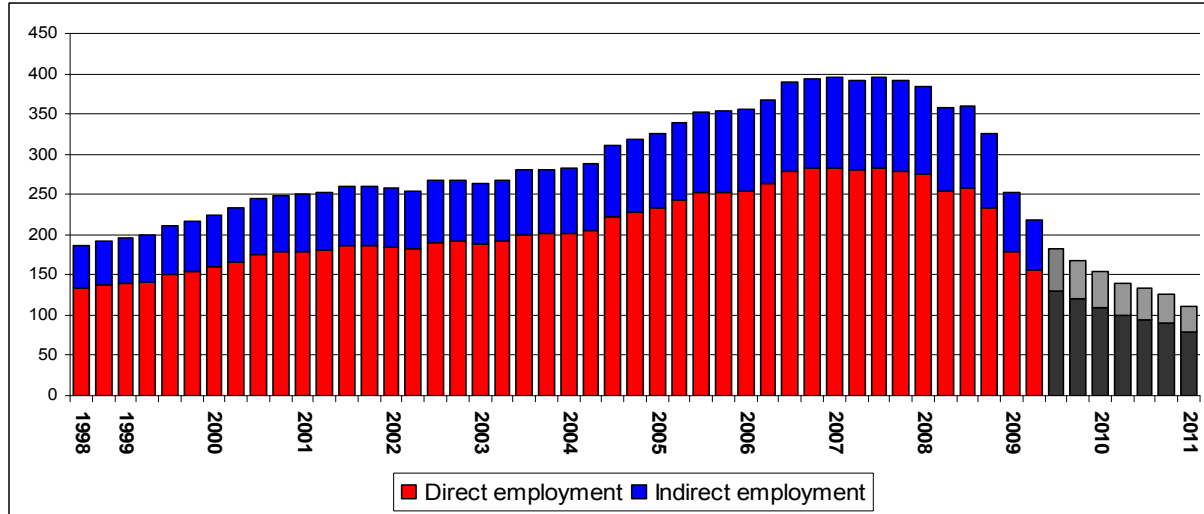
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<sup>1</sup> GDP is the measure used in Europe. Ireland is unique in that it has significant net income flows with the rest of the world which need to be taken into account in deriving the output of the economy. Thus in Ireland, GNP = GDP less net income flows from the rest of the world.

<sup>2</sup> The CIC Submission to Government estimated this figure to be 400,000. The CSO has recently restructured its employment categories and as such the figure of 382,000 is based on this new categorisation for construction employment.

per annum. This will return construction output volumes by the end of 2011 to where they were at in the mid-1990s.

### Direct and indirect employment in construction: 1998 – 2009: Forecast 2010, 2011



The outlook for employment in the construction industry during 2010 and through to 2011 is that a further 100,000 job losses will ensue as the roll out of the Public Capital Programme is curtailed.

The overall cost of this level of construction unemployment to the exchequer will be €5.5bn per annum in social welfare costs. In addition, as jobs are lost in construction, further jobs in the wider economy are jeopardised. Furthermore, the societal consequences of the collapse in the construction industry are only beginning to be felt. Widespread unemployment in construction and the collapse of many previously viable building and civil engineering companies, as well as the manufacturing, services and professional industries which support them will lead to an enormous flight of skills from Ireland.

#### Importance of public sector investment...

Public sector investment in construction has always played an important role in the provision of necessary public infrastructure. Ireland's continued infrastructural deficit, and relatively low levels of public capital stock means that the need for a productive, efficient and strong construction sector is even stronger. In the medium term, Ireland should have a construction output of at least €18bn for a number of years, equivalent to 12% of 2008 GNP.

#### Deepening recession...

Since the CIC made its submission in April 'Jobs & Infrastructure – A Plan for National Recovery', the 2009 Annual Construction Industry Review and Outlook (CIRO) report was published by the Department of the Environment, Heritage and Local Government in

September 2009 and it concluded that “the construction recession is deepening and the recovery is a long way off”.

**The decline in the construction industry below its optimum size is resulting in unnecessary job losses, an erosion of essential long-term productive capacity and will further undermine our national competitiveness.**

**Action is required immediately to manage this unprecedented decline of an industry in the economy whose contribution and skills are an important factor in economic recovery.**

**The CIC solution...**

The options available to Government are either to ‘do nothing’ or to ‘do something’ by providing investment in infrastructure equivalent to €5bn per annum for three years and save 70,000 jobs while improving overall economic performance and competitiveness. The source of part of the funding suggested is a combination of private pension funds and other ‘off balance sheet’ structures. Details of this innovative solution are set out in detail in the CIC submission, April 2009. The benefits of the CIC proposal can be summarized in the following table:

<b>Do Nothing</b>		<b>Do Something</b>	
<b>Stimulus Package</b>	<b>€0</b>	<b>Stimulus Package</b>	<b>€5 bn</b>
Job losses in construction	50,000	Jobs saved in construction	50,000
Induced employment effects	20,000	Induced employment effects	20,000
<b>Total job losses in Ireland</b>	<b>70,000</b>	<b>Total jobs saved in Ireland</b>	<b>70,000</b>
Social welfare costs (€18,254 per person)	€1.3 bn	Social welfare savings (€18,254 per person)	€1.3 bn
Total tax lost (€18,458 per person)	€1.3 bn	Total tax take (€18,458 per person)	€1.3 bn
<b>Total cost of doing nothing</b>	<b>€2.6 bn</b>	Total avoided cost	€2.6 bn
		<b>Net cost of €5 bn stimulus</b>	<b>€2.4 bn</b>

It is also worth noting the following points in relation to the proposed CIC solution:

- That the stimulus generally takes place over a 24 to 36 month period (12 months design/planning and 24 months construction);
- That the social welfare costs saved and the tax take on construction occurs during this 36 month period, with most of it during construction;

- If such infrastructure is funded by PPP and/or the Infrastructure Bond, the cost to the Exchequer only begins after construction is completed and takes place over the following 20/25 years;
- The effect of this is that the payments only begin to occur when the benefit/growth effect of having such infrastructure in place are coming through;
- It is also likely that the payments will only occur when the economic cycle has turned and greater growth/government revenues are available.

One key advantage of encouraging infrastructure investment is that it creates assets to offset against borrowing, while at the same time contributing to aggregate demand. It also addresses the productivity and competitiveness of the economy and its immediate impact on unemployment is obvious.

While it has been confirmed to the CIC that the Government is very keen to access and encourage investment by pension funds and others in public infrastructure, the construction industry has yet to see examples of such commitments coming to fruition.

There is now a window of opportunity to roll out badly needed public infrastructure projects given the excellent value for money which is available combined with high productivity and an abundance of skilled resources. This would secure construction jobs and retain skills across the country as the industry moves towards its optimum level.

The current economic crisis has brought into sharp focus the choices available and the consequences of inaction. The CIC solution will:

- Manage the continuing rise in unemployment in the construction industry;
- Maintain highly skilled productive resources in Ireland;
- Provide badly need public infrastructure at excellent value for money;
- Improve national competitiveness;
- and guide the construction industry towards its optimum level.