



OSG

HOUSEHOLD CLAIMS

DEFLATION REPORT 2013-2014

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OSG (Outsource Services Group Ltd) is an independent outsource service provider to the insurance and financial services market. Originally established in Dublin in 1984, we have progressed through indigenous growth, strategic recruitment and business acquisition to our current position as the premier provider of outsourced service solutions to the insurance and related financial services market. We now directly employ over 350 people.

EXECUTIVE SUMMARY

The purpose of this report is to provide a forecast of annual household property claims deflation for the remainder of 2013 and 2014.

A summary of our core findings are as follows:

BUILDINGS

Overview

- Total value of Construction output fell in 2012 to €7.5 billion, (2013 estimate €7billion)
- Housing output fell to 8,488 units in 2012, a 19% reduction on 2011. For the first 5 months of 2013, the number of house completions is 2,997.
- Tender levels on large projects increased by 2.8% in 2012
- Direct employment in construction was down to 99,600 in 2012, a reduction of 6% on the previous year.
- Residential property prices were down 1.1% at a national level in the year to May 2013 but up in Dublin by 1.4%
- The Society of Chartered Surveyors Ireland in their Budget 2014 Submission to Government seek a reduction in VAT to 5% on labour and professional services for property repairs, maintenance, lettings and management of residential and commercial property

Material Costs

We estimate material costs will rise in the remainder of 2013 and 2014 as follows;

- 2013: 1.00%
- 2014: 1.25%

Labour Costs

Competitive dynamics within the economy, with a greater supply of labour, will maintain labour cost reductions in the medium term. We estimate deflation as follows;

- 2013: -2.50%
- 2014: -1.25%

CONTENTS

We expect the cost of household content claims to reduce in the next 18 months as follows:

- 2013: -3.00%
- 2014: -3.20%

DEFLATION FORECAST 2013 - 2014

Based upon the detailed research undertaken, the current subdued economic environment and our knowledge of the market, we estimate household claims cost deflation, on an annual basis, for 2013 and 2014 as follows:

	2012	2013
Materials	1.00%	1.25%
Labour	-2.50%	-1.25%
Buildings (Weighted: Materials 30:70 Labour)	-1.45%	-0.50%
Contents	-3.00%	-3.20%
Forecast Deflation (Weighted: Buildings 3:1 Contents)	-1.84%	-1.18%

1. CONSTRUCTION SECTOR OVERVIEW

The challenge facing the construction industry is one of striving to survive the current economic downturn in the short-term and hope for a path to recovery in the medium-term.

The Society of Chartered Surveyors Ireland (SCSI) in their document *'Budget 2014 Submission to the Department of Finance and the Department of Public Expenditure and Reform'* have listed a variety of recommendations which they note have two themes: *'the promotion of new financial support to allow the completion of necessary development and the maintenance and growth of skilled employment in the construction and property sectors.'*

Reports produced over the course of the first six months of 2013 suggest that actual construction output is not likely to exceed €7 billion this year. From a peak of €39 billion in 2007, this represents a drop of almost 82% along with employment in the sector halving.

It is generally accepted that in 2013 annual construction output should be in the region of €16 billion-€20 billion if it is to perform at an appropriate level to meet the needs of the economy. Davis Langdon in their 2013 annual review consider that a sustainable level would be circa 10 – 12% of Gross National Product, 8 – 10% of Gross Domestic Product as being in the range required in the medium-term. This would equate to circa €15 billion in current values or double the present level of output. The reality is however that it is likely to be no more than €7 billion.

Some overview observations on the construction sector are:

- Total value of Construction output fell in 2012 to €7.5 billion,
- Housing output fell to 8,488 units in 2012, a 19% reduction on 2011. For the first 5 months of 2013, the number of house completions is 2,997.
- Tender levels on large projects increased by 2.8% in 2012
- Direct employment in construction was down to 99,600 in 2012, a reduction of 6% on the previous year
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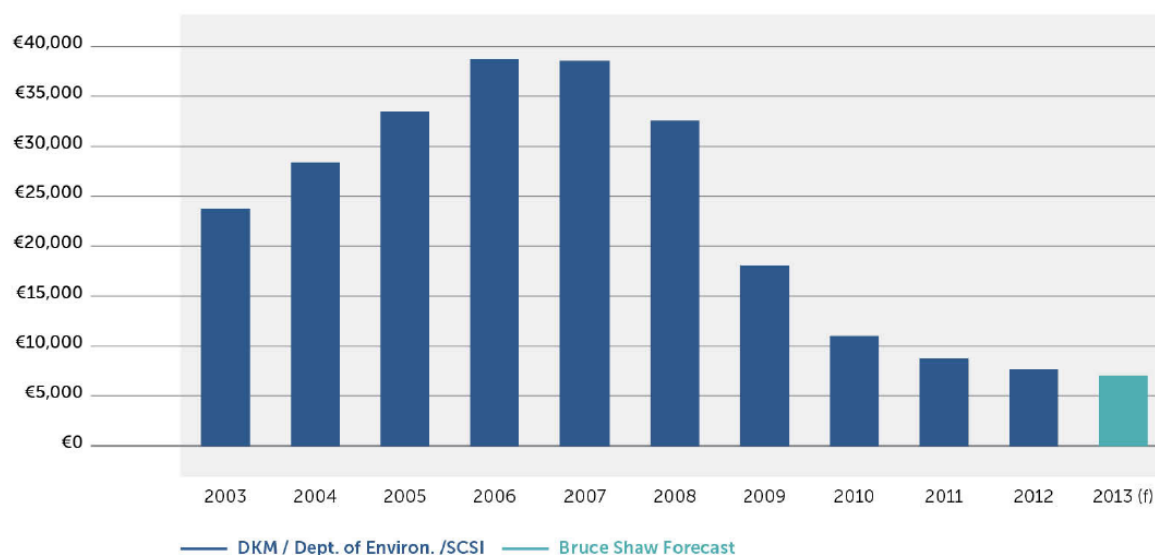
1.1 Construction Sector Review

Construction output for 2012 was down to circa €7.5 to €7.99 billion according to Davis Langdon per the table below and this represents a reduction on 2011 of between 9% and 13%.

Value of construction output	€	€	€
	2011	2012(e)	2013(f)
SCSI	€8.70bn	€7.50 bn	€7.10 bn
CENTRAL BANK	€8.80bn	€7.99 bn	€7.73 bn
DAVIS LANGDON	€8.50bn	€7.75 bn	€7.50 bn

The chart below graphically shows this decline between 2003 and 2013:

Value of Construction Output m 2003 - 2013



Source: DKM / Department of Environment, Community & Local Government / SCSI / Bruce Shaw

The quarterly 'Production in Building and Construction Index' produced by the CSO, which monitors trends in the value and volume of production, is based on a sample survey of private firms operating in the building, construction and civil engineering sector. Data published in June 2013 by the CSO shows an increase of 4.4% in the first quarter of 2013, a rise of 10.7% on the year.

Davy Research, in their June 2013 Report Irish Economy, comments that Q4 2012 growth has also been revised up to 6.1% from 3.3%. The breakdown of output shows that residential construction Q1 2013 rose 6.8% quarter- on- quarter (-2.5% year-on-year), non-residential rose 1.2% (+ 2.4% year on year) and civil engineering, the only sector to experience a decline, fell 0.7%.

They add that the robust rise in residential output is the most surprising aspect given that housing completions fell 12.1% year on year in the quarter. The construction output release uses a survey of building firms activity levels and is seasonally adjusted, unlike the completions data, which may help explain the variance. Housing starts did pick up in January with 342 starts in the month, representing a 55.5% rise off exceptionally low levels a year earlier. This pickup may have been sustained through the first quarter, explaining the rise in residential output. A rise in repair and maintenance work could also explain the pickup – this would not be captured in the house building statistics. This cannot be verified from the CSO release, which does not split out new work and repair and maintenance work.

The CSO data also shows the number of persons employed in the construction sector falling from 106,400 in 2011 to 99,600 in 2012. Davy Research note that it appears there has been some stabilisation in the construction sector over the past number of quarters however firms have yet to respond by increasing staffing levels. Employment in construction fell 4.5% in the first quarter, and the construction PMI indicated further falls in recent months. They observe that firms are keeping costs to a minimum as yet despite the apparent pickup in activity.

Table 1(a) Seasonally Adjusted Indices of Production in all Building and Construction¹

Base Year: 2005=100

		Value of Production			Volume of Production		
Period	Index	% change on previous period	Annual % change	Index	% change on previous period	Annual % change	
2006	109.7		9.9	103.3		3.1	
2007	99.6		-9.2	89.4		-13.5	
2008	73.2		-26.5	63.6		-28.8	
2009	45.6		-37.7	40.7		-36.1	
2010	32.3		-29.2	28.3		-30.4	
2011	25.9		-19.7	23.4		-17.3	
2012	24.7		-4.8	21.8		-6.9	
2006	1st quarter	110.7	8.1	19.5	104.5	1.2	12.5
	2nd quarter	106.5	-3.8	5.6	101.1	-3.3	0.3
	3rd quarter	105.5	-0.9	2.3	102.6	1.5	-0.8
	4th quarter	116.0	10.0	13.3	104.8	2.1	1.5
2007	1st quarter	104.2	-10.2	-5.9	96.7	-7.7	-7.5
	2nd quarter	105.1	0.9	-1.3	94.8	-2.0	-6.2
	3rd quarter	96.3	-8.4	-8.7	86.1	-9.2	-16.1
	4th quarter	92.9	-3.5	-19.9	79.8	-7.3	-23.9
2008	1st quarter	84.3	-9.3	-19.1	74.0	-7.3	-23.5
	2nd quarter	78.3	-7.1	-25.5	68.0	-8.1	-28.3
	3rd quarter	70.0	-10.6	-27.3	59.1	-13.1	-31.4
	4th quarter	60.2	-14.0	-35.2	53.2	-10.0	-33.3
2009	1st quarter	53.8	-10.6	-36.2	46.9	-11.8	-36.6
	2nd quarter	47.4	-11.9	-39.5	42.0	-10.4	-38.2
	3rd quarter	43.6	-8.0	-37.7	39.5	-6.0	-33.2
	4th quarter	37.7	-13.5	-37.4	34.2	-13.4	-35.7
2010	1st quarter	35.2	-6.6	-34.6	30.6	-10.5	-34.8
	2nd quarter	33.1	-6.0	-30.2	29.1	-4.9	-30.7
	3rd quarter	31.5	-4.8	-27.8	28.0	-3.8	-29.1
	4th quarter	29.4	-6.7	-22.0	25.5	-8.9	-25.4
2011	1st quarter	26.6	-9.5	-24.4	24.0	-5.9	-21.6
	2nd quarter	25.3	-4.9	-23.6	22.9	-4.6	-21.3
	3rd quarter	26.3	4.0	-16.5	23.4	2.2	-16.4
	4th quarter	25.5	-3.0	-13.3	23.3	-0.4	-8.6
2012	1st quarter	24.2	-5.1	-9.0	21.4	-8.2	-10.8
	2nd quarter	24.2	0.0	-4.3	21.6	0.9	-5.7
	3rd quarter	24.3	0.4	-7.6	21.4	-0.9	-8.5
	4th quarter	26.0	7.0	2.0	22.7	6.1	-2.6
2013	1st quarter ²	26.5	1.9	9.5	23.7	4.4	10.7

¹Based on Seasonal Patterns up to Quarter 1, 2013²Provisional

1.2 Housing

The residential market has been at the centre of the financial storm, which has hit the economy, with the result that, after the unsustainable level of house completions up to 2007, it was destined for collapse. The number of completions for 2012 is 8,488, down 19% on the preceding year. Of these, 5,162 units were individual houses, 2,333 scheme houses and 993 apartments.

For the first five months of 2013 the number of completions stands at 2,997 units comprising 1,843 individual houses (61.5%), 894 scheme houses. (29.8%) and 260 apartments (8.7%) as shown below:

	Individual House	Scheme House	Apartments	Total
2005 *	20,362	42,160	18,035	80,557
2006 *	22,806	50,267	19,946	93,019
2007 *	19,663	39,273	18,691	77,627
2008 *	17,386	21,127	12,811	51,324
2009 -	12,065	9,207	5,148	26,420
2010 -	7,914	4,600	2,088	14,602
2011 -	6,526	2,614	1,340	10,480
2012 -	5,162	2,333	993	8,488
2013 - First 5 months	1,843	894	260	2,997

The above data is shown on a percentage basis by type:

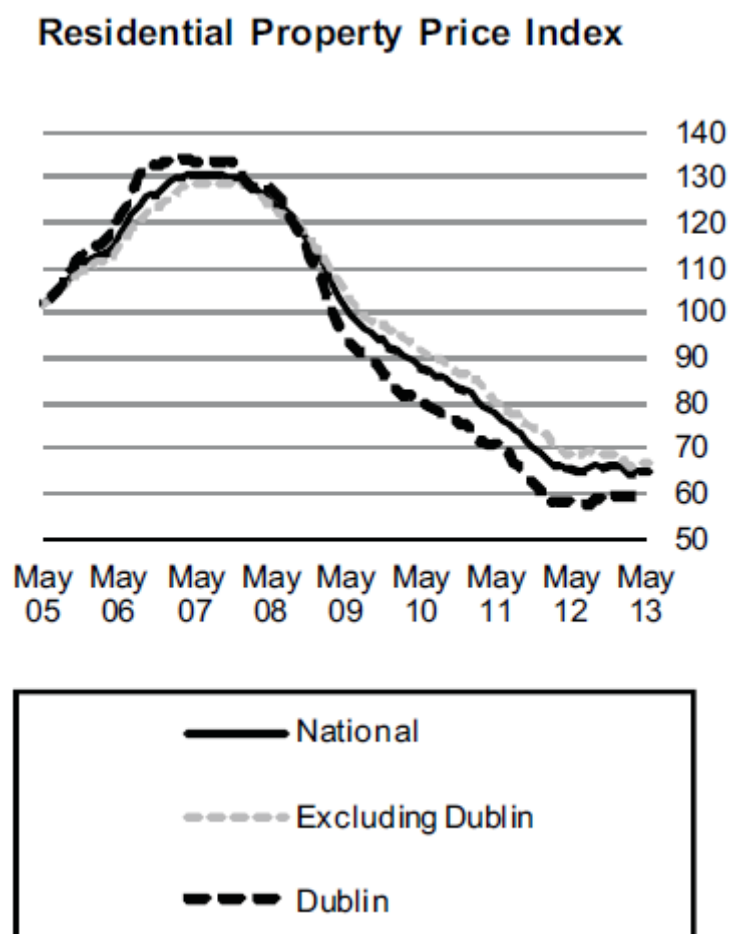
	Individual House	Scheme House	Apartments	Total
2005 *	25.3%	52.3%	22.4%	100%
2006 *	24.5%	54.0%	21.4%	100%
2007 *	25.3%	50.6%	24.1%	100%
2008 *	33.9%	41.2%	25.0%	100%
2009 -	45.7%	34.8%	19.5%	100%
2010 -	54.2%	31.5%	14.3%	100%
2011 -	62.3%	24.9%	12.8%	100%
2012 -	60.8%	27.5%	11.7%	100%
2013 - First 5 months	61.5%	29.8%	8.7%	100%

The data is based on the number of new dwellings connected by the ESB to the electricity supply but excludes conversions. The classification "individual house" is where the connection is provided to separate detached houses, "scheme houses" is where the connection is provided to 2 or more houses and "apartment" is where all customer metering for the block is centrally located.

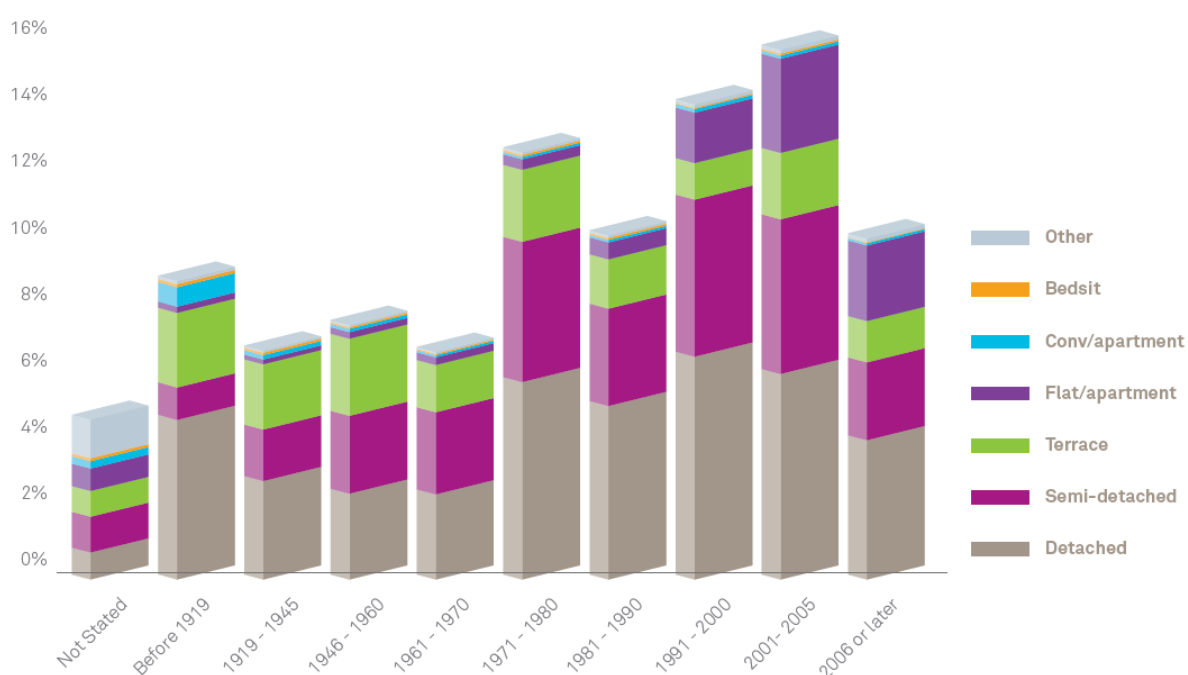
Residential property prices across the state were down 1.1% in the year to May 2013, according to data from the CSO published in June 2013. The rate of price decline is easing, however, when compared to annual falls reported of 1.2% in April and a decline of 15.3% recorded between May 2011 and May 2012.

Residential property prices in Dublin grew by 0.5% in May and were 1.4% higher than a year ago. Apartment prices in the capital were 1.2% lower when compared with the same month of 2012, however, this figure is calculated on a relatively small sample size and could reflect volatility because of this. When Dublin is excluded, residential property prices grew by 0.1% in May. Prices were 2.8% lower than in May 2012.

House prices in Dublin are 55% lower than at the highest level in early 2007. Apartments in Dublin are 61% lower than they were in March 2007. Residential property prices in Dublin are 56% lower than at their highest level in March 2007. The fall in price of residential properties in the Rest of Ireland is somewhat lower at 48%. Overall, the national index is 50% lower than its highest level in 2007.



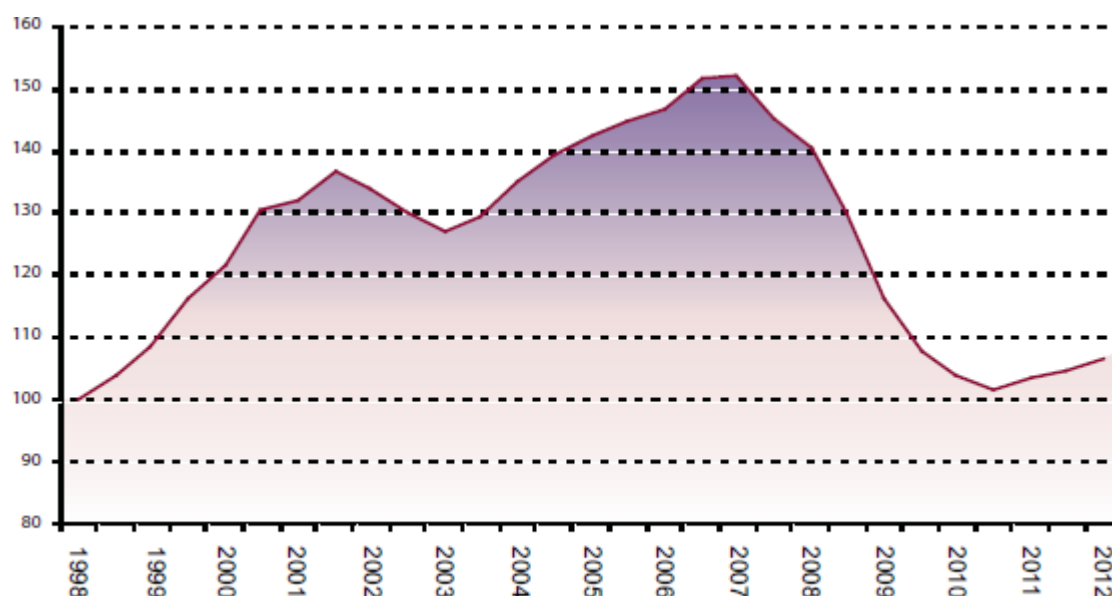
Looking to the more medium to long-term, the most recent Census 2011 results, published in July 2012 included statistics on the age profile and type of residential dwellings. This is useful when considering the likely demand for residential properties in the future. It is clear that, whilst the pace of change will be dictated by economic factors, it does indicate that 44% of dwellings predate 1980:



The SCSi in their Pre-Budget Submission 2014 commented on mortgage availability. Despite the large injections of public money into Irish banks, there is concern that anecdotally, even the safest and most modest applicants for mortgages are routinely being refused credit. In 2012, mortgage lending represented approximately €2.96 billion. It has been estimated that as the market recovers, a residential mortgage market size of €4 to €4.5 billion is achievable in Ireland. Furthermore, they note it is reasonable to assume that Ireland may experience an annual mortgage market of €8-€10 billion within 5 to 10 years. The SCSi recognises that by the end of the first quarter of 2013, there were some 142,000 mortgages in some form of arrears, and that the number of mortgages in long-term arrears continues to grow.

In the buy-to-let (BTL) sector, they note that at the end of March 2013, there were 149,395 residential mortgage accounts for buy-to-let properties held in the Republic of Ireland to a value of €30.9 billion. Of this stock of accounts, 29,369 or 19.7% were in arrears of more

than 90 days. This compares with 28,366 (18.9% of total) that were in arrears of more than 90 days at the end of December 2012. The outstanding balance on BTL mortgage accounts in arrears of more than 90 days was €8.6 billion at the end of March, equivalent to 27.7% of the total outstanding balance on BTL mortgage accounts. This represents a significant challenge to the smooth running of the Irish property sector. The chart below shows the Value of Mortgage Lending 2006 -2013:



Source: Society of Chartered Surveyors Ireland (1998 = 100)

In 2012, the SCSi undertook a major research project to examine attitudes of the public towards renting or buying residential property. The report found that amongst younger, urban people, renting was seen as a positive option, especially during periods of house price uncertainty. An examination of the annual change in rents since 2007 shows that while rents fell at the same pace as sale prices between 2007 and 2009, they have seen a stronger recovery than sale prices. Nationally, rents increased by 2.2% over 2012, driven by strongest growth in Dublin and Leinster. Unlike the sales market, which is notable for its wide regional variation, the rental market is performing in a more uniform way, with fewer differences in rents between rural and urban properties.

1.3 Private Non- Residential

Davis Langdon comment that in terms of the broader property market, activity has been generally muted with some limited activity in the office market, particularly in the Dublin region, but the retail sector continues to decline. Notwithstanding this, a number of national brands will continue to roll out national programmes where they are restructuring their offering to meet the changing market. In addition, there is some movement in the hotel sector where, after a number of years of little or no investment, a minimum level is required to continue to operate effectively.

In terms of potential impact for the construction sector, the limited private sector activity is likely to be primarily in the office fit out, IT data storage and high end manufacturing for Foreign Direct Investment and indigenous exporters.

The SCSi note that the IDA have been extremely successful at attracting investment into Ireland. As a result, the commercial property market is one of the few sectors which is experiencing real transactional and construction activity. Foreign Direct Investment is at the heart of that economic activity, and these business "wins" have generated a good demand for office accommodation for business service enterprises establishing a base in Ireland. Demand, particularly seen in Dublin, is for small units between 5000 and 10,000ft.². In addition, there are a small number of high profile clients who require significantly larger, bespoke, properties.

1.4 Purchasing Managers Index

The July 2013 Construction Purchasing Managers Index from The Ulster Bank notes a further decline in activity was recorded at Irish construction firms in June. New business also decreased, albeit marginally. Lower new work led to further sharp reductions in purchasing activity and employment, but business sentiment improved. The index, a seasonally adjusted index designed to track changes in total construction activity, posted 43.4 in June, up from 42.0 in May, but still signalled a sharp monthly fall in activity. Some respondents indicated that projects had reached completion, with new order levels insufficient to compensate.

Further sharp declines in both employment and purchasing activity were recorded, in each case, reflecting the completion of existing projects and a lack of new orders. The rate of job

cuts actually quickened over the month, and was the fastest in 2013 so far. Meanwhile, purchasing activity, has now decreased in each of the past 34 months.

Simon Barry, Chief Economist, Republic of Ireland at Ulster Bank noted that:

"The Irish construction sector continued to contract in June, according to the latest reading of the Ulster Bank Construction PMI. The pace of decline did ease slightly last month as the PMI rose slightly to its highest level since February, reflecting a slower rate of contraction in both Housing and Commercial activity. While survey respondents continue to experience very challenging conditions at present, some forward-looking elements of the survey offered some encouragement about future prospects. Notably, the New Orders index rose to its highest level since March 2012. The reading of 49.5 in June, came very close to the 50 breakeven level, thus tentatively hinting at possible stabilisation in new business flows. And some optimism surrounding potentially better order levels boosted confidence among respondents, with sentiment regarding the 12 month outlook, rising to its highest level since early 2007."

All three monitored sectors posted lower activity but rates of decline varied. The sharpest fall was on civil engineering projects, where the rate of contraction accelerated to the fastest since December 2010. Rates of decline did ease elsewhere, with the slowest reduction in activity on residential projects.

Latest Construction PMI[®] readings

	May'13	Jun'13
Total Activity	42.0	43.4
Housing Activity	44.2	46.4
Commercial Activity	40.3	44.3
Civil Engineering Activity	33.9	30.6

Index readings above 50 signal an increase in activity on the previous month and reading below 50 signal a decrease. All indexes given above and displayed in the charts are seasonally adjusted.

Source: Markit.

Society Of Chartered Surveyors Ireland – Budget 2014- Submission to the Department of Finance and the Department of Public Expenditure and Reform

The submission from the SCSi contains a series of recommendations to Government with the aim of restoring confidence and activity to the property market promoting investment in Ireland's built environment, and preventing further erosion of skills and capacity in the construction sector.

The key recommendations are as follows:

Construction

- Targeted investment of capital and PPP funds in physical infrastructure to attract further investment into Ireland
- Delivery of alternative private funding for public works
- Delivery of a published multi-annual pipeline of public and semi-state capital projects
- The creation of the post of Chief Construction Adviser to the Government
- Investment in, and rationalisation of, public buildings. Managed, strategic rationalisation of buildings owned and leased by the State, and continued investment in the public built environment.
- Reduction of VAT to 5% on labour and professional services for property repairs, maintenance, lettings and management of residential and commercial property

Residential Property

- Introduction of standardised mortgage application forms across all banks
- Creation of an independent mortgage review body
- Address supply problems through the promotion of increased urban densities and development of brown field sites; nationwide expansion of pilot schemes to refurbish Georgian areas

Commercial Property

- Promotion of increased international investment in Irish commercial property through the support of Real Estate Investment Trusts coupled with measures to support small-scale domestic investment by pension and insurance funds in residential and commercial property on a syndicated basis
- Reduction of VAT to 5% on labour and professional services for property repairs, maintenance, lettings and management of residential and commercial property
- Reform of the taxation regime for inter-generational transfer of agricultural property and re-instatement of rollover relief

With regard to the proposal for the reduction of VAT to 5%, it will be interesting to monitor if this recommendation is followed and if there is a subsequent application to the insurance repair market. This recommendation is imported from a report commissioned by Experian in the UK where they conducted a rigorous analysis of the size of the shadow economy in the sector and economic effects of a reduction in the VAT rate. It was observed that this would result in a decline in Exchequer income from the legitimate economy. It would however have a positive impact in bringing non-compliant work into the tax compliant sector. The SCSl are of the view that this could have a significant positive effect in stimulating new activity and promoting private investment in the built environment.

1.5 Construction Costs and Prices

As mentioned in previous reports It is important to distinguish between tender prices and construction input costs. The former are subject to market pressures while the latter reflect the actual cost of labour and materials.

The most recent annual data (CSO May 2013) for the wholesale prices of building and construction materials show prices increased by 1.1% on average since May 2012. The composite measure known as the capital goods price index, which captures the cost of materials and wages, shows Building & Construction (i.e materials and wages) increased 0.4% for the same period.

The most notable yearly changes in the wholesale price index for building and construction materials were:

▪ Glass	+10.4%
▪ PVC Pipes & Fittings	+9.9%
▪ Stone	+4.7%
▪ Insulating Materials	+4.6%
▪ Ready mixed mortar and cement	+2.7%
▪ Paints, Oils & Varnishes	-5.8%
▪ Other structural Steel	-3.8%
▪ Hardwood	-3.8%
▪ Concrete blocks & bricks	-1.8%

The price of Energy products decreased by 1.4% in the year since May 2012 while Petroleum fuels decreased by 3.6%. In May 2013, the monthly price index for Energy products increased by 0.1% while Petroleum fuels also increased by 0.1%.

Average weekly earnings in the construction sector for Q1 2013 are down slightly by -0.5% compared with Q1 2012. There is a slight reduction in the average hours worked by -0.3% for the same period.

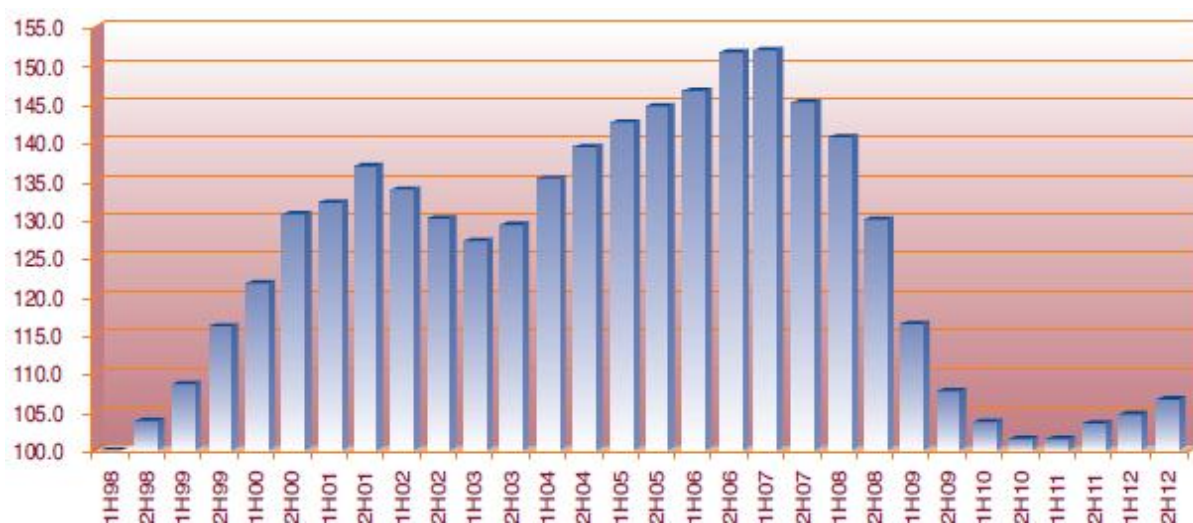
1.6 Tender Levels

The tender price index prepared by the Society of Chartered Surveyors is based on actual tender returns for non-residential projects during the period in question. It is based predominantly on new-build projects with values in excess of €0.5 million and covers all regions of Ireland. The index is therefore a measure of average price increases across differing project types and locations.

The latest figures from the Society of Chartered Surveyors Ireland show that construction tender prices increased by 1.8% in the second half of 2012 and 2.8% for the year as a whole. Andrew Nugent, Chair of the Quantity Surveying Professional Group, commented,

"We are now seeing a slow recovery in construction tender prices, which have risen by almost 5% over the past two years and which is primarily due to rising input costs such as building materials and energy costs. The gradual increase in tender prices also reflects a growing reality in the industry that recent trends in below cost tendering are unsustainable, as witnessed by the number of company and project failure amongst contractors and subcontractors."

The SCSi also noted that although tender prices are now slightly more realistic, particularly in the specialist building services area, there remains a severe shortage of work within both the public and private sectors and tenders are likely to remain competitive for the foreseeable future.



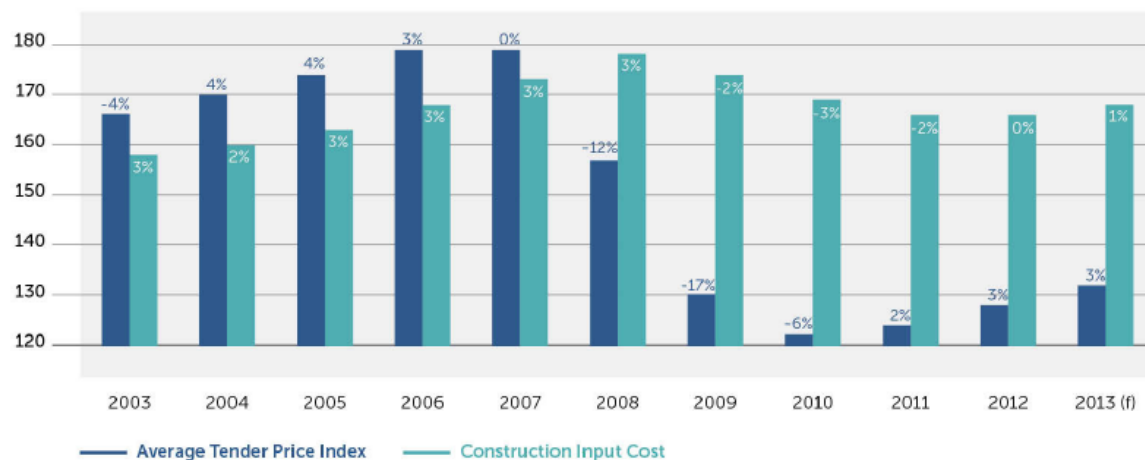
First Half 1998	100.0	Second Half 2005	144.7
Second Half 1998	103.8	First Half 2006	146.7
First Half 1999	108.6	Second Half 2006	151.7
Second Half 1999	116.1	First Half 2007	152.0
First Half 2000	121.7	Second Half 2007	145.2
Second Half 2000	130.7	First Half 2008	140.7
First Half 2001	132.2	Second Half 2008	130.0
Second Half 2001	136.9	First Half 2009	116.4
First Half 2002	133.9	Second Half 2009	107.7
Second Half 2002	130.1	First Half 2010	103.7
First Half 2003	127.2	Second Half 2010	101.5
Second Half 2003	129.3	First Half 2011	101.5
First Half 2004	135.3	Second Half 2011	103.5
Second Half 2004	139.4	First Half 2012	104.5
First Half 2005	142.6	Second Half 2012	106.4

Davis Langdon in reviewing the matter of tender prices raise the question as to how close in percentage terms are we to sustainable tender levels. In their view, they note that it is seen as contractors setting prices at a level that covers costs and making provision for profit and overhead in line with normal business expectations. They are of the view that tender levels have not reached that sustainable level and thus the industry will graduate towards such a level by means of continued modest annual increases. They anticipate that this would be achievable by 2015 but cautioned that in the current environment, even six-month projections are challenging. They also observed that the last couple of years saw an increasing number of contractors in the general building sector following a dangerous path of "having to" go in low and pursuing claims strategies to seek to recoup the shortfall in costs, profits and overhead allowed for in tender prices.

With regard to construction costs, Davis Langdon on balance anticipates a further 3% rise in 2013 and similarly in 2014. They expect construction costs will broadly track that of the general economic consumer price index of circa 2% per annum.

Bruce Shaw comments that contractors and subcontractors have realised that below cost tendering is not sustainable in the long run and there is some more realism becoming apparent in tender prices, led in the main by specialist mechanical and electrical subcontractors. They predict that this trend will continue in 2013 but tender prices predicted to rise by 3% to 4% while input costs will rise more slowly by 1%:

Bruce Shaw Tender & Cost Indices



Source: Bruce Shaw Partnership

Bruce Shaw also notes that unfortunately this realism has come too late for many construction companies and the rate of company failure in the construction sector is still significantly higher than in any other sector of the Irish economy, with 415 insolvencies last year and over 1,300 in the period 2010 to 2012.

They state, there are two major implications for clients of these trends in construction prices. Firstly, project budgets spanning a number of years will once again have to allow for future tender price inflation and secondly, clients and design teams should look carefully at the financial strength of contractors and their ability to obtain performance guarantee bonds before entering into construction contracts. This is becoming an increasingly difficult area, with the withdrawal of some sureties from the Irish bonding market and those remaining only offering bonds of a lesser value.

The SCSi commenting on the shortage of available skills for specialist construction projects, said that it was likely that sub contract prices for certain projects would continue to rise, more significantly, if major projects requiring such skills are given the go-ahead. They also observed on a positive note, the recent Government announcement of a €2.25 billion investment in construction projects, including schools, care facilities and infrastructure, will provide the construction industry with a welcome boost as well as creating an additional 13,000 jobs. The effect of this stimulus package on construction cost remains to be seen, but the SCSi will continue to monitor it.

2. BUILDING CLAIMS DEFLATION

A lot of the information provided in the Construction Sector Overview is taken from sources that are primarily focused on larger scale projects. Nonetheless this does have an impact on the domestic insurance claims arena given the oversupply of resources and competition for work.

2.1 Materials

There was a 1.1% increase in material costs year-on-year May 2012 to March 2013. The table below shows a breakdown extracting the materials most commonly encountered in domestic claims along with the monthly changes for March, April and May 2013:

Wholesale Price Index (ex Vat) for Building & Construction Materials					
Materials	May 2013 % Annual Change		Monthly % Change		
	Increase	Decrease	Mar	Apr	May
Paints,Oil Varnishes		-5.8%	0.0%	0.0%	0.0%
Concrete Blockwork		-1.8%	-2.0%	0.5%	-1.3%
Glass	10.4%		0.0%	0.0%	0.0%
Ready mixed Mortar & Concrete	2.7%		-0.3%	-0.4%	0.4%
Other Timber		-0.9%	0.0%	0.0%	0.0%
Copper Pipes & Fittings		-0.7%	0.0%	0.3%	-0.5%
Other Structural Steel		-3.8%	-3.5%	-0.2%	0.0%
Insulating Materials	4.6%		0.0%	0.0%	3.3%
Electrical Fittings	1.0%		0.0%	1.4%	0.0%
Rough Timber	2.1%		0.0%	0.0%	0.0%
Plaster	1.8%		0.0%	30.0%	30.0%
PVC Pipes & Fittings	9.9%		0.0%	0.1%	0.0%

Factors to be borne in mind in reviewing material cost changes include the economic uncertainty, manufacturers reducing production runs due to the falling demand together with the fact that on insurance repair work contractors are unlikely to be in a position to avail of bulk discounts. Nonetheless, there is still some upward pressure on material costs and therefore with respect to the remainder of 2013 and 2014 we would predict that there could be increases as follows:

- 2013: +1.00%
- 2014: +1.25%

2.2 Labour

A 7.5% wage cut was ratified by the Labour Court in January 2011 and was applicable from 4th February 2011. This was followed by a further Labour court Recommendation of a 2.5% at the end of 2012. This would have accounted for some of the official wage reduction however market forces have also seen contractors reduce labour costs below this. On certain specialist projects, the available skilled labour pool has shrunk bearing in mind emigration and receiverships, leaving a smaller pool of contractors available to tender for work. Tender prices have started to pick up as noted by the SCSl Tender Index though it must be borne in mind that this is on larger projects with a value over €0.5 million.

With regard to domestic claims we predict that there will be continued pressure on contractors to reduce labour costs for the remainder of 2013 and into 2014 as shown below:

- 2013: -2.50%
- 2014: -1.25%

The utilisation by Insurers of Managed Contractor Schemes should ensure that the projected reduction in labour costs are crystallised.

3. RETAIL SALES & CONSUMER PRICE INDICES

3.1 Retail Sales Index

The most up to date RSI Statistics are for April 2013, which illustrate annual percentage reductions of -0.50% in volume and -1.40% in value. The month itself shows an increase of 0.20% in volume and 0.30% in value.

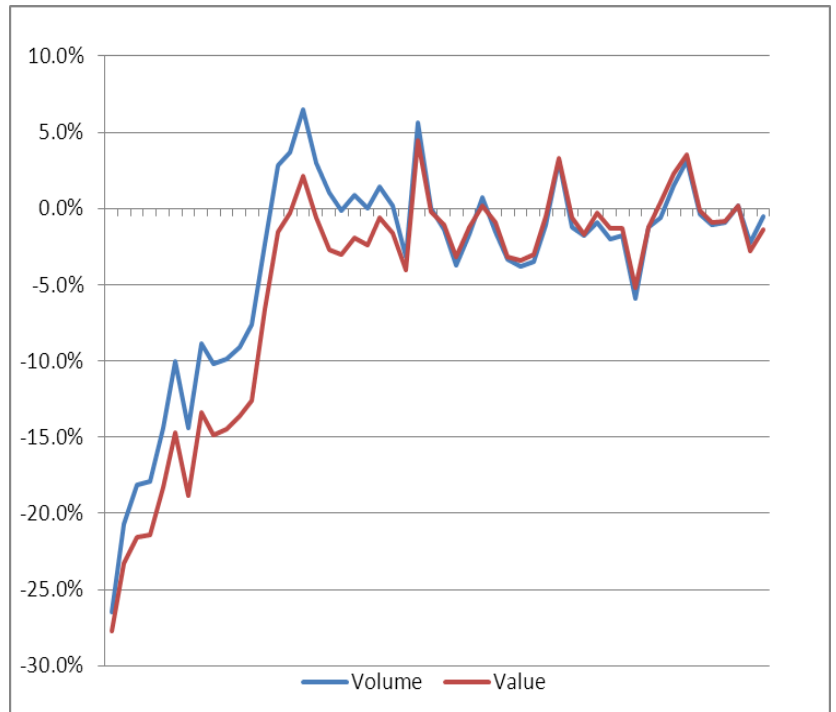
The key annual, to April 2013, percentage movements in both volume and price by business category are:

	Volume	Value
Motor Trade	-0.6%	-1.9%
Department Stores	1.6%	0.4%
Food, Beverage & Tobacco	-3.6%	-1.6%
Fuel	0.3%	-2.1%
Pharmaceutical	-5.2%	-3.6%
Clothing, Footwear & Household	-3.9%	-5.8%
Furniture & Lighting	1.1%	-5.1%
Hardware, Paint & Glass	-0.8%	-3.6%
Electrical Goods	8.8%	2.5%
Books & Newspapers	-0.1%	-4.9%

The above table, coupled with the data and graphs on the following page, illustrate that almost all categories have experienced a depressed year in both volume and value, with the exception of Electrical Goods and Department Stores.

3.2 Historic Retail Sales Indices

	Month	Volume	Value
2009	January	-26.5%	-27.7%
	February	-20.7%	-23.3%
	March	-18.1%	-21.6%
	April	-17.9%	-21.4%
	May	-14.4%	-18.3%
	June	-10.0%	-14.7%
	July	-14.4%	-18.8%
	August	-8.9%	-13.4%
	September	-10.2%	-14.9%
	October	-9.9%	-14.5%
	November	-9.1%	-13.6%
	December	-7.6%	-12.6%
2010	January	-2.3%	-6.6%
	February	2.8%	-1.5%
	March	3.7%	-0.3%
	April	6.5%	2.1%
	May	3.0%	-0.6%
	June	1.0%	-2.7%
	July	-0.1%	-3.0%
	August	0.9%	-1.9%
	September	0.0%	-2.4%
	October	1.4%	-0.6%
	November	0.2%	-1.6%
	December	-3.2%	-4.0%
2011	January	5.6%	4.5%
	February	0.0%	-0.2%
	March	-1.4%	-1.1%
	April	-3.7%	-3.2%
	May	-1.7%	-1.2%
	June	0.7%	0.2%
	July	-1.5%	-0.9%
	August	-3.3%	-3.2%
	September	-3.8%	-3.4%
	October	-3.5%	-3.0%
	November	-1.1%	-0.5%
	December	3.1%	3.3%
2012	January	-1.2%	-0.6%
	February	-1.8%	-1.7%
	March	-0.9%	-0.3%
	April	-2.0%	-1.3%
	May	-1.8%	-1.3%
	June	-5.9%	-5.2%
	July	-1.2%	-1.2%
	August	-0.6%	0.4%
	September	1.5%	2.3%
	October	3.1%	3.5%
	November	-0.4%	-0.1%
	December	-1.1%	-0.9%
2013	January	-0.9%	-0.8%
	February	0.2%	0.2%
	March	-2.2%	-2.8%
	April	-0.5%	-1.4%



January 2009 – April 2013

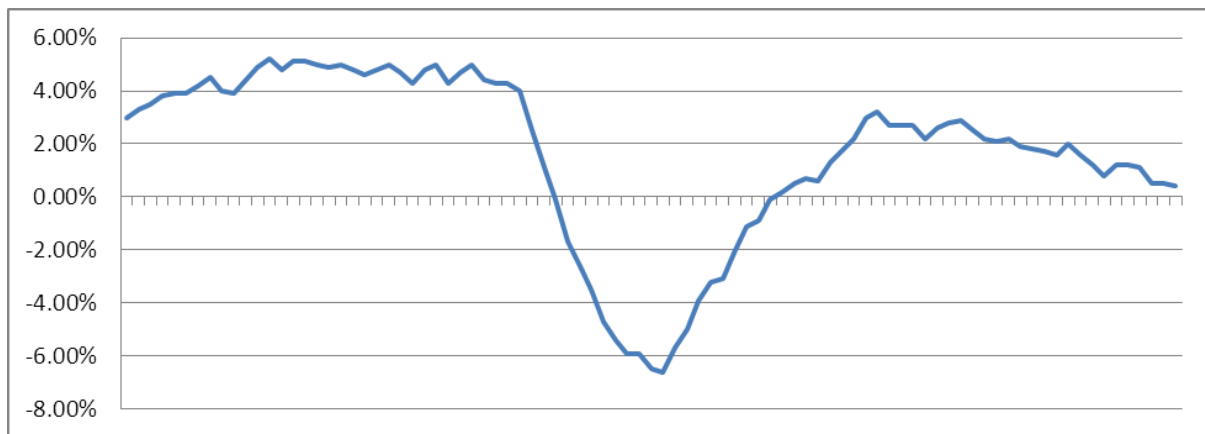


May 2012 – April 2013

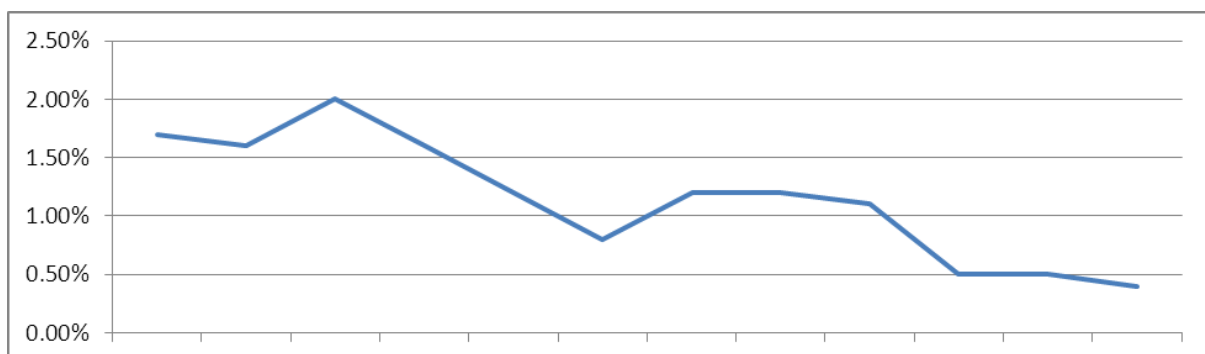
3.3 Consumer Price Index

Historic CPI percentage annual change statistics from January 2006 - May 2013, in both tabular and graphical format, are as follows:

	2013	2012	2011	2010	2009	2008	2007	2006
January	1.2%	2.2%	1.7%	-3.9%	-0.1%	4.3%	5.2%	3.0%
February	1.1%	2.1%	2.2%	-3.2%	-1.7%	4.8%	4.8%	3.3%
March	0.5%	2.2%	3.0%	-3.1%	-2.6%	5.0%	5.1%	3.5%
April	0.5%	1.9%	3.2%	-2.1%	-3.5%	4.3%	5.1%	3.8%
May	0.4%	1.8%	2.7%	-1.1%	-4.7%	4.7%	5.0%	3.9%
June	-	1.7%	2.7%	-0.9%	-5.4%	5.0%	4.9%	3.9%
July	-	1.6%	2.7%	-0.1%	-5.9%	4.4%	5.0%	4.2%
August	-	2.0%	2.2%	0.2%	-5.9%	4.3%	4.8%	4.5%
September	-	1.6%	2.6%	0.5%	-6.5%	4.3%	4.6%	4.0%
October	-	1.2%	2.8%	0.7%	-6.6%	4.0%	4.8%	3.9%
November	-	0.8%	2.9%	0.6%	-5.7%	2.5%	5.0%	4.4%
December	-	1.2%	2.5%	1.3%	-5.0%	1.1%	4.7%	4.9%



January 2006 – May 2013



June 2012 – May 2013

The annual CPI percentage change to May 2013 was 0.40%, and change for the month of May itself was -0.10%. .

The annual rate of inflation for services was 1.80%, and for goods -1.30%.

The most notable sector changes during the year were:

Education	4.8%
Communications	-2.7%
Alcoholic Beverages and Tobacco	4.3%
Miscellaneous Goods & Services	2.2%
Clothing & Footwear	-2.7%
Furniture & Household Goods	-3.7%

Since January 2012, there has been monthly CPI inflation ranging between a low of 0.40% in May 2013 to a peak of 2.20% in January 2011.

For the 3 months, March – May 2013, the annual CPI percentage has been relatively static at circa 0.50%.

4. CONTENTS CLAIMS DEFLATION

As detailed under Section 3, Retail Sales and Consumer Price Indices, CPI, inflation for the three month period, March – May 2013, has been static on a monthly basis at circa 0.50%.

The main drivers of this inflation are components that do not directly affect the insurance spend on household contents as follows:

Education	4.8%
Alcoholic Beverages and Tobacco	4.3%
Miscellaneous Goods & Services	2.2%

A more detailed analysis of these statistics, demonstrates actual deflation in the core areas of the household contents insurance spend as follows:

Furniture & Household Goods	-3.7%
Clothing & Footwear	-2.7%

Based on the above trends, we would estimate Household Content Claims deflation as follows:

- 2013: -3.00%
- 2014: -3.20%

OSG by the utilisation of our Evaluate Price Validation Initiative will be in a position to guarantee Household Contents Claims settlement at best available market price, and therefore be in a position to deliver savings to Insurers in excess of projected deflation rates as outlined above.

5. FORECAST CLAIMS DEFLATION 2013 – 2014

5.1 Buildings

Our forecast for the main components of household building claims inflation / deflation, on an annual basis, are as follows:

	2013	2014
Materials (30%)	1.0%	1.25%
Labour (70%)	-2.5%	-1.25%

Historical analysis has demonstrated an overall claims mix of 30% materials and 70% labour, which when applied, results in a weighted average overall annual deflation forecast as follows:

	2013	2014
Building Deflation Percentage (Weighted)	-1.45%	-0.5%

5.2 Contents

We expect the cost of household content claims to marginally reduce in the next 18 months as follows:

	2013	2014
Contents Claims Deflation	-3.00%	-3.20%

5.3 Conclusion

Our historic claims experience has established, as a general benchmark, expenditure in relation to household claims is proportioned on a Buildings 3:1 Contents basis.

Therefore, in order to estimate an overall composite household deflation figure, the building and contents figures, as outlined previously, require to be prorated on this basis, resulting in a weighted forecast overall claims deflation as follows:

	2013	2014
Overall Household Deflation	-1.84%	-1.18%

6. BIBLIOGRAPHY

The following list represents the resource material used in the production of this report.

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