



osg

HOUSEHOLD CLAIMS INFLATION REPORT 2015 - 2016

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CONTENTS

	Page
Executive Summary	1
1. Construction Sector Overview	3
2. Building Claims Inflation	17
3. Retail Sales & Consumer Price Indices	19
4. Contents Claims Deflation	23
5. Forecast Claims Inflation 2015 – 2016	24
6. Bibliography	25

OSG (Outsource Services Group Ltd) is an independent outsource service provider to the insurance and financial services market. Originally established in Dublin in 1984 as a professional partnership under the name Farrell & Associates, 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 450 people.

EXECUTIVE SUMMARY

The purpose of this report is to provide a forecast of annual household property claims deflation/inflation for the remainder of 2015 and 2016.

A summary of our core findings are as follows:

BUILDINGS

Overview

- Total value of Construction output in 2014 was €11 billion, a rise of circa 9% on 2013
- 14% growth in construction output predicted for 2015
- Housing output rose to 11,016 units in 2014
- Tender levels on large projects increased by 5% in 2014
- CSO figures released in April 2015, show employment in construction has increased 20% Q1 2014 (102,300 to Q1 2015 (122,700)
- Residential property prices in the year to April increases 15.1% nationally. (Dublin +20%, rest of Ireland excluding Dublin +11.4%)

Material Costs

We estimate material costs will rise in the remainder of 2015 and 2016 as follows;

- 2015: 1.00%
- 2016: 1.50%

Labour Costs

With regard to domestic claims, we predict that there will be pressure on labour costs and for the remainder of 2015 and into 2016. We estimate inflation as follows;

- 2015: 0.50%
- 2016: 2.00%

CONTENTS

We expect the cost of household content claims to marginally reduce for the remainder of 2015 and to remain neutral for 2016 as follows:

- 2015: -0.30%
- 2016: 0.00%

INFLATION FORECAST 2015 - 2016

Based upon the detailed research undertaken, the current improving economic environment and our knowledge of the market, we estimate household claims cost inflation, on an annual basis, for 2015 of +0.41%, and for 2016 of +1.39%:

	2015	2016
Materials	1.00%	1.50%
Labour	0.50%	2.00%
Buildings (Weighted: Materials 30:70 Labour)	0.65%	1.85%
Contents	-0.30%	0.00%
Forecast Inflation (Weighted: Buildings 3:1 Contents)	+0.41%	+1.39%

In conclusion, we expect household claims inflation to increase marginally throughout the remainder of 2015 and 2016, however, we do not expect price inflation to be a significant factor in relation to claims cost.

1. CONSTRUCTION SECTOR OVERVIEW

You can almost hear the calls from the back of the car 'Are we there yet? Well we're certainly moving forward and emerging from the downturn of the past number of years. The society of Chartered Surveyors Ireland .Construction Sector Prospects to 2016 report shows that the construction sector has turned a corner after several years of contraction and that new opportunities exist for growth, if barriers to development can be overcome. A sustainable construction sector is a key element of any properly functioning economy and following several years of decline in output, the construction sector finally began to stabilise in 2013, and grew to €11 billion in 2014. Since the industry bottomed out in 2012, the overall volume of output is projected to be almost 42% higher by 2016. The sector accounted for approximately 6.9% of GNP in 2014, and is expected to reach the value of €12.5 billion or 7.5% of GNP this year. These proportions are still below the 12% ratio considered a sustainable level by European standards.

The shortage of supply of both residential and commercial units in urban areas is a key challenge to developing a less cyclical property market. It is estimated that there is a requirement for approximately 25,000 units to be built annually. However, the latest figures show that 11,016 units were completed in 2014. The SCSi has a concern that the figure for completions may be overstated due to vacant and receivership properties being connected to the electricity supply in 2014, and counted as completions, even though they may have been built in previous years. The SCSi has estimated that this could account for up to 20% per annum of the units connected in recent years.

In 2014 the performance of the commercial sector exceeded all market expectations with end of year commercial market investments in excess of €4.5 billion, a substantial growth on the €1.9 billion recorded 12 months previously. There continues to be concern, however, over the shortage of prime office space in Dublin, Cork and Galway and the increase in rents as result of this, as rents for prime office space moved towards the €500 per square metre mark in Dublin.

One of the key concerns of the SCSi is the capacity in the industry to meet the anticipated growth levels. There has been a decline in the availability of skilled trades people, specialist contractors and graduates entering the sector.

Some overview observations on the construction sector are:

- Total value of Construction output in 2014 was €11 billion, a rise of circa 9% on 2013
- 14% growth in construction output predicted for 2015
- Housing output rose to 11,016 units in 2014
- Tender levels on large projects increased by 5% in 2014
- CSO figures released in April 2015, show employment in construction has increased 20% Q1 2014 (102,300 to Q1 2015 (122,700)
- Residential property prices in the year to April increases 15.1% nationally. (Dublin +20%, rest of Ireland excluding Dublin +11.4%)

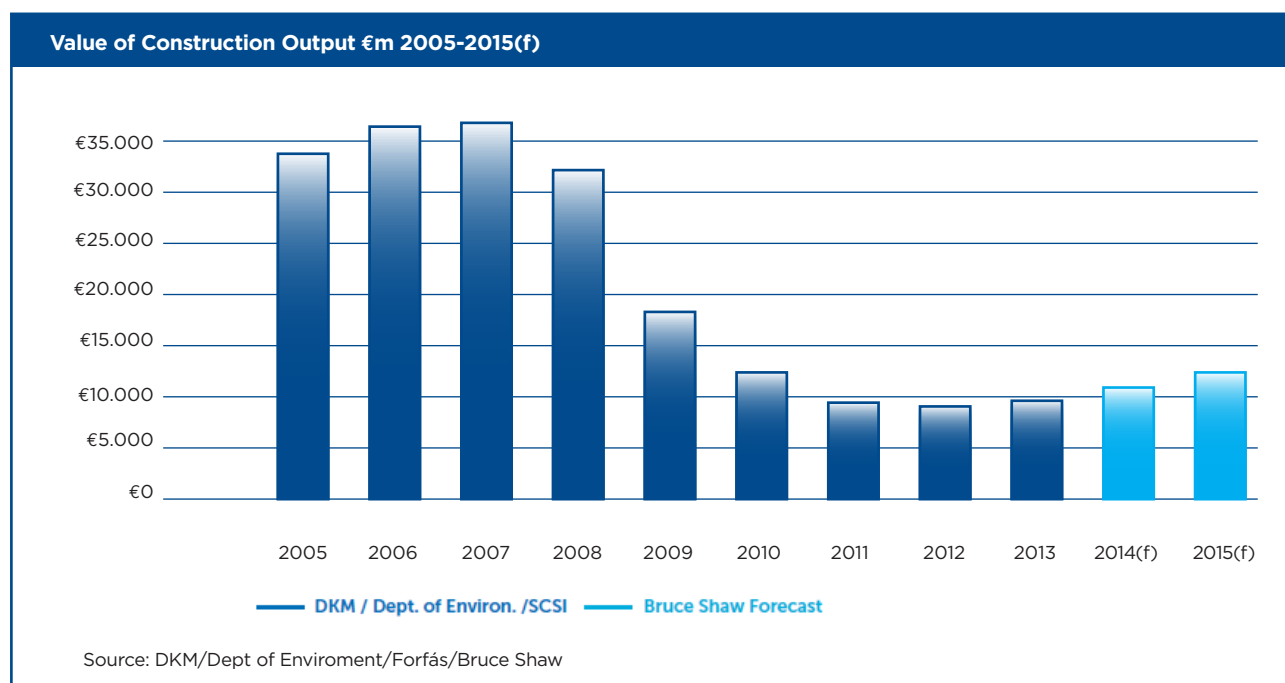
CONSTRUCTION SECTOR REVIEW

Bruce Shaw in the Ireland Handbook 2015 note the volume of construction output bottomed out in 2013 and started to recover in 2014. They predict an increase of 14% for 2015 to €12.5 billion equating to 7.6% of GNP.

Construction Output 2008-2015(f)	2008	2009	2010	2011	2012	2013	2014(f)	2015(f)
Value of Output at Current Prices (€m)	32,593	18,048	12,189	9,408	9,107	9,538	10,090	12,515
Change in Value of Output (%)	-16%	-45%	-32%	-23%	-3%	5%	15%	14%
Construction Output as % of GNP	20.2%	12.9%	8.8%	6.8%	6.4%	6.5%	7.1%	7.6%

Source: DKM/Dept of Enviroment/Forfás/Bruce Shaw(f)

The chart below graphically shows construction output between 2005 and 2015:



The Society of Chartered Surveyors Ireland in their publication 'Irish Construction Prospects to 2016' note a similar trend.

Ulster Bank in their June 2015 Construction PMI Report state that this reveals a further improvement in business activity in May (it's highest level since November last year) and extends the construction sector's run of continuous expansion for 21 months. The details behind the headline paint a similarly optimistic picture. For the second successive month acceleration in activity was recorded in two out of the three major subsectors, namely, housing and commercial, while civil engineering activity also edged higher, albeit a much less rapid pace.

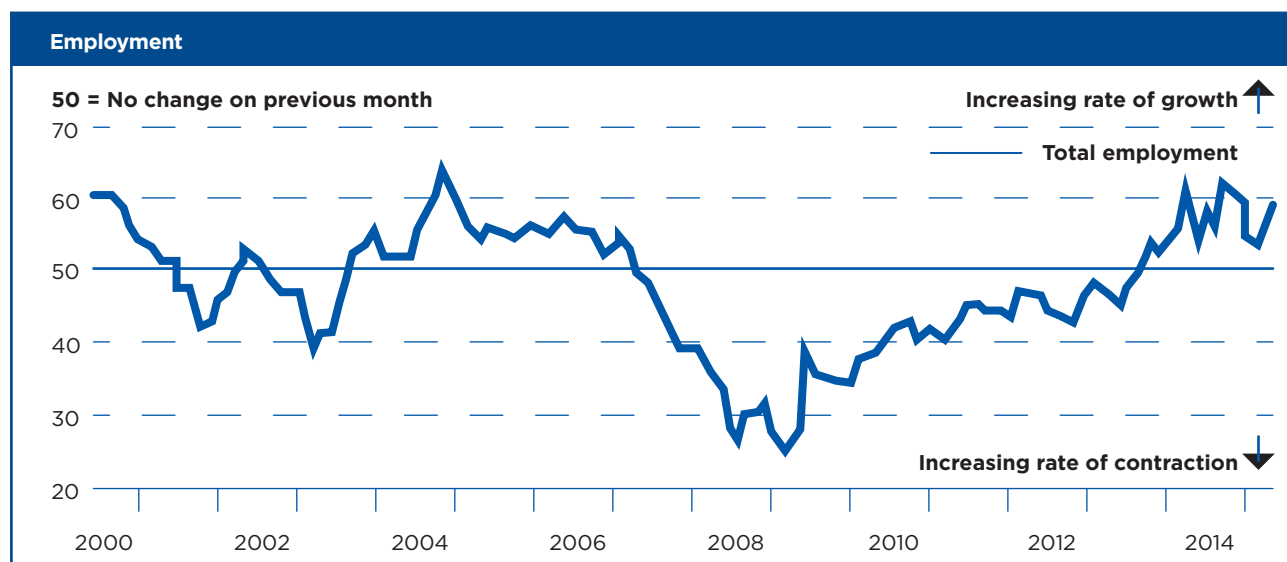
Latest Construction PMI^c readings

	Apr '15	May '15
Total Activity	57.2	63.3
Housing Activity	55.8	62.7
Commercial Activity	59.3	64.2
Civil Engineering Activity	51.0	51.9

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 charts are seasonally adjusted.

Source: Markit

Ulster Bank Construction PMI Report of June 2015 note that higher workloads lead companies to increase both their staffing levels and purchasing activity during May 2015. Employment increased at a considerable pace over the month with the rate of job creation as a four-month high.



The CSO in their May 2015 statistical release note that on an annual basis, the volume of output in building and construction increased by 1.4% in the first quarter of 2015. There was an increase of 7% in the value of production in the same period on an annual basis. The annual rise in the volume of output reflects year-on-year increases of 21.8% and 3.4%, respectively in residential building and none residential building work.

The volume of output in civil engineering fell by 1.3% in the year to Q1 2015.

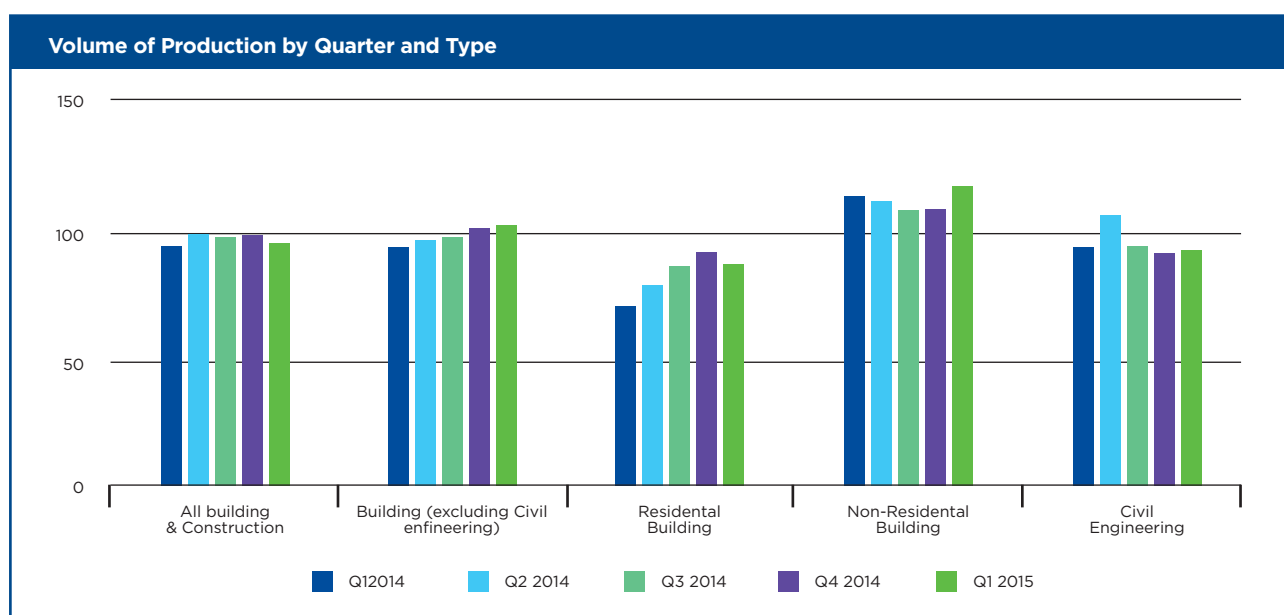


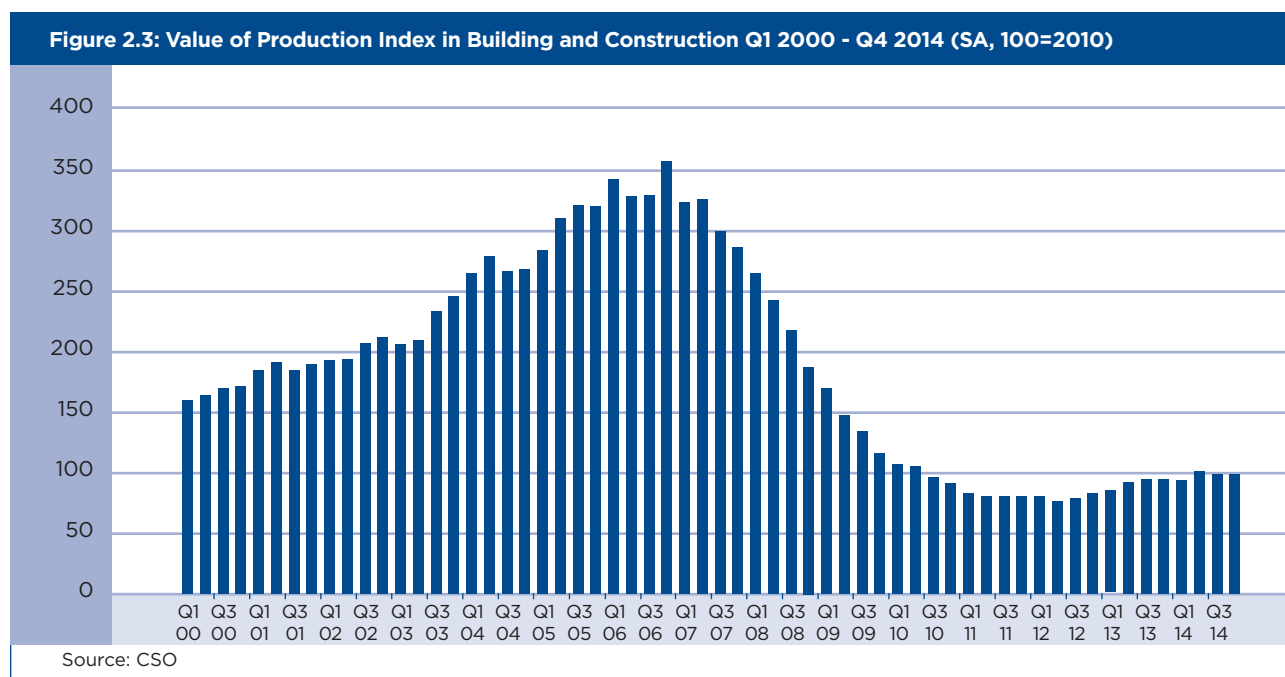
Table 1 (a) Seasonally Adjusted Indices of Production in all Building and Construction¹

Base Year: 2010=100							
		Value of Production			Volume of Production		
Period		Index	% change on previous period	Annual % change	Index	% change on previous period	Annual % change
2006		339.7		9.8	365.8		3.0
2007		308.8		-9.1	316.4		-13.5
2008		227.0		-26.5	225.7		-28.7
2009		141.4		-37.7	143.9		-36.2
2010		100.1		-29.2	100.1		-30.4
2011		81.0		-19.1	83.6		-16.5
2012		79.8		-1.5	80.1		-4.3
2013		88.3		12.0	89.5		11.8
2014		98.9		9.7	98.3		9.8
2006	1st quarter	341.6	7.0	19.3	369.5	0.7	12.0
	2nd quarter	328.2	-3.0	5.7	358.3	-3.0	0.4
	3rd quarter	330.4	0.7	2.8	364.5	1.7	-0.7
	4th quarter	358.6	8.5	12.3	371.0	1.8	1.1
2007	1st quarter	323.6	-9.8	-5.3	343.5	-7.4	-7.0
	2nd quarter	324.3	0.2	-1.2	335.9	-2.2	-6.3
	3rd quarter	300.2	-7.4	-9.1	304.5	-9.3	-16.5
	4th quarter	297.1	-4.4	-19.9	281.5	-7.6	-24.1
2008	1st quarter	263.0	-8.4	-18.7	262.1	-6.9	-23.7
	2nd quarter	242.0	-8.0	-25.4	240.8	-8.1	-28.3
	3rd quarter	217.2	-10.2	-27.6	212.0	-12.0	-30.4
	4th quarter	185.9	-14.4	-35.2	187.7	-11.5	-33.3
2009	1st quarter	168.3	-9.5	-36.0	166.4	-11.3	-36.5
	2nd quarter	147.0	-12.7	-39.3	148.6	-10.7	-38.3
	3rd quarter	134.2	-8.7	-38.2	140.5	-5.5	-33.7
	4th quarter	116.2	-13.4	-37.5	120.1	-14.5	-36.0
2010	1st quarter	107.5	-7.5	-36.1	105.8	-11.9	-36.4
	2nd quarter	105.2	-2.1	-28.4	105.2	-1.6	-29.2
	3rd quarter	96.5	-8.3	-28.1	99.2	-5.7	-29.4
	4th quarter	91.2	-5.5	-21.5	90.3	-9.0	-24.8
2011	1st quarter	82.4	-9.6	-23.3	84.2	-6.8	-20.4
	2nd quarter	78.9	-4.2	-26.0	81.1	-3.7	-22.9
	3rd quarter	80.9	2.5	-16.2	83.3	2.7	-16.0
	4th quarter	81.8	1.1	-10.3	85.9	3.1	-4.9
2012	1st quarter	82.0	0.2	-0.5	82.2	-4.3	-2.4
	2nd quarter	76.9	-6.2	-2.5	77.7	-5.5	-4.2
	3rd quarter	77.3	0.5	-4.4	78.3	0.8	-6.0
	4th quarter	82.8	7.1	1.2	82.0	4.7	-4.5
2013	1st quarter	84.1	1.6	2.6	86.5	5.5	5.2
	2nd quarter	88.0	4.6	14.4	88.1	1.8	13.4
	3rd quarter	92.5	5.1	19.7	92.5	5.0	18.1
	4th quarter	92.8	0.1	11.8	91.0	-1.6	11.0
2014	1st quarter	93.7	1.2	11.4	95.4	4.8	10.3
	2nd quarter	101.0	7.8	14.8	99.9	4.7	13.4
	3rd quarter	98.5	-2.5	6.5	98.7	-1.2	6.7
	4th quarter	98.5	0.0	6.4	99.3	0.6	9.1
2015	1st quarter	100.3	1.8	7.0	96.7	-2.5	1.4

¹Based on Seasonal Patterns up to Quarter 1, 2015

²Provisional

The SCSi in their Irish Construction Prospects to 2016, comment on the CSO's production in building and construction index. They note the quarterly index recorded a vast expansion until 2007, which was followed by a rapid decline in the value of construction output.



A review of annual trends in the various subcomponents of the volume index shows the unprecedented contraction in residential building, reflecting the sharp decline in house completions. The non-residential building and civil engineering indices also contracted but by substantially less over the same period.

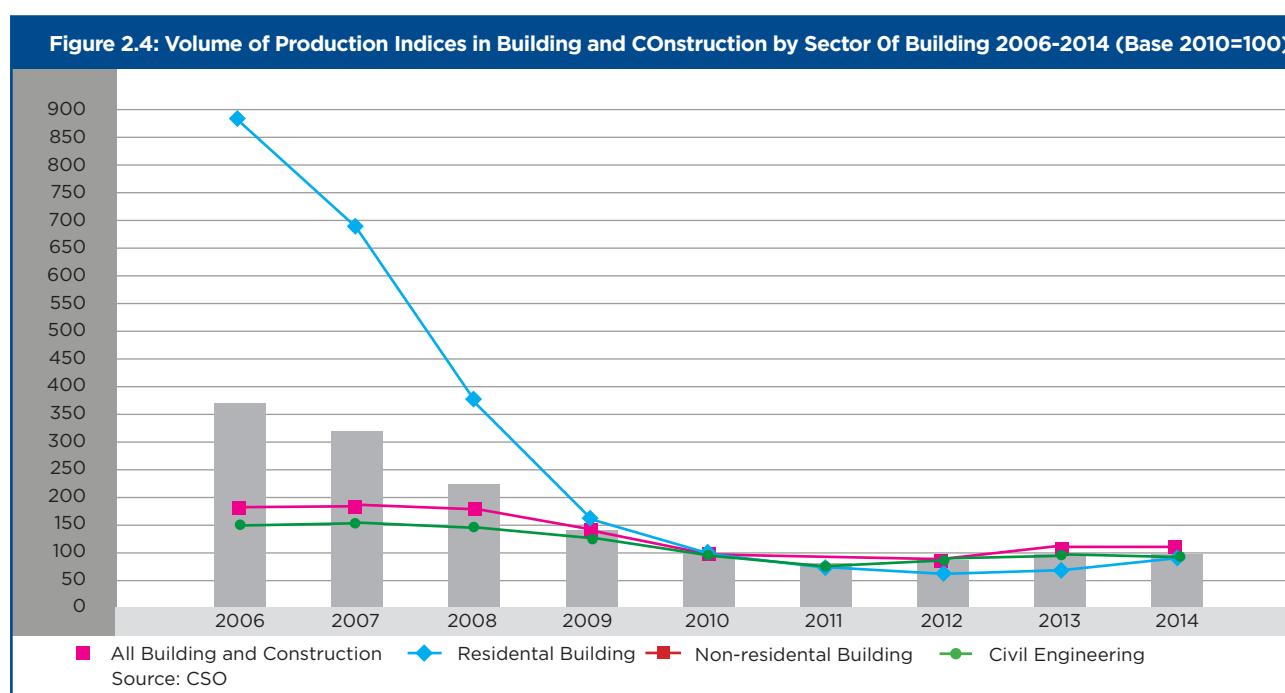


Figure 2.4: Volume of Production Indices: Value and Volume Percentage Changes by Sector of Building 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
Value Index: YoY changes								
Residential Building	-17.5%	-43.3%	-58.7%	-36.5%	-28.6%	-11.8%	11.6%	17.5%
Non-residential Building	6.0%	0.8%	-22.6%	-29.0%	-4.0%	-9.6%	18.0%	9.8%
Civil Engineering	9.5%	-3.0%	-14.1%	-22.0%	-24.7%	17.4%	5.4%	4.3%
ALL B&C	-9.1%	-26.5%	-37.7%	-29.3%	-19.1%	-1.5%	11.9%	9.7%
Volume Index: YoY changes								
Residential Building	-21.3%	-45.2%	-58.1%	-37.2%	-27.0%	-12.5%	10.8%	17.5%
Non-residential Building	1.1%	-2.5%	-22.0%	-29.3%	-1.7%	-10.6%	18.5%	7.2%
Civil Engineering	4.4%	-6.2%	-12.8%	-22.8%	-22.8%	16.5%	4.6%	3.2%
ALL B&C	-13.4%	-29.2%	-36.9%	-29.7%	-16.7%	-2.4%	11.3%	8.3%
Source: CSO								

An analysis of year-on-year trends shows the volume of production in the sector, overall recovered in 2013, increasing by 11.3%. The recovery continued in 2014, recording a further 8.3% increase with the strongest expansion recorded by the residential building sector, where volume expanded by 17.5%. The increases were much more modest in the non-residential and civil engineering sectors, although civil engineering has been in recovery mode since 2012.

As the economic recovery gathers momentum and becomes more widespread and as development becomes more viable, the pace of expansion in construction output is expected to accelerate further. Next year. The volume of output is forecast to increase by 60% next year to €13.8 billion (constant 2014 prices) or €15.3 billion in current prices. Thus since the industry bottomed out in 2012, the overall volume of output is projected to be almost 42% higher by 2016. In the two years 2015 and 2016, the volume of output is forecast to increase by almost 26%.

HOUSING

The housing sector is currently a hot topic with a rise in house prices evident and increase in homelessness. In 2014 a total of 11,016 homes were completed (8,301 in 2013).

New Housing Completions by Type 2004 - 2014					
	House		Apartment		Total
2004	60,448	79.0%	16,106	21.0%	76,554
2005	62,522	77.6%	18,035	22.4%	80,557
2006	73,073	78.6%	19,946	21.4%	93,019
2007	58,936	75.9%	18,691	24.1%	77,627
2008	38,513	75.0%	12,811	25.0%	51,324
2009	21,272	80.5%	5,148	19.5%	26,420
2010	12,514	85.7%	2,088	14.3%	14,602
2011	9,140	87.2%	1,340	12.8%	10,480
2012	7,495	88.3%	993	11.7%	8,488
2013	7,379	88.9%	922	11.1%	8,301
2014	8,766	79.6%	2,250	20.4%	11,016

Source: Department of the Environment, Heritage & Local Government

The SCSi comment that the housing debate remains focused on the shortage of housing supply, which is a single most important challenge in the residential property market at present. There is considerable pent-up demand in the market with projections from the Housing Agency suggesting that the housing supply requirements in the Dublin region is equivalent to 37,700 units in the period 2014 – 2018 or almost 80,000 units across all urban settlements. Given that potential buyers are likely to have postponed property purchases during the recession years, the annual demand may well exceed the average of 26,000 nationally, or 7540 in the Dublin region. Thus, the focus is currently on ensuring that this demand is met in the medium-term across the main housing market segments – owner occupation and the private rented and social housing sectors.

There are a number of issues which are currently impacting on the residential supply pipeline, including the issue of development viability in some locations as well as access to development finance. In the owner occupied market, there are also affordability issues in certain locations, although the new Central Bank lending regulations are less almost for first-time buyers than what was expected.

Notwithstanding the anticipated demand, the current level of lending for house purchases is modest. There were 20,155 mortgage drawdowns involving a property transaction in 2014 which had a total value of €3.66 billion. These figures are up significantly on the same period in 2013 but represent only 38% of the total volume of mortgage business (25% by value) done in the same period of 2008. First-time buyers accounted for 57% by volume and 51% by value of the total mortgage drawdowns last year. The total drawdown in 2014 exclude an estimated 47% of property transactions which were cash-based.

In terms of loan approvals, a leading indicator of mortgage business in the pipeline, there were 25,500 mortgage approvals involving house purchase or an average of 2,125 per month in 2014. This total represented an increase of almost 50% on the 2013 figure. In value terms, mortgage approvals involving a house purchase amounted to €4.72 billion, 29% higher than the value of drawdowns.

Following a review from a number of sources, the SCSi are of the view that the level of house building is likely to be much lower than expected and required in a market that is suffering serious supply constraints, with respect to owner occupied and rented housing.

PRIVATE NON-RESIDENTIAL

The private non-residential market saw a record level of new building put in place across the office, retail, industrial, tourism and agricultural sectors during the last boom. The value of new building put in place peaked at almost €6 billion in value terms in 2007. The corresponding value in 2010 declined to just below €505 million. Thus the market has been performing well below what might be considered to be normal levels of construction activity. Estimates for 2014, suggest the volume of new private non-residential output recovered to €1.31 billion.

The SCSi note that the Irish real estate market has been experiencing considerable interest from domestic and international investors over the past 12 months. Irish REITS have also been very active in the office, retail and other commercial investment markets. The recovery is driven by increasing stability in the economy and the strength of Dublin and Ireland as an investment location.

Demand exists across all asset classes, notably offices, retail, industrial and hotels. Investment activity has now returned to levels ahead of the peak, the total investment volumes for 2014 estimated at over €4.5 billion, representing an increase of nearly €2.6 billion and the corresponding 2013 figure.

In the offices sector, the Dublin market is experiencing a shortage of prime space, particularly in the south suburbs according to property agents. Prime headline office rents in the central business district of Dublin are reported to be at €450-€500 per square metre, with a continuing supply sorted expected to drive prices up further in 2015 and 2016, until new supply comes on stream.

The most significant contribution to the private non-residential construction market is expected to come from NAMA via its support for construction projects and other initiatives. NAMA has spent an estimated €1 billion to date on the completion of developments in the commercial sector and is willing to invest a further €3 billion on commercial projects over the coming years, if required. The recovery underway in the economy and property market is reporting to be increasing demand for retail space from bulky goods and home improvement retailers as well as overseas retailers keen to expand. Given the extent of retail floor space put in place during the boom years, the scope for new retail, construction opportunities in the short to medium term is likely to be confined to extensions and refurbishment of existing stock.

Property agents have reported the highest annual volume of industrial take up in Dublin in a decade in 2014. The level of transactions in the industrial and logistics sector has also been at a high level, mostly along the Dublin north-west and south-west corridors. The demand for modern premises in prime locations continues to strengthen and there is now growing evidence of demand for greenfield industrial sites along certain corridors given the limited supply of existing stock.

The aggregate level of private non-residential construction output is projected at around €3.5 billion over the two year period 2015 – 2016, including industrial, commercial, tourism and agricultural building investment.

PUBLIC SECTOR

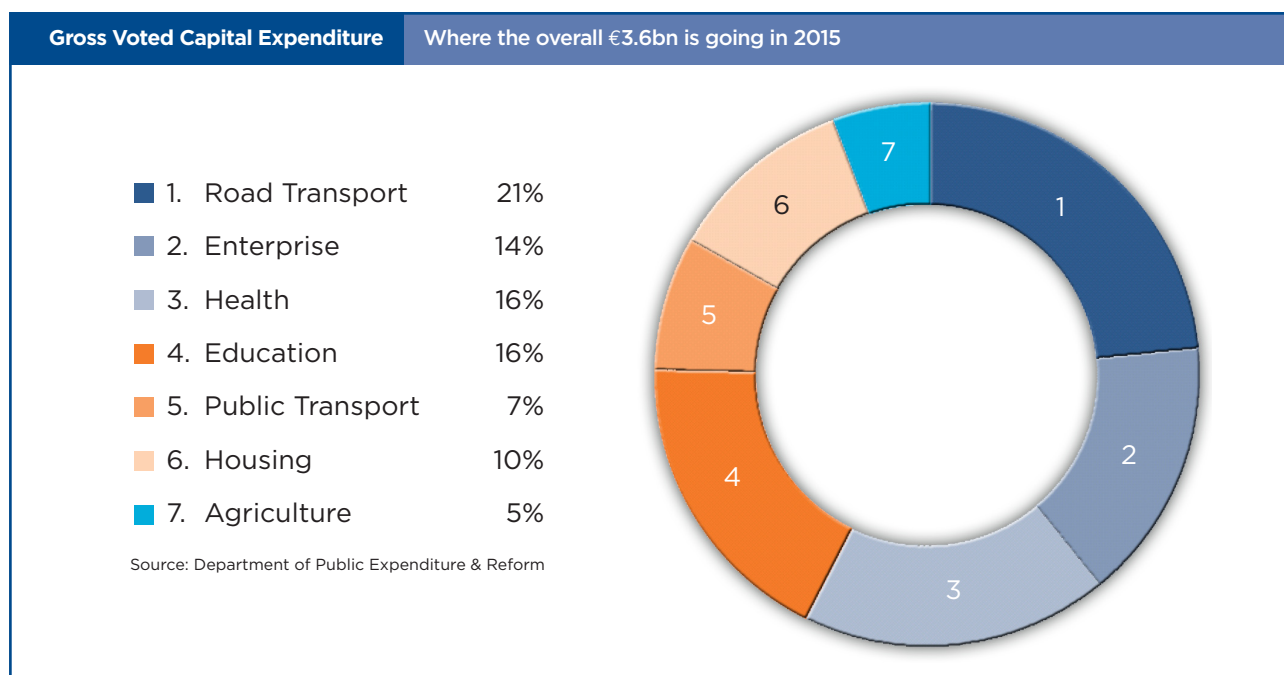
The prospects for public sector construction are determined by the allocation in the multiannual Exchequer capital investment framework. The most recent MACIF for the period 2015 to 2017 allocated a total of €11.1 billion over the three-year period. The main spending departments from a construction perspective are Transport, Tourism and Sport (€2.93 billion), Education and Skills (€1.7 billion), Environment, Community and Local Government (€1.6 billion) and Health (€1.28 billion).

In 2015, the more detailed public capital programme has provided for investment of €6.53 billion across a range of building and infrastructure projects.

The Government is currently undertaking a detailed review of the public capital programme which set out the priorities to 2020 and is due to be published this year. Industry sources suggest the private capital will play a significant role in the delivery of national infrastructure over the coming years.

The Government Capital Expenditure for 2014 to 2016 is €9.84 billion.

Government Capital Expenditure				
	Direct Exchequer Capital Funding			Total Capital Investment 2014 to 2016
Capital Envelope (€ millions)	2014	2015	2016	€ millions
Agriculture, Food & the Marine	184	168	168	520
Arts, Heritage & the Gaeltacht	38	36	36	110
Children & Youth Affairs*	35	8	8	52
Communications, Energy & Natural Resources	80	79	77	236
Defence	8	8	8	24
Education and Skills	540	475	415	1,430
Environment, Community & Local Government	311	331	334	976
Finance Group	5	5	5	15
Foreign Affairs & Trade Group	7	2	2	11
Health Group	397	390	390	1,177
Jobs, Enterprise & Innovation	442	454	451	1,347
Justice Group*	62	62	62	185
Public Expenditure & Reform (less OPW)*	10	1	1	11
OPW	100	100	100	300
Social Protection	19	9	7	35
Transport, Tourism & Sport	899	818	818	2,535
Investment Funded by National Lottery Licence	200	-	-	200
Unallocated Reserve*	-	307	374	680
Total	3,335	3,252	3,255	9,842
Total Investment as a % of GNP	2.40%	2.30%	2.20%	
*Rounding affects total				
Source: Department of Public Expenditure & Reform				



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 April 2015) for the wholesale prices of building and construction materials show prices increased by 1.5% on average since April 2014. 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 1.27% for the same period.

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

• Hardwood	+12.3%
• Stone,Sand & Gravel	+10.4%
• Glass	+6.4%
• Pipes & Fittings	+4.4%
• Plaster	+3.4%
• Insulating Materials	+3.0%
• Electrical Fittings	+2.7%
• Rough Timber	+1.8%
• Structural Steel	+1.5%
• Ready mixed Mortar & Concrete	-2.8%
• Concrete Blocks	- 3.1%

The price of Energy products decreased by -2.0% in the year since April 2014 while Petroleum fuels decreased by -10.0%. In April 2015, the monthly price index for Energy products increased by 0.90% while Petroleum fuels increased by 1.30%.

AECOM in reviewing construction costs note that construction material costs show modest increases over the last number of years, largely tracking consumer price trends in the wider economy. Particular drivers include energy costs, general manufacturing costs, finance costs and exchange rate movements especially with the UK. They anticipate average construction cost increases of approximately 3% in 2015.

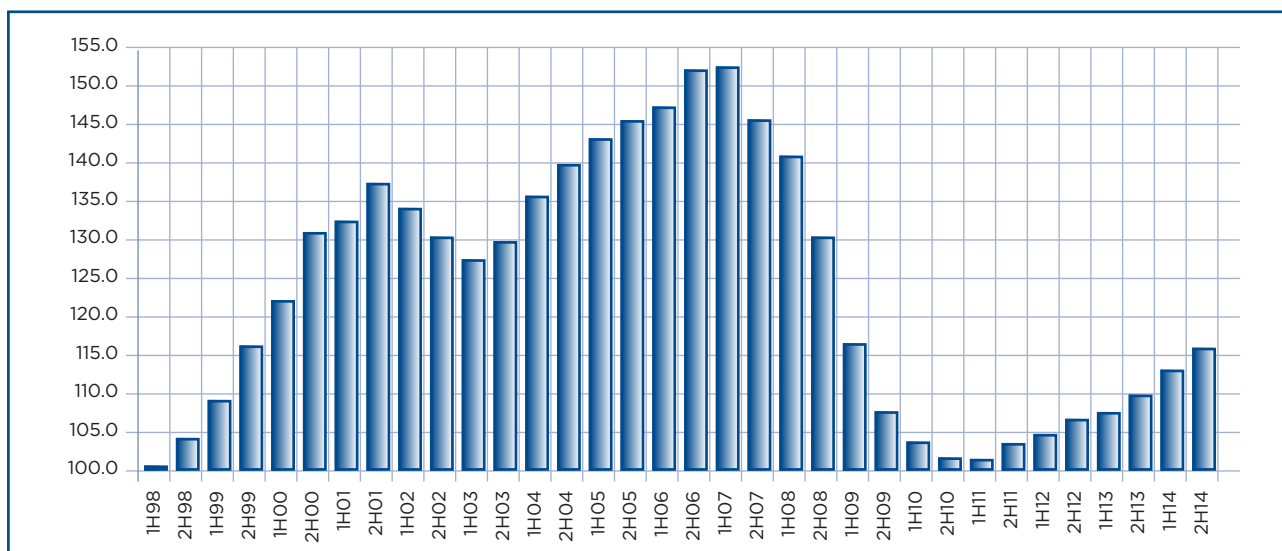
TENDER LEVELS

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 2.9% in the second half of 2014. The annual increase for 2014 was 5.0%. Micheal Mahon, Vice Chairman of the Quantity Surveying Professional Group of the SCSi said;

“Construction tender prices have continued to increase steadily since bottoming out in second half of 2010/first half 2011, and the rate of increase accelerated slightly during 2014. This trend is likely to continue during 2015 as activity in the industry picks up following the upturn in property transactions in recent years.”

“The increase in construction tender prices is most apparent in the Greater Dublin area but is likely to spread out from the capital during this year. As construction activity picks up it is becoming apparent that there may be a shortage of certain specialist sub-contractors in the near future. This is already beginning to manifest itself with glazing and curtain walling contractors”, he said.



“Rising prices and a potential shortage of key trades mean that it is important that clients who are embarking on building projects of any significant duration should take professional advice from a Chartered Quantity Surveyor as to the appropriate provisions to make for pricing future risk items” concluded Mr Mahon.

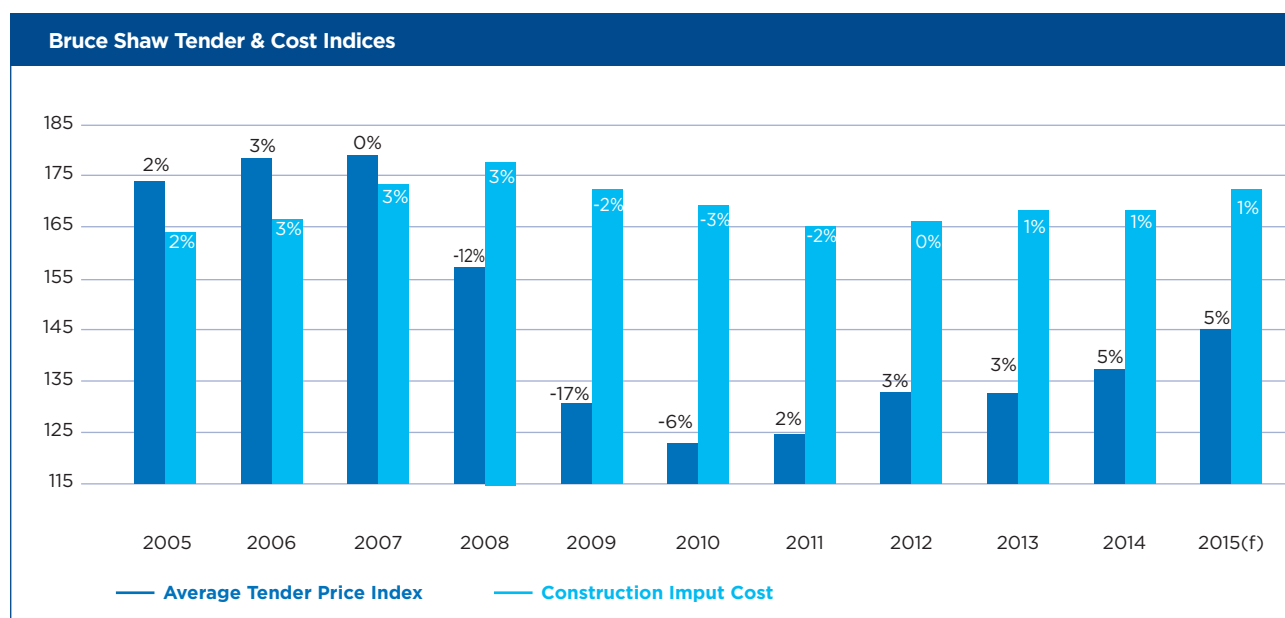
Tender prices peaked in the first half of 2007 and fell rapidly for the following four years before levelling off in the second half of 2010/first half 2011. At that point prices were down 33% from peak and the Society warned that the trend of below cost tendering was simply not sustainable. Over the last three years prices have risen at a steady pace but are still at 1999 levels.

The Index numbers since 1998 are as follows:

First Half 1998	100.0	First Half 2004	135.3	First Half 2010	103.7
Second Half 1998	103.8	Second Half 2004	139.4	Second Half 2010	101.5
First Half 1999	108.6	First Half 2005	142.6	First Half 2011	101.5
Second Half 1999	116.1	Second Half 2005	144.7	Second Half 2011	103.5
First Half 2000	121.7	First Half 2006	146.7	First Half 2012	104.5
Second Half 2000	130.7	Second Half 2006	151.7	Second Half 2012	106.4
First Half 2001	132.2	First Half 2007	152.0	First Half 2013	107.3
Second Half 2001	136.9	Second Half 2007	145.2	Second Half 2013	109.7
First Half 2002	133.9	First Half 2008	140.7	First Half 2014	112.0
Second Half 2002	130.1	Second Half 2008	130.0	Second Half 2014	115.2
First Half 2003	127.2	First Half 2009	116.4		
Second Half 2003	129.3	Second Half 2009	107.7		

The increase of 5% in 2014, following the increase of 3.1% in 2013 are significantly higher than general consumer price inflation. Tender prices are almost back to the 2009 level and remain 24.2% below levels at the peak.

Bruce Shaw in their 2015 Ireland Handbook show their own index of tender and construction input cost as follows:



The Bruce Shaw index records the same 5% increase during 2014, noting that while, despite some variances on individual material costs, construction input costs rose on average by only 1%. They add that these indices represent average annual changes across projects that Bruce Shaw are working on and they reflect the reality that pricing levels remain very competitive, although, as activity grows, there is more reality coming into the marketplace. The increase in construction activity, witnessed particularly in the greater Dublin area during 2014, coupled with an increase in tender prices, has given rise to new challenges when evaluating potential construction projects. Firstly, they note it is important once again to factor future construction inflation into feasibility studies and secondly, they are increasingly seeing a shortage of bidders for specialist packages, particularly curtain walling and glazing. They expect that construction tender prices will continue to increase during 2015, and are forecasting an increase of 5% per annum for the next couple of years.

AECOM in their tender index recorded a 4% increase in 2014, and in 2015. They anticipate tender price increases averaging 5%, however this would vary between 4% and 7% in the greater Dublin area, and 3% and 5% in the regions. They state that these increases are tracking above cost inflation and are an indication of contractors recovering some margin, which had disappeared in the downturn. They also add that these increases tend not to be evenly spread across all rates, but rather, there has been a marked increase in preliminaries, and in key trades, such as mechanical and electrical services, albeit the rate of inflation in the latter can be more erratic depending on project specifics.

2. BUILDING CLAIMS INFLATION

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 household insurance claims arena given the oversupply of resources and competition for work.

Materials

There was a 1.5% increase in material costs year-on-year April 2014 to April 2015. The table below shows a breakdown extracting the materials most commonly encountered in domestic claims along with the monthly changes for March and April 2015:

Wholesale Price Index (ex Vat) for Building & Construction Materials			
	April 2015 % Annual Change		Monthly % Change
Materials	Increase	Decrease	March
Hardwood	12.3%		0.0%
Stone, Sand & Gravel	10.4%		2.3%
Glass	6.4%		0.0%
Pipes & Fittings	4.4%		1.8%
Plaster	3.4%		1.1%
Insulating Materials	3.0%		0.0%
Electrical Fittings	2.7%		0.0%
Rough Timber	1.8%		0.0%
Structural Steel	1.5%		1.3%
Ready Mix Mortar & Concrete		-2.8%	-0.2%
Concrete Blocks & Bricks		-3.1%	-0.2%
Paints, Oil & Varnishes		-1.8%	-1.4%
Bituminous Emulsions		-16.3%	-2.2%

Factors to be borne in mind in reviewing material cost changes include the economic uncertainty, manufacturers varying production runs due to the changing 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 particularly for imported products from the UK due to currency exchange rates and therefore with respect to the remainder of 2015 and 2016 we would predict that there could be increases as follows:

- 2015: +1.00%
- 2016: +1.50%

Labour

AECOM note in terms of labour costs, the Supreme Court ruling in May 2013 declaring the unconstitutionality of the Registered Employment Agreement has resulted in a period of limbo as there was uncertainty about the implications and as to whether government were going to take any specific action. Whilst it is still unclear if any specific government action will be taken, in the interim it would appear to be a contributory factor in restraining upward pressure on Labour rates, the market itself is the primary factor of controlling Labour rates and in recent years. The pressure on Labour has been primarily related to job security and recovery has been put on a more secure footing in the last 12 months. However, there is already evidence of increased labour mobility as more favourable pay and conditions become available.

The SCSl report Irish Construction Prospects to 2016, note that average earnings for persons employed in construction increased by 4.3% in 2014, following an increase of 1.8% in 2013. However, when those working in specialised construction activities are separated, their average weekly earnings increased in 2013 (+5.2%).

Indications for the first nine months of 2014 showed a further acceleration year-on-year increase to 8.5%, which can be explained by a recovery in average hourly earnings in 2013 (+4.7%) and 2014 (+1%) and an increase of 7.4% in average weekly paid hours worked from 34.5 hours in the first nine months of 2013 to 37.1 hours in the same period in 2014.

With regard to domestic claims we predict that there will be pressure on labour costs and therefore for the remainder of 2015 and into 2016 we forecast labour cost increases as shown below:

- 2015: +0.50%
- 2016: +2.00%

3. RETAIL SALES & CONSUMER PRICE INDICES

Retail Sales Index

The most up to date RSI Statistics are for April 2015, which illustrate annual percentage increases of 11.9% in volume and 8.3% in value.

The month itself shows an increase of 0.5% in both volume and value.

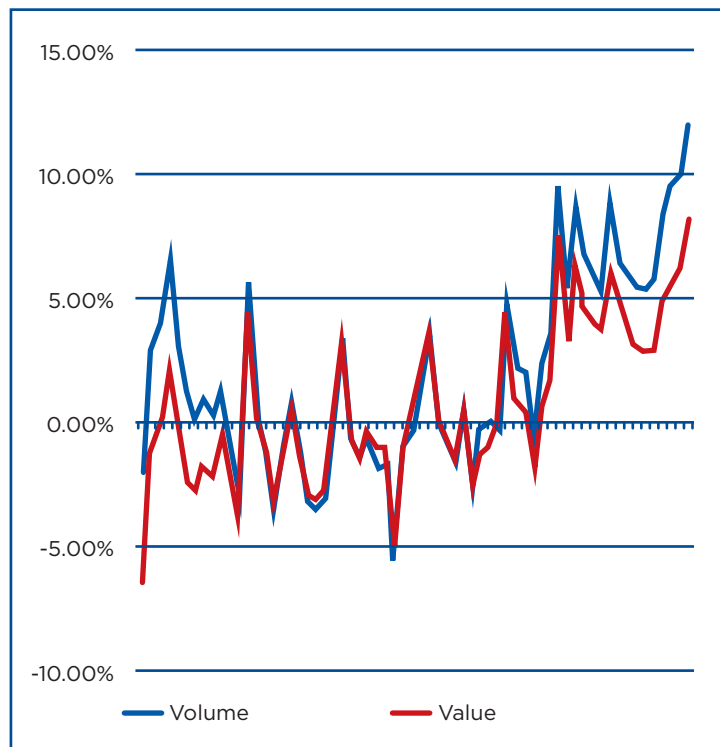
The key annual, to April 2015, percentage movements in both volume and price by business category are:

	Volume	Value
Motor Trade	26.2%	24.3%
Department Stores	13.0%	9.2%
Non Specialised Stores	7.2%	5.3%
Food, Beverage & Tobacco	5.9%	4.0%
Fuel	2.7%	-4.7%
Pharmaceutical	3.4%	1.8%
Clothing, Footwear & Household	11.3%	7.1%
Furniture & Lighting	6.7%	2.4%
Hardware, Paint & Glass	7.0%	5.4%
Electrical Goods	8.6%	3.0%
Books & Newspapers	-3.0%	-0.9%

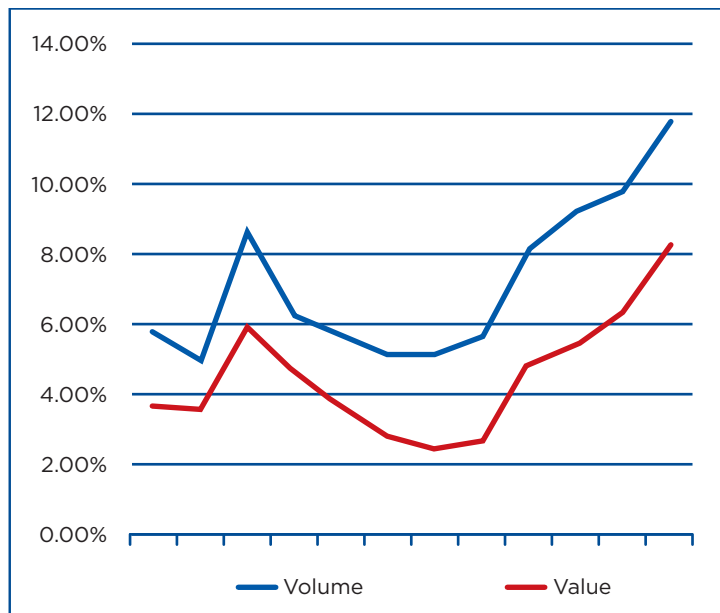
The above table, coupled with the data and graphs on the following pages, illustrate that with the exception of books and newspapers, and value in relation to fuel, all other business categories are demonstrating strong growth in both volume and value, which is underpinning the current general increase in economic activity

HISTORIC RETAIL SALES INDICES

	Month	Volume	Value
2010	January	-2.30%	-6.60%
	February	2.80%	-1.50%
	March	3.70%	-0.30%
	April	6.50%	2.10%
	May	3.00%	-0.60%
	June	1.00%	-2.70%
	July	-0.10%	-3.00%
	August	0.90%	-1.90%
	September	0.00%	-2.40%
	October	1.40%	-0.60%
	November	0.20%	-1.60%
	December	-3.20%	-4.00%
2011	January	5.60%	4.50%
	February	0.00%	-0.20%
	March	-1.40%	-1.10%
	April	-3.70%	-3.20%
	May	-1.70%	-1.20%
	June	0.70%	0.20%
	July	-1.50%	-0.90%
	August	-3.30%	-3.20%
	September	-3.80%	-3.40%
	October	-3.50%	-3.00%
	November	-1.10%	-0.50%
	December	3.10%	3.30%
2012	January	-1.20%	-0.60%
	February	-1.80%	-1.70%
	March	-0.90%	-0.30%
	April	-2.00%	-1.30%
	May	-1.80%	-1.30%
	June	-5.90%	-5.20%
	July	-1.20%	-1.20%
	August	-0.60%	0.40%
	September	1.50%	2.30%
	October	3.10%	3.50%
	November	-0.40%	-0.10%
	December	-1.10%	-0.90%
2013	January	-1.90%	-1.80%
	February	0.40%	0.30%
	March	-2.20%	-2.80%
	April	-0.50%	-1.40%
	May	-0.20%	-1.30%
	June	-0.50%	-0.30%
	July	4.60%	4.30%
	August	2.30%	0.80%
	September	1.80%	0.20%
	October	-1.10%	-2.20%
	November	2.20%	0.50%
	December	3.50%	1.60%
2014	January	9.40%	7.40%
	February	5.10%	3.00%
	March	8.60%	6.20%
	April	6.80%	4.40%
	May	5.80%	3.70%
	June	5.00%	3.60%
	July	8.70%	6.00%
	August	6.30%	4.60%
	September	5.80%	3.70%
	October	5.20%	2.80%
	November	5.20%	2.50%
	December	5.70%	2.70%
2015	January	8.20%	4.90%
	February	9.30%	5.50%
	March	9.90%	6.40%
	April	11.90%	8.30%



January 2010 – April 2015

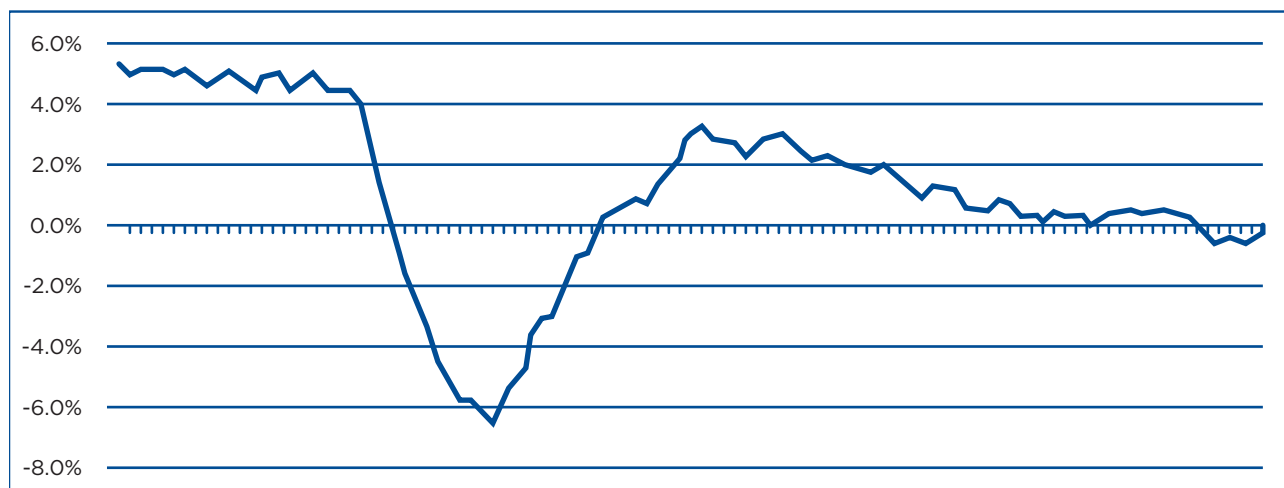


May 2014 – April 2015

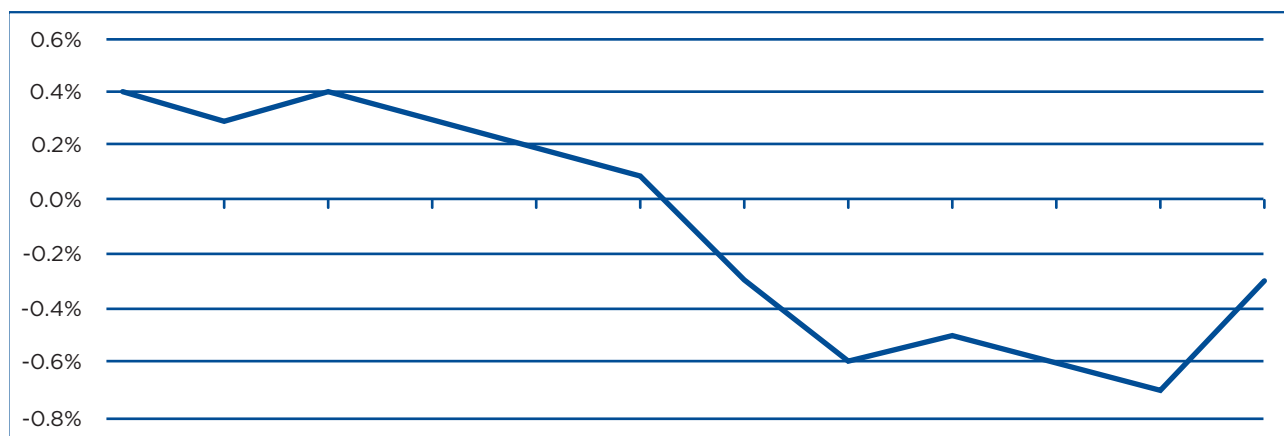
CONSUMER PRICE INDEX

Historic CPI percentage annual change statistics from January 2007 - May 2015, in both tabular and graphical format, are as follows:

	2015	2014	2013	2012	2011	2010	2009	2008	2007
January	-0.6%	0.2%	1.2%	2.2%	1.7%	-3.9%	-0.1%	4.3%	5.2%
February	-0.5%	-0.1%	1.1%	2.1%	2.2%	-3.2%	-1.7%	4.8%	4.8%
March	-0.6%	0.2%	0.5%	2.2%	3.0%	-3.1%	-2.6%	5.0%	5.1%
April	-0.7%	0.3%	0.5%	1.9%	3.2%	-2.1%	-3.5%	4.3%	5.1%
May	-0.3%	0.4%	0.4%	1.8%	2.7%	-1.1%	-4.7%	4.7%	5.0%
June	-	0.4%	0.7%	1.7%	2.7%	-0.9%	-5.4%	5.0%	4.9%
July	-	0.3%	0.7%	1.6%	2.7%	-0.1%	-5.9%	4.4%	5.0%
August	-	0.4%	0.2%	2.0%	2.2%	0.2%	-5.9%	4.3%	4.8%
September	-	0.3%	0.2%	1.6%	2.6%	0.5%	-6.5%	4.3%	4.6%
October	-	0.2%	0.1%	1.2%	2.8%	0.7%	-6.6%	4.0%	4.8%
November	-	0.1%	0.3%	0.8%	2.9%	0.6%	-5.7%	2.5%	5.0%
December	-	-0.3%	0.2%	1.2%	2.5%	1.3%	-5.0%	1.1%	4.7%



January 2007 - May 2015



June 2014 - May 2015

The annual CPI percentage change to May 2015 was -0.3%, and change for the month of May itself was 0.4%.

The annual rate of inflation to May 2015 for services was 2.0%, and for goods -3.1%.

The most notable sector changes during the year were:

Education	5.0%
Communications	2.1%
Alcoholic Beverages and Tobacco	-2.5%
Clothing & Footwear	-4.2%
Furniture & Household Goods	-2.3%
Transport	-2.9%
Utilities & Fuel	1.9%
Restaurants & Hotels	1.7%

Since December 2014, there has been monthly CPI deflation ranging between a low of -0.7% in April 2015 to a peak of -0.3% in May 2015.

Our analysis would indicate that CPI deflation will be maintained for the remainder of 2015, however, mainly because of the weak Euro in respect of goods imported from the UK and USA, we would estimate a neutral inflation/deflation scenario for 2016.

4. CONTENTS CLAIMS DEFLATION

As detailed under Section 3, Retail Sales and Consumer Price Indices, there has been CPI deflation from December 2014 – May 2015, between -0.3% and -0.7%.

The main drivers of this deflation are as follows:

Alcoholic Beverages and Tobacco	-2.5%
Clothing & Footwear	-4.2%
Furniture & Household Goods	-2.3%
Transport	-2.9%

The above table demonstrates that there is ongoing price deflation in the core areas affecting household contents claims of -4.2% for Clothing and Footwear and -2.3% for Furniture and Household Goods.

We would expect this deflation to continue for the remainder of 2015, however, the current weakness of the Euro may have an offset effect in respect of imported goods from the UK and USA, resulting in a neutral position for 2016.

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

- 2015: -0.3%
- 2016: 0.0%

5. FORECAST CLAIMS INFLATION 2015 – 2016

BUILDINGS

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

	2015	2016
Materials (30%)	1.0%	1.50%
Labour (70%)	0.5%	2.00%

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

	2015	2016
Building Inflation Percentage (Weighted)	0.65%	1.85%

CONTENTS

We expect the cost of household content claims to marginally reduce for the remainder of 2015 and to remain neutral for 2016 as follows:

	2015	2016
Contents Claims Deflation	-0.3%	0.0%

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 inflation figure, the building and contents figures, as outlined previously, require to be pro-rated on this basis, resulting in a weighted forecast overall claims inflation as follows:

	2015	2016
Materials	1.00%	1.50%
Labour	0.50%	2.00%
Buildings (Weighted: Materials 30:70 Labour)	0.65%	1.85%
Contents	-0.30%	0.00%
Forecast Inflation (Weighted: Buildings 3:1 Contents)	+0.41%	+1.39%

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