cpa | construction products association

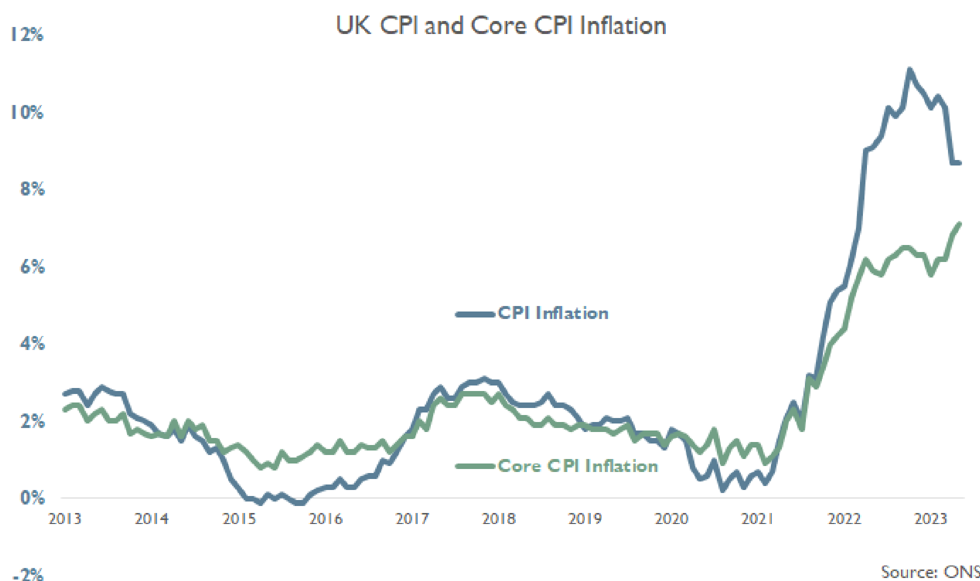
(Updated – 23 June 2023)

Weekly Economic and Construction Update

1) ONS CPI and Core Inflation (May 2023):

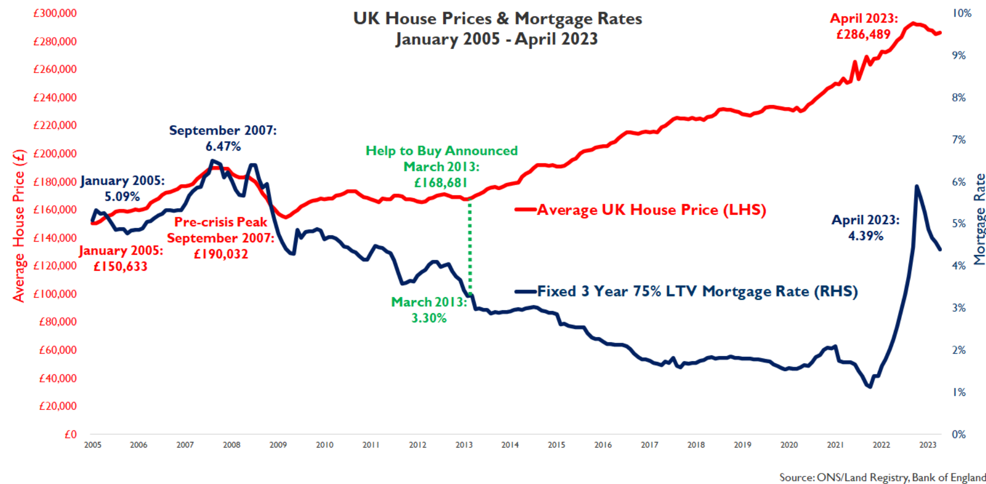
According to the ONS, CPI inflation in the UK economy in the year to May 2023 remained at 8.7%, the same as in April and lower than the 10.1% in March. Financial markets had expected it to slow to 8.4%. Core CPI (excluding energy, food, alcohol and tobacco) rose by 7.1% in the year to May, which is higher than the 6.8% core inflation in the year to April 2023 (which was already its highest rate since 1992) and higher than the 6.2% core inflation in March. The Bank of England focuses on Core CPI inflation to view medium-term trends in inflation. As a result, the rise in Core inflation in May, the Bank raised its central rate from 4.5% to 5.0% in June and it raises the likelihood that the Bank will interest rates further. Financial markets' expectations of interest rates have now been revised upwards from expectations that interest rates had peaked already in early May at 4.5% to expectations in early June of interest rates peaking at 5.75% in 2024 Q1 to markets' expectations now of interest rates peaking at 6.0% in either 2023 Q4 or 2024 Q1.

The key direct concern of further rate rises is the impact that it would have on household finances and the housing market, via higher mortgage rates and payments. Indirectly, there is also the impact on consumer confidence as well as lenders having to price in additional risk and uncertainty as well as the rate rises themselves. Clearly, this will have a significant impact on not only private housing new build (and many major house builders are talking about a 'summer pause' due to the uncertainty) but also rm&i activity too. The CPA's Spring forecasts were based on financial markets' expectations of the time that interest rates would peak at 4.5% so the Summer forecasts are likely to show a downward revision to both private housing and private housing rm&i, the two largest construction sectors.



2) ONS UK House Price Index (April 2023):

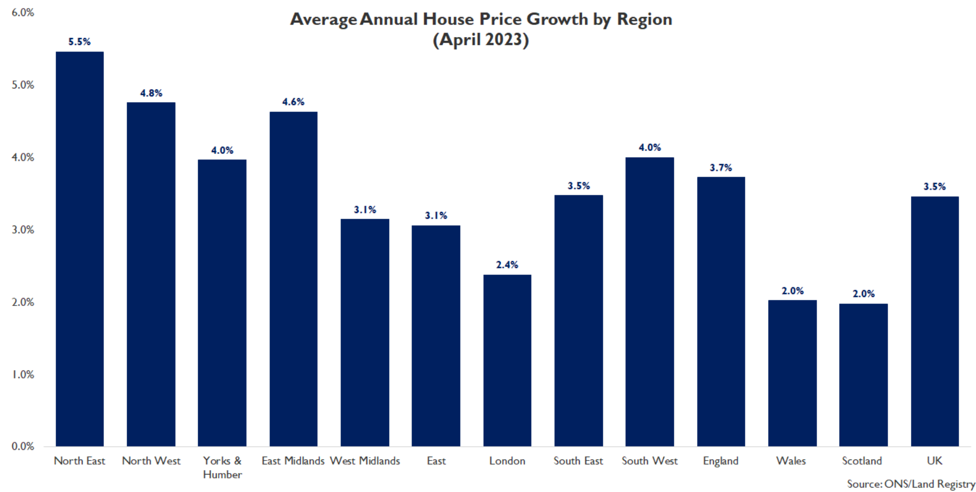
The average UK house price in April 2023 was £286,489 according to the latest official ONS/Land Registry data, which is 0.5% higher than in March and 3.5% higher than a year ago but 1.9% lower than at the recent peak in November 2022 before the full impacts of the Mini Budget that led to a sharp rise in mortgage rates (to 5.9% for a 3-year fixed-rate 75% LTV mortgage from just 1.2% in December 2021).



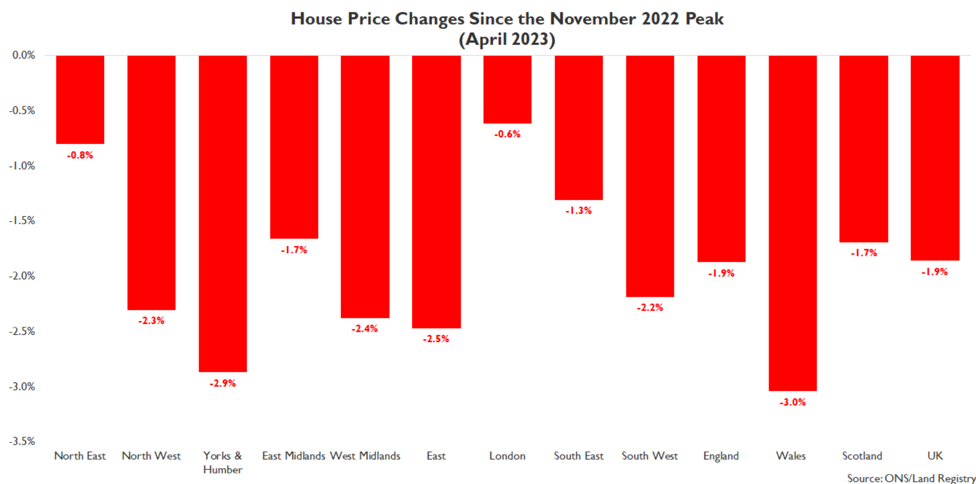
UK house prices in April rose for the first time after 4 consecutive monthly falls and falls in 5 of the last 6 months. So far, house price falls have not been as deep or as quick as the declines in mortgage approvals or property transactions as some housing analysts were predicting back in November and at the start of this year. This is because the falls in housing market demand have been partially offset by cash sellers and partially offset by a lack of supply of homes onto the housing market, given potential sellers' concerns regarding selling in a declining market falling prices with few forced sellers so far due to continued low unemployment as well as existing homeowners reprioritising spending away from small discretionary spending to sustain higher mortgage payments as they come off fixed-rate mortgages onto higher rates and payments.

April was the final fall in mortgage rates and financial markets were anticipating at that point that interest rates had peaked at 4.5% at the start of May. But, in the light of the core CPI inflation data published in May and June, financial markets now expect the Bank of England to raise rates to 6.0% in 2023 Q4 or 2024 Q1, which will hit the private housing market substantially more than expected this year and in the first half of next year. The Bank of England looks at core CPI inflation (which excludes food and energy) to see medium-term inflation trends and, as a result, why it expects to raise rates. However, given that the inflation in the economy is primarily due to costs pushing inflation rather than excess demand pulling it, raising rates will not curb inflation unless the Bank of England rate rises push the UK economy into recession.

Across the 3.5% UK average annual house price growth in April 2023 according to the ONS/Land Registry, the fastest house price growth in was in the North East (5.5%), North West (4.8%) and East Midlands (4.6%). The slowest house price inflation was in London (2.4%) and in Wales and Scotland (2.0%) in the year to April 2023.

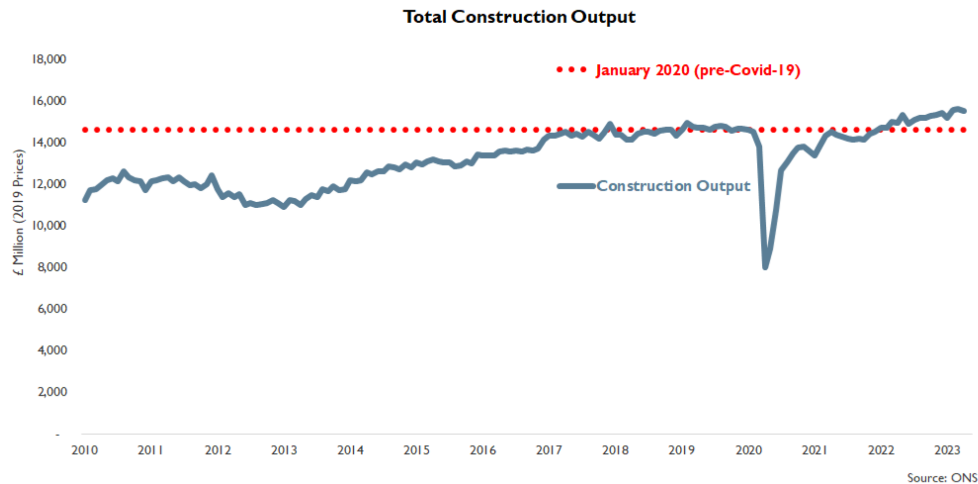


It is worth noting our UK house price forecast was an 8%-10% fall (and this has been our forecast since the Mini Budget last year) after two consecutive years of double-digit growth as the demand falls post-Mini Budget in Q4 and more subdued demand in 2023 despite recovery from the Q4 nadir continue to feed through whilst there is an uptick (rather than a sharp rise) in the supply of homes onto the market but given that this was based upon interest rates having peaked at 4.5% (markets' expectations at the time) and they have already rise to 5.0% plus now market expectations are for interest rates to rise to 6.0%. it points towards more significant falls in house prices over the next 12 months. It is also worth noting the Nationwide and Halifax house price indices are based on their mortgage lending only so they will not include the impacts of cash sales and are likely to show greater falls than the official ONS/Land Registry data.

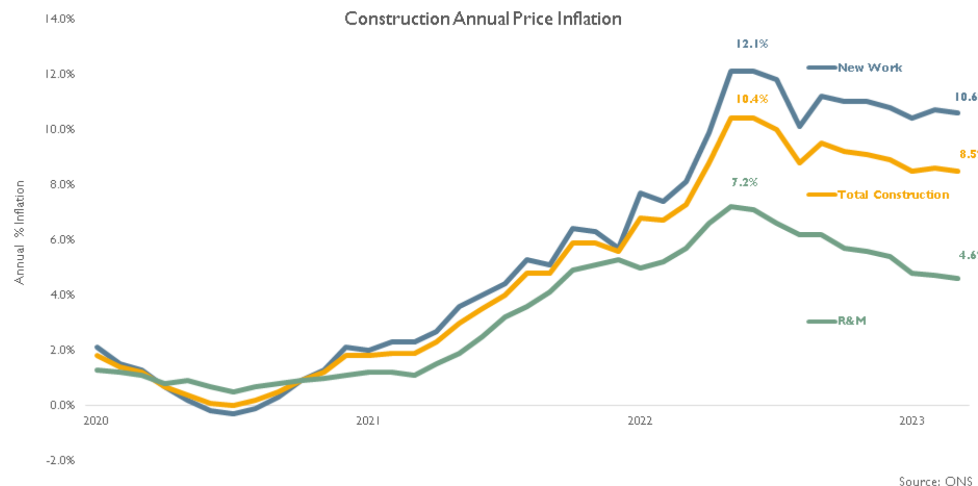


EXISTING INFORMATION

ONS Construction Output (April 2023): Construction output volume in April 2023 was 0.6% lower than in March, 3.6% higher than a year ago and 6.0% higher than in January 2020, pre-pandemic, according to the Office for National Statistics (ONS). Firms in the construction supply chain that the CPA has been dealing with in recent weeks stated that, overall, April was lower (and significantly lower than expected) whilst May had shown a pickup in activity despite the additional bank holidays and activity picked up in early June as well.

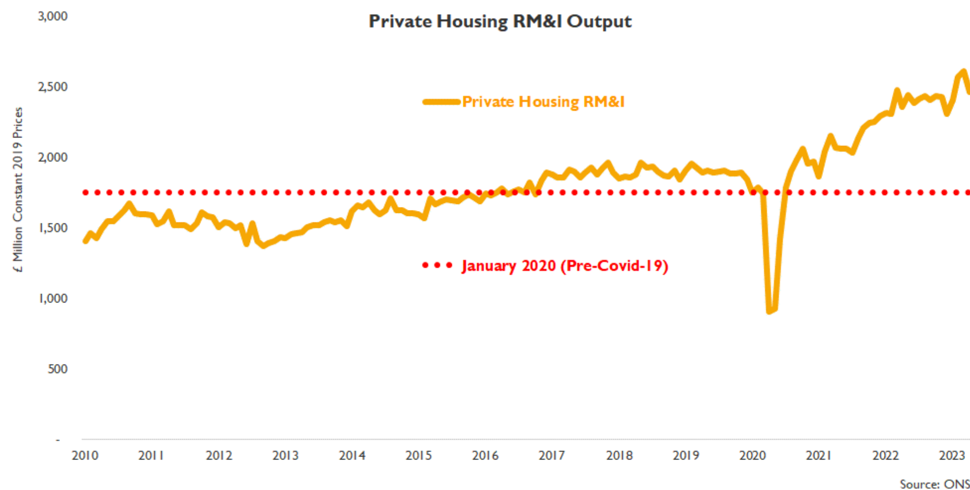


There still appear to be issues with ONS's estimation of construction price inflation (that it uses to turn value of construction output into volume) for repair and maintenance and this has been a problem since the energy, oil and commodity price spikes after Russia's invasion of Ukraine in early 2022. The ONS appears to be underestimating inflation and, consequently, overestimating volume of r&m output. The ONS reported that r&m price inflation peaked at 7.2% in May 2022 whilst firms in the sector report to the CPA that r&m inflation was more than double this, which implies r&m volume of output is significantly lower than the ONS states.

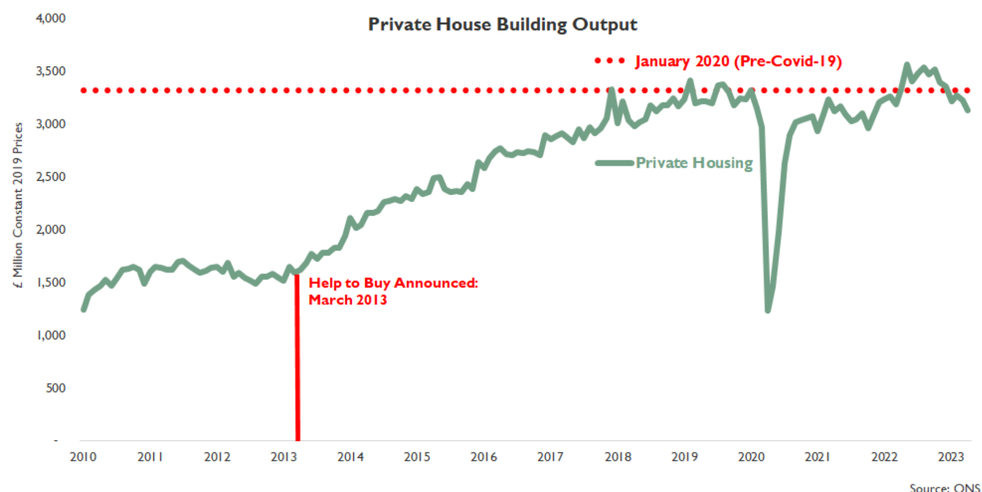


This is a big issue as it means that private housing rm&i is the second largest construction sector and in March 2023 (just before the latest fall in April) reached its highest level on record, 49.0% higher than in January 2020, which is not what small contractors and merchants report to the CPA. Firms in the sector report that activity fell away last year from historic highs and although activity in 2023 Q1 was higher

than in the subdued Q4, the level of activity is considerably lower than the ONS states it is. According to the ONS, private housing rm&i output in April was 5.7% lower than in March but 4.6% higher than a year earlier and still 40.5% higher than in January 2020, pre-pandemic.

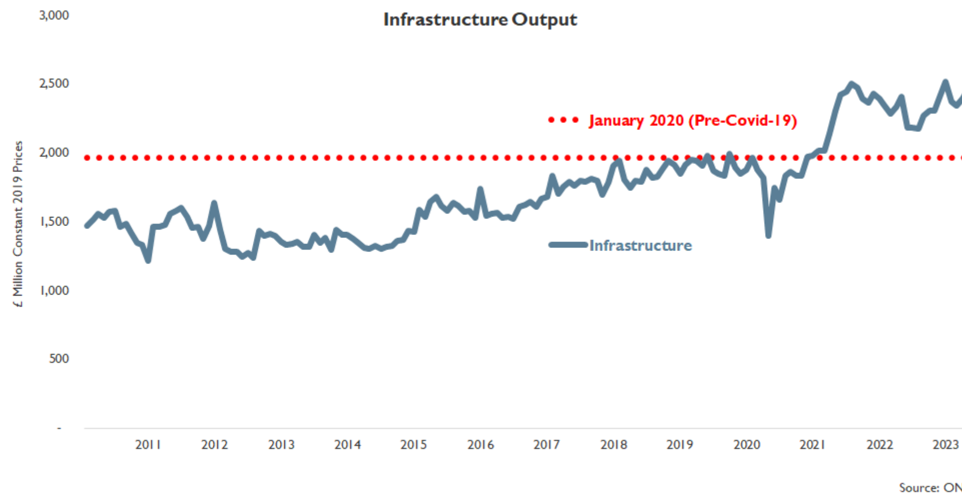


Private housing output in April 2023 was 3.0% lower than in March, 5.8% lower than a year ago and 5.7% lower than at the pre-pandemic January 2020 level. Private housing output in April was also 12.1% lower than at the recent peak in May 2022, prior to the Mini-Budget and consequent mortgage rate rises. Private housing still hasn't seen the full impact of the sharp (30-40%) fall in housing demand in 2022 Q4 and subdued level of demand since as house builders are still focused on completions so the fall in housing registrations in 2023 Q1 compared with a year earlier has not fully fed through to activity down on the ground as yet. Furthermore, the recent sharp rise in markets' expectations of peak interest rates (from 4.5% in early May to 5.75% now) is only likely to dampen housing market demand further and make house builders more risk averse regarding starting new developments in Q2, which will lead to falls in house building activity in the second half of the year.

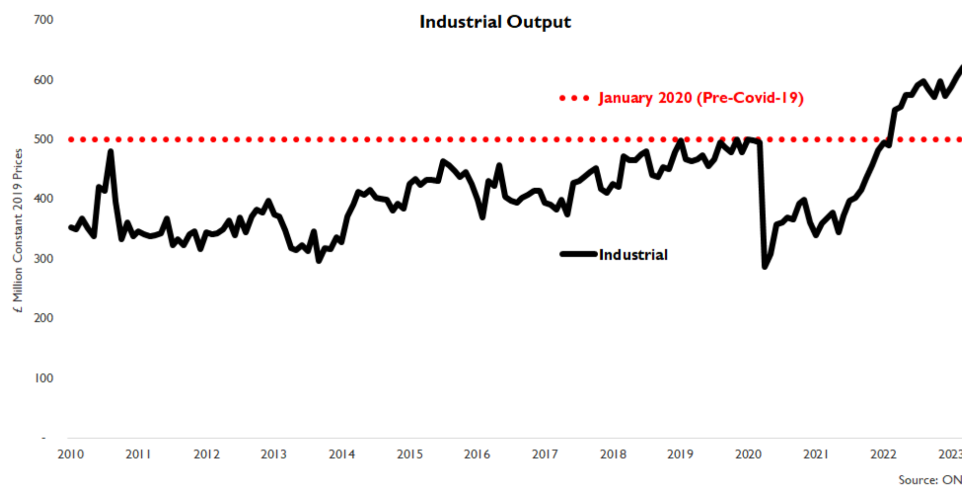


Infrastructure output in April 2023 was 2.9% higher than in March, 2.4% higher than a year earlier and 25.5% higher than in January 2020 as work continues on major projects (such as HS2, Thames Tideway, Hinkley Point C) and frameworks. Going forward, projects signed up to and/or started in previous years

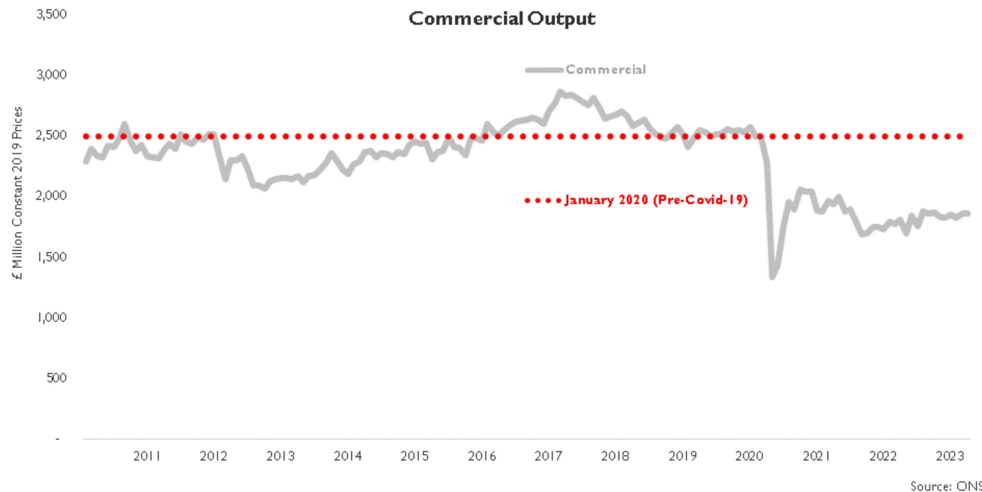
will continue but government delays to new roads projects and HS2 work stopping at both Euston station and in Staffordshire will affect volumes of infrastructure activity. Client hesitancy in regulated sectors, given concern about cost inflation plus budgetary constraints for council's local infrastructure (note that the £200 million announced in the Spring Budget for potholes and resurfacing is not ring-fenced for roads) will also adversely affect fortunes in the infrastructure sector but activity remains at a high level overall.



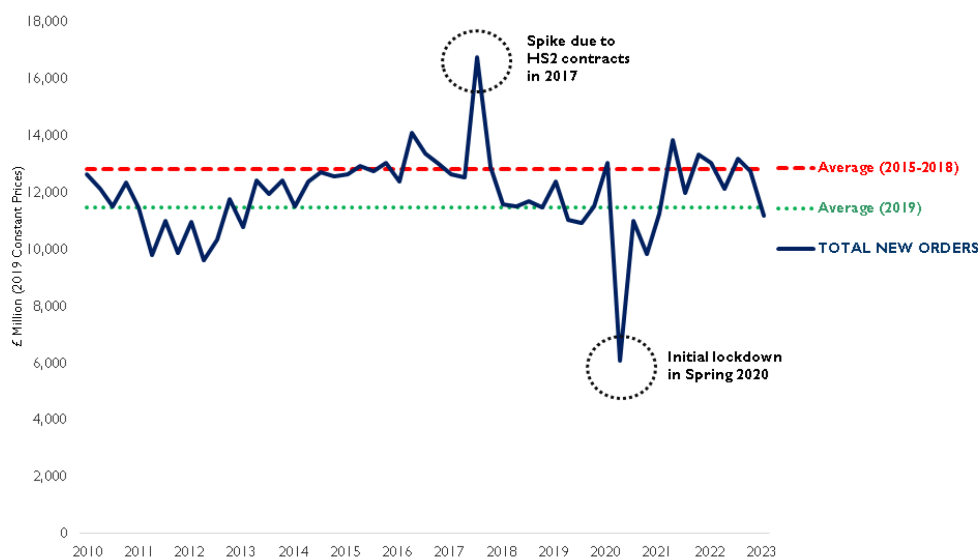
Industrial output in April 2023 was 1.0% higher than in March, 13.0% higher than a year ago and at its highest level on record driven by due to strong warehouses and factories activity. This is likely to continue to remain strong in 2023 Q2 and Q3. The new investment market for warehouses has now peaked, however, so after current projects have been built, activity is likely to fall away. Plus, factories activity is based on investment decisions in 2021 when demand was strong and manufacturers were capacity constrained. New manufacturing investment decisions in Autumn 2022, however, were put on hold due to economic and political instability after the Mini-Budget so output is likely to fall away over the next 12-18 months after current projects finish.



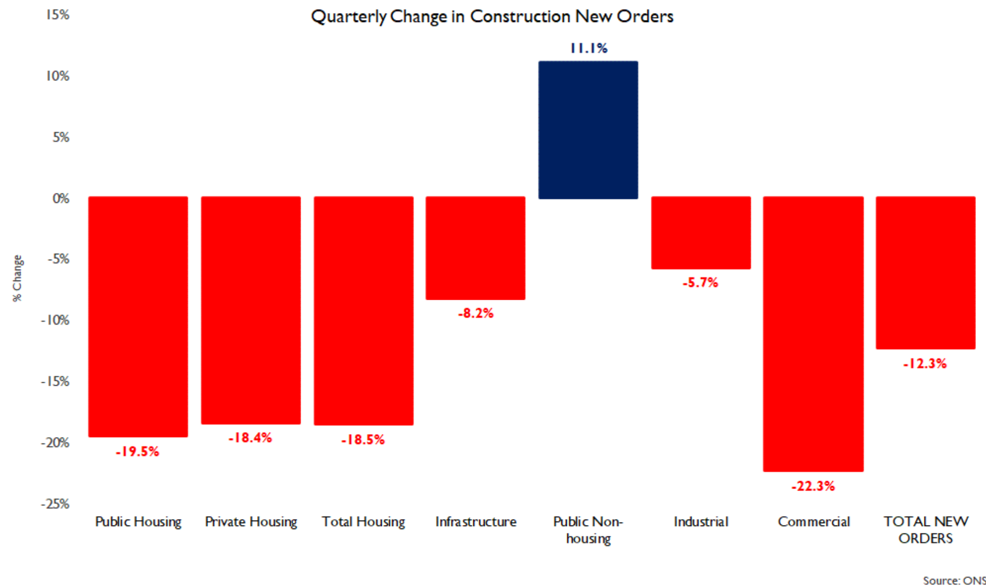
Commercial output in April 2023 was 1.8% lower than in March but 7.5% higher than a year earlier (although note that April a year ago was a particularly low figure compared with other months last year) and output in April was still 27.0% lower than pre-pandemic. Firms working on high-end refurbishment and fit-out of existing developments report activity is higher than pre-pandemic as the demand for grade A quality office space remains strong and with an excess of existing floor space lower than grade A that lends itself towards refurbishment. The majority of the sector, however, has historically been new build towers, where activity remains one-third lower than pre-pandemic. There are a few new towers in the pipeline but significantly fewer than at the peak of the market back in 2017 and towers projects are disproportionately affected by concerns over the demand for new commercial space given an excess of existing space, construction cost inflation issues and interest rates rises that affect finance costs.



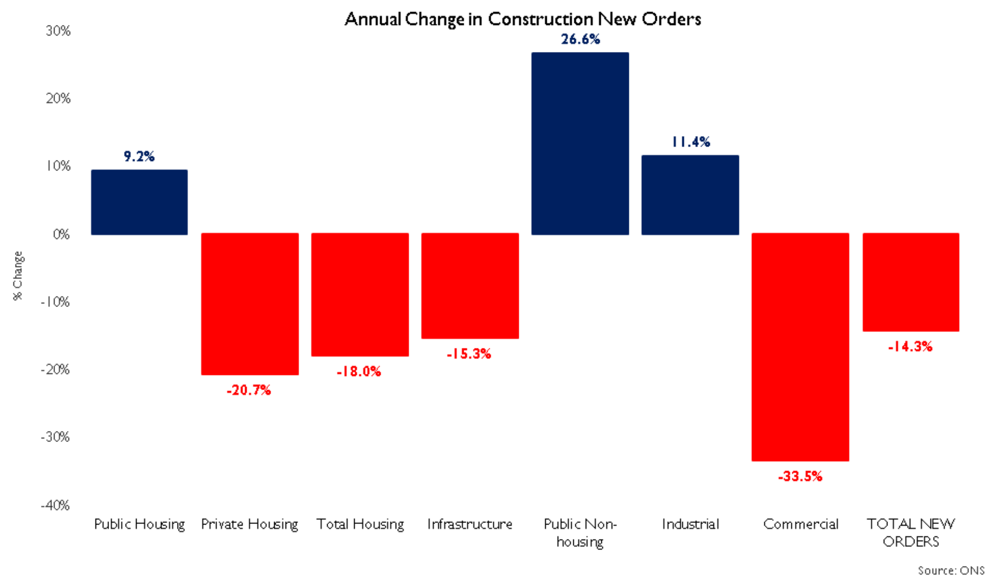
ONS Construction New Orders (2023 Q1): Construction new orders in 2023 Q1 were 12.3% lower than in Q4 and 14.3% lower than a year earlier according to the ONS. They were also 2.5% lower than the average for 2019 (and note that although 2019 was pre-pandemic, new investment in construction in 2019 was adversely affected by the economic and political uncertainty from postponed Brexit deadlines and the General Election) whilst construction new orders in 2023 Q1 were 13.0% lower than the average between 2015 and 2018, which was prior to the major distortions since 2019.



Construction new orders in 2023 Q1 compared with 2022 Q4 fell in every sector except public non-housing, which rose by 11.1% whilst the sharpest falls were in commercial new build (-22.3%), public housing new build (-19.5%) and private housing (-18.4%).



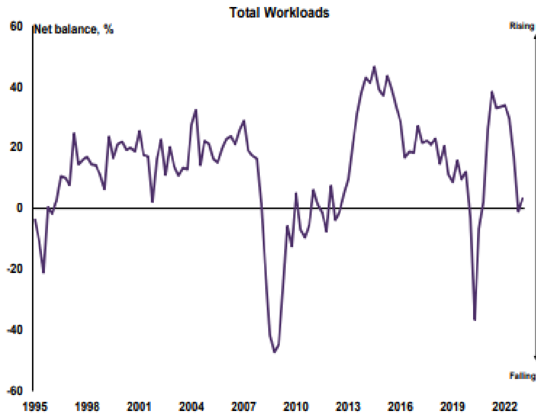
In 2023 Q1, construction new orders were 14.3% lower than a year earlier with the largest falls in commercial new build (-33.5%), private housing new build (-20.7%) and infrastructure (-15.3%). The fall in commercial new orders is unsurprising given the focus on refurbishment and fit-out of existing offices space and conversions of existing commercial developments to residential or industrial/logistics rather than new commercial towers. The fall in private housing new orders in 2023 Q1 was unsurprising given the rise in mortgage rates and sharp decline in housing demand in Q4 after the government's Mini Budget in Autumn 2022. The infrastructure new orders fall in 2023 Q1 reflects client hesitancy signing off new projects due to concern over whether budgets will cover projects finishing given cost inflation concerns and cost overruns on projects currently on the ground.



RICS UK Construction Monitor (2023 Q1): The RICS 2023 Q1 UK Construction Monitor showed that workloads edged upwards in Q1, recording a net balance of +3% compared with -1% in 2022 Q4. This was mirrored by the results for private commercial and private industrial workloads which both showed very marginal gains (+2% and +3% respectively). Private housing was a little less negative with the net balance at -9% against -13% in Q4.

The strongest momentum in workloads continued in the infrastructure sector, although it has slowed in recent quarters. Meanwhile, the other public works category is also showing a solid trend in activity. Within the infrastructure area, the energy component continues to display the strongest trend as it has done since 2021, with a net balance reading of +46% this quarter. This represents a slight increase on the +45% posted in 2022 Q4. Respondents reported that there continued to be concern about shortages of labour in particular. It has been an easing in the share of contributors highlighting the issue, but it was still close to two-thirds of the total. A key problem area in terms of recruitment remains quantity surveyors and hiring trades. Feedback around expectations on employment remained firm. A net balance of +35% respondents reported having recruited employees over the past 3 months with the metric capturing the forward-looking perspective at +27%; this compares with the previous reading of +15%. Against this backdrop, the proportion of contributors envisaging increasing investment in workforce training and development rose to a net balance of +23% from +17% in 2022 Q4 despite the ongoing squeeze on profitability facing many businesses in the sector.

The number of respondents reporting financial constraints as a challenge has risen for the fifth consecutive quarter, reaching 64%. Moreover, with further hikes in base rates possible in the face of the resilience of the headline inflation rate, this challenge is unlikely to dissipate quickly. Another indication of this pressure was evident in the feedback around credit conditions, which remained tough in Q1 with a net balance of -38%. The 12-month series does, however, point towards a lessening in the pressure with a net balance of -6%). Another area of concern was the hurdle of securing planning permission, which featured heavily in remarks from contributors. Business enquiries rose modestly over the past three months after slipping very marginally in the latter part of last year. The more positive momentum was also reflected in the series designed to capture the likely trend in workloads over the coming year. The headline net balance rose from -3% in 2022 Q4 to +15% in 2023 Q1. At a sector level, expectations around infrastructure remained robust with the net balance accelerating from +22% to +31%. However, respondents were more upbeat in the outlook for both private residential and private non-residential workloads. In the former, the net balance swung around from -11% to +9% whilst for the latter the net balance increased from -5% to +15%. The RICS survey captures the outlook for profitability in two ways; first, a net balance question regarding margins and second, through point forecasts on tender prices and construction costs. The metric for Q1 came in at -11%, which is the least negative since 2022 Q1. The gap between tender prices and construction costs is narrower than previously but still indicative of some strain on profits. Workloads across much of England and Wales were broadly in line with that recorded in the previous survey and marginally positive. However, the reading for Scotland was modestly negative once again and it was more so in the case of Northern Ireland.



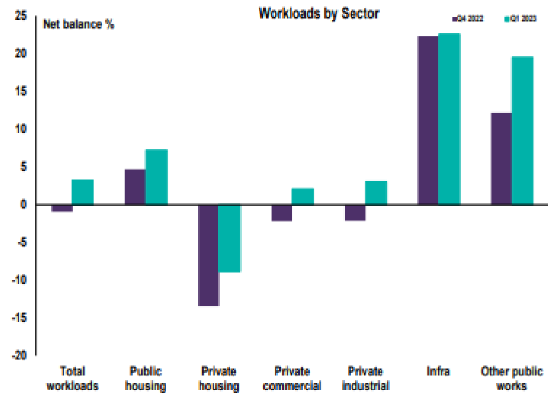


Chart 3

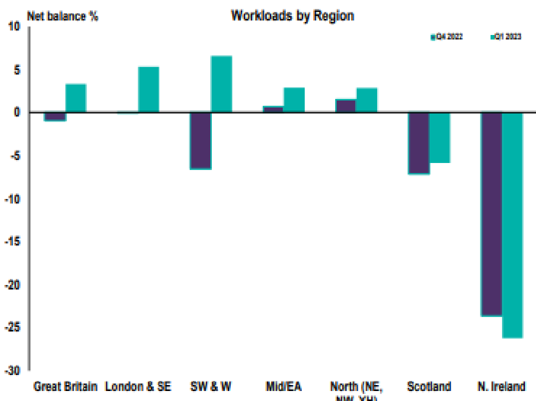
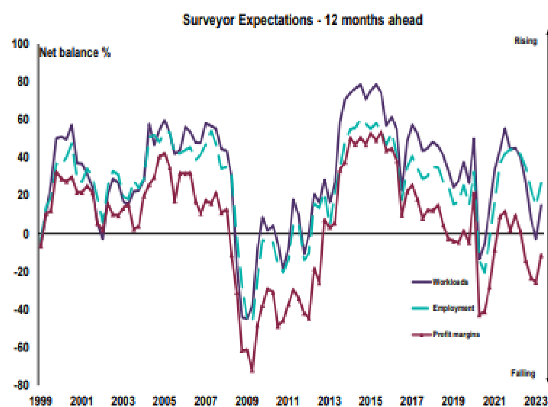
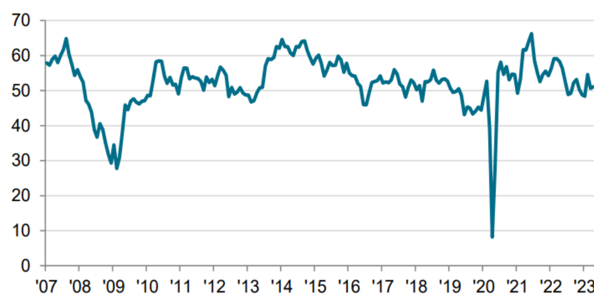


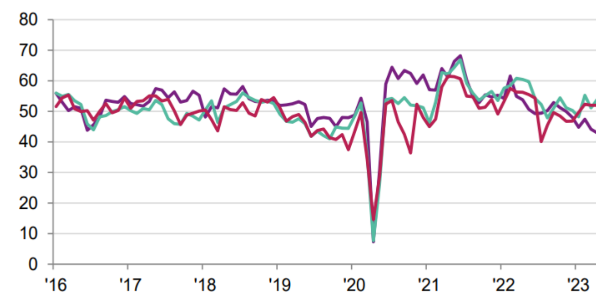
Chart 4



[S&P Global/CIPS UK Construction PMI (April 2023)]: According to the S&P Global/CIPS UK Construction PMI, contractors remained in expansion mode in April but the latest data indicated uneven growth across sectors. Rising commercial work and civil engineering activity was offset by the steepest decline in residential activity since the initial lockdown in 2020. Supply conditions improved to the greatest extent since September 2009, reflecting an upturn in materials availability and fewer transport delays. The PMI was 51.1 in April, marginally higher than 50.7 in March. 50=no monthly change and April's PMI represents growth for a third consecutive month.



Sources: S&P Global, CIPS.

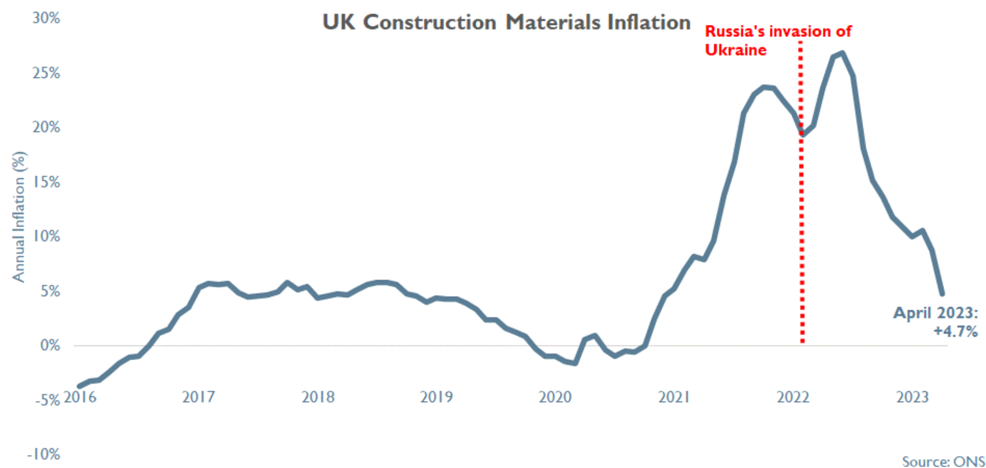


Source: S&P Global.

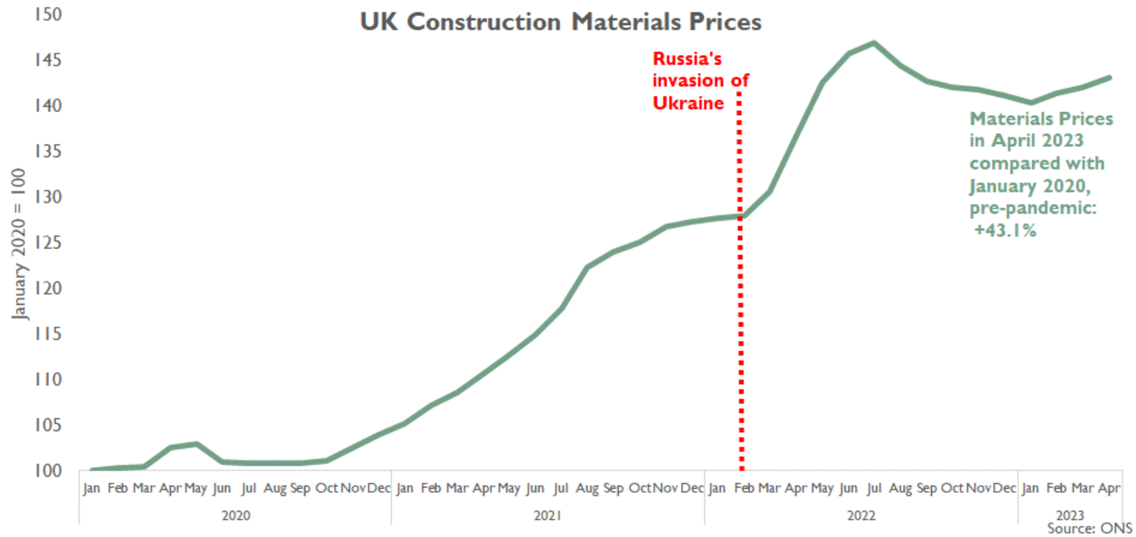
Commercial was the fastest-growing sector in April (53.9), with improving economic conditions boosting clients' willingness to spend. The rate of expansion was the second-strongest since October 2022 although respondents cited a headwind from squeezed client budgets and cost inflation. Civil engineering activity (52.0) picked up in April, supported by resilient pipelines of infrastructure. House building was the weakest-performing sector in April (43.0). Survey respondents reported delays to new projects, alongside constraints on demand from softer market conditions and higher borrowing costs.

New orders received by construction companies increased for the third consecutive month in April according to S&P Global/CIPS. The rate of expansion accelerated slightly since March and higher levels of new work were attributed to resilient client demand, especially for commercial building. Rising activity and forthcoming starts contributed to a moderate increase in employment during April. Input buying also expanded, albeit at only a marginal pace. Some firms noted efforts to reduce inventories had acted as a constraint on purchasing activity. Lead times among vendors shortened to the greatest extent for just over thirteen-and-a-half years. A combination of improved supply and relatively subdued demand helped to alleviate cost pressures across the construction sector. The rate of purchase price inflation was the slowest since November 2020 and broadly in line with the long-run survey average according to S&P Global/CIPS. Construction companies anticipated a further increase in business activity during the year ahead, but the degree of confidence edged down to a three-month low. Around 44% forecast a rise in output in the next 12 months, while only 13% expect a fall. Some firms nonetheless noted concerns about subdued housing market activity, rising interest rates, and the uncertain economic outlook.

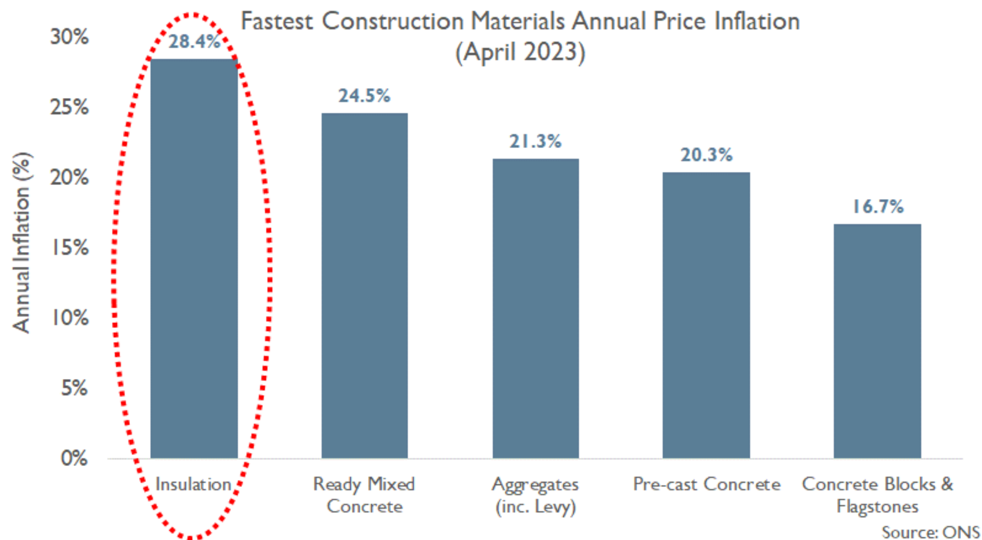
ONS UK Construction Materials Prices (April 2023): UK construction materials prices in April 2023 were 4.7% higher than a year ago according to the ONS, considerably lower than the 8.7% in March and 10.6% in February. Materials price inflation in April continues to slow from the peak of 26.8% in June 2022 as the spikes in energy, oil and commodity price spikes last year feed out of the annual percentage change figures.



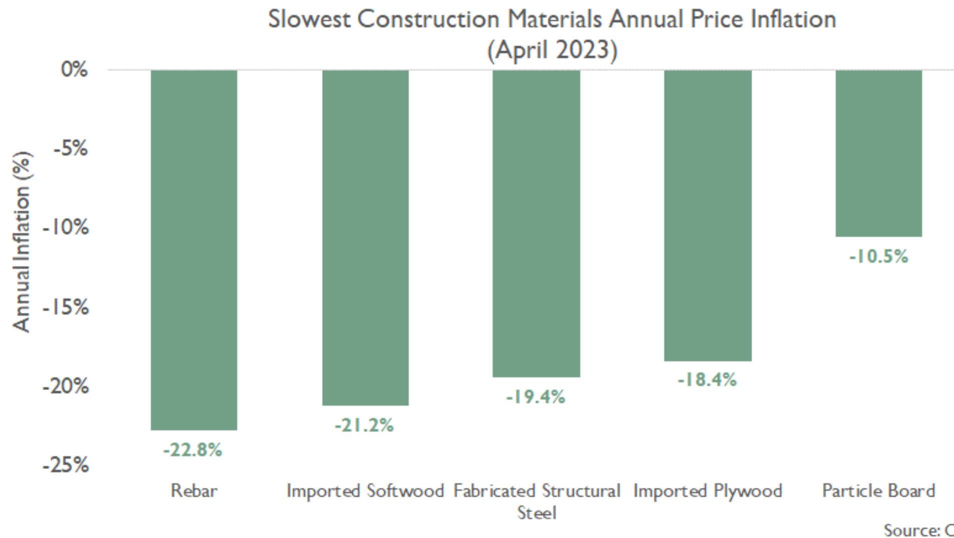
Although materials price inflation is slowing as expected and materials prices in April were 2.6% lower than the peak in Summer 2022, prices have risen in the last three months and in April were 43.1% higher than in January 2020, pre-pandemic.



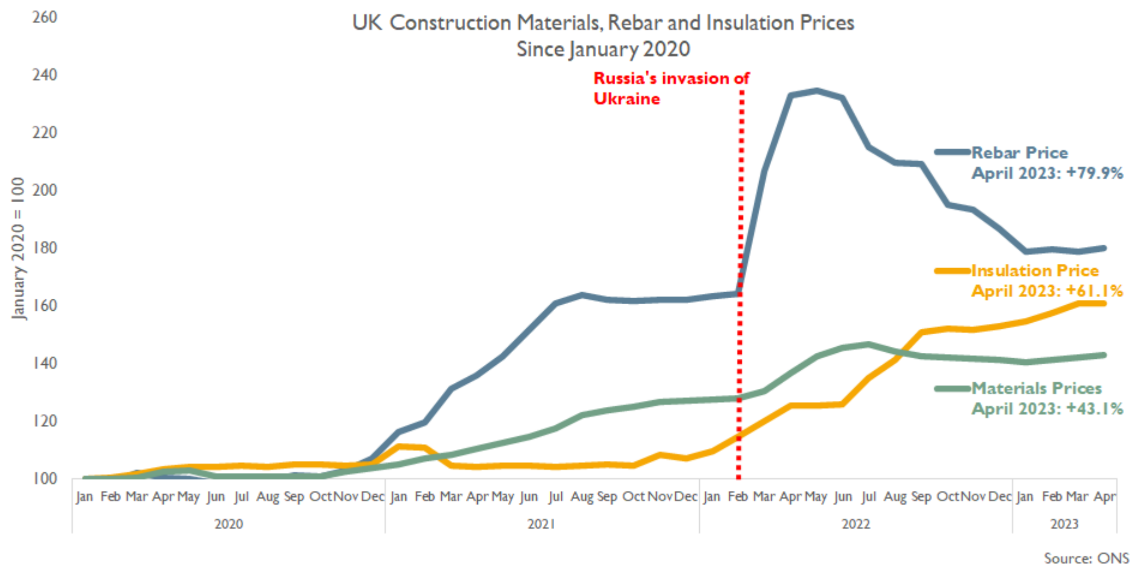
The fastest materials price inflation in April was in insulation (+28.4%), due to strong demand for energy-efficiency retrofit with homeowner concern over energy prices in the past year, plus strong price inflation in energy-intensive products such as concrete and aggregates, despite recent falls in energy prices, as manufacturers are still moving from energy forwards contracts signed 1-2 years ago onto higher priced forwards contracts.



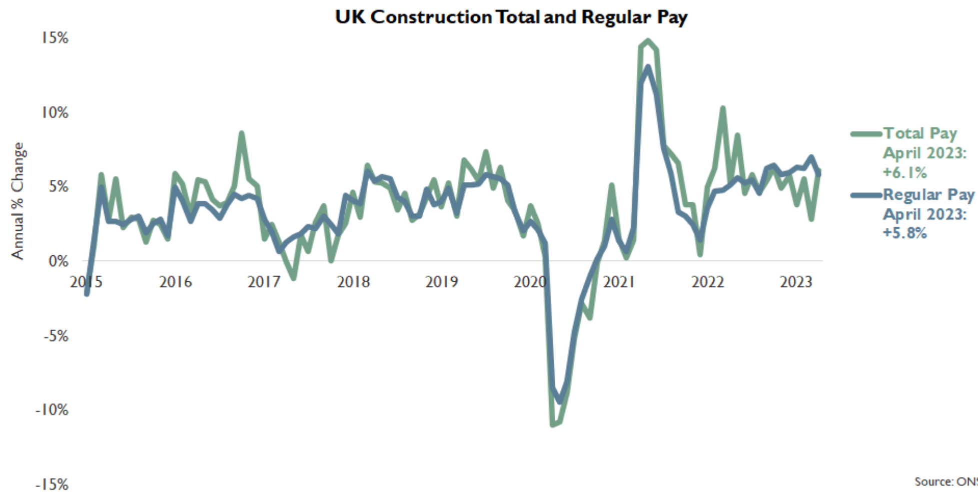
The sharpest price falls in the year to April 2023 were in rebar (-22.8%), imported softwood (-21.2%), fabricated structural steel (-19.4%), imported plywood (-18.4%) and particle board (-10.4%).



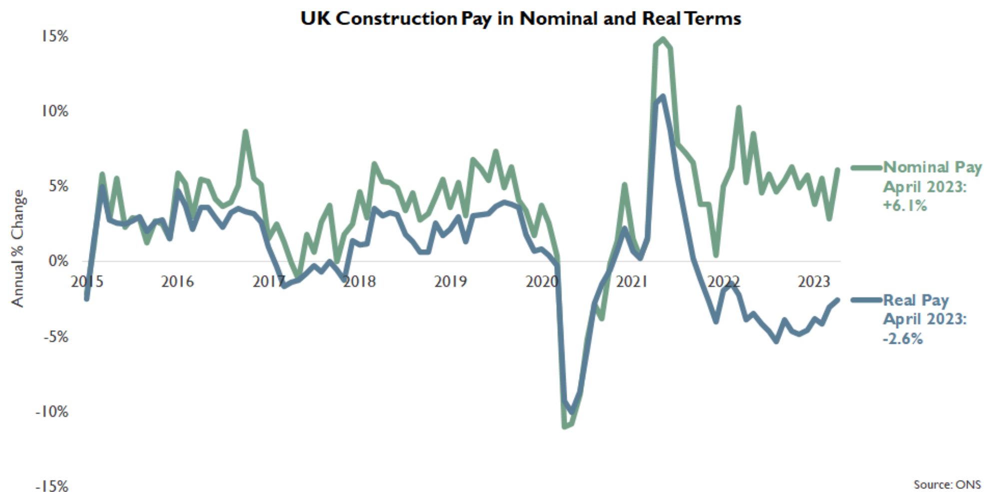
Despite insulation prices rising the fastest and rebar prices falling the most over the past year, rebar prices in April 2023 were still 79.9% higher than in January 2020, pre-pandemic, as rebar prices peaked in April 2023, at 133% higher than in January 2020, immediately after the spikes in energy, oil and commodity prices so they have been falling from a historic high peak. Conversely, insulation prices in April 2023 have reached a peak, so far, of 61.1% higher than in January 2020, pre-pandemic, with the sharpest rises occurring since Summer 2022 as homeowner concern over energy prices and security heightened.



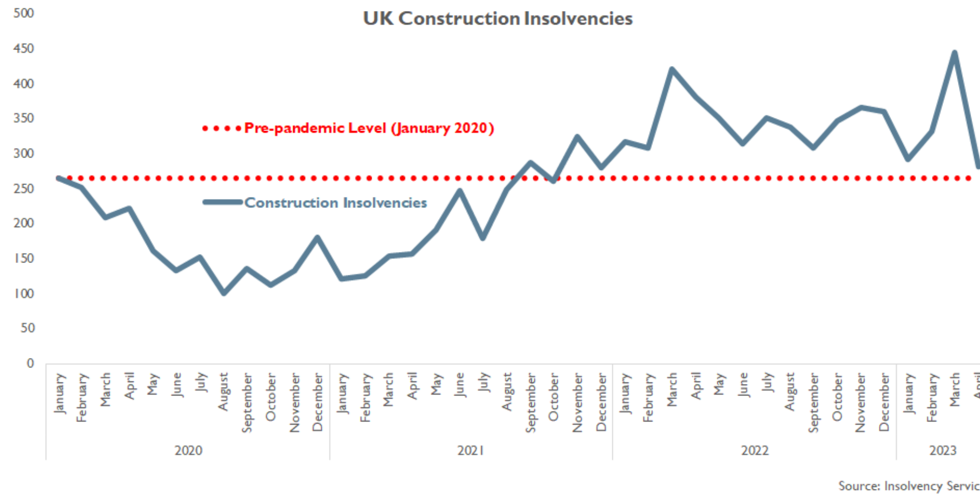
[ONS Construction Average Weekly Earnings (April 2023)](): UK construction total pay (including bonuses) in April 2023 was 6.1% higher than a year earlier whilst regular pay (excluding bonuses) in April was 5.8% higher than a year earlier.



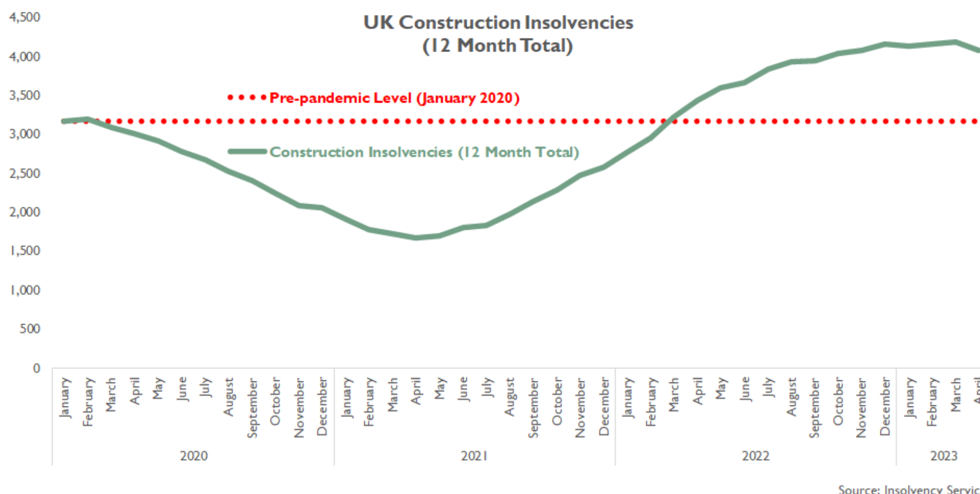
The 6.1% rise in total construction pay in the year to April in nominal terms meant that, given CPI inflation of 8.7% in April, real pay in UK construction still fell by 2.6% and real pay inflation in UK construction has been negative for 19 consecutive months, since November 2021, despite persistently strong workloads and it was negative even before the sharp rises in CPI inflation after the energy, commodity and oil price spikes due to Russia's invasion of Ukraine in 2022. However, the 2.6% fall in real construction pay is the smallest fall in real wages since Russia's invasion of Ukraine.



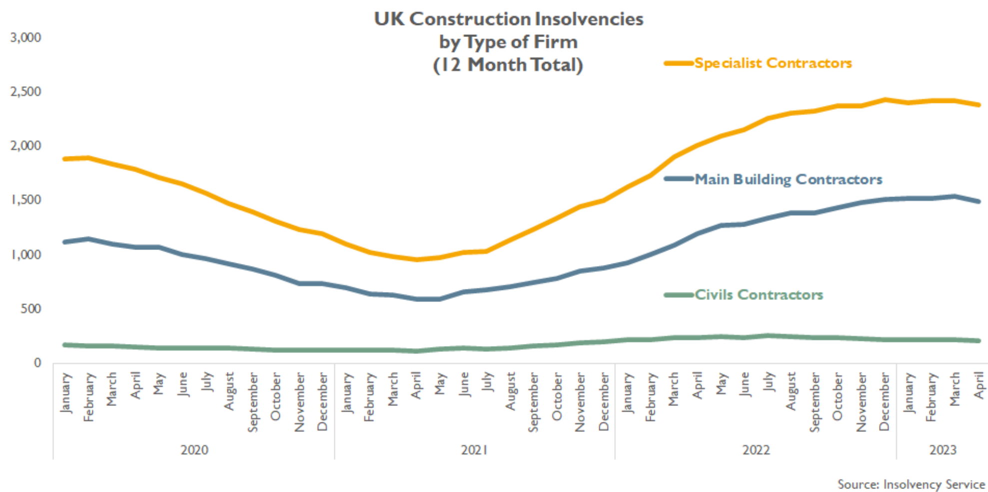
Insolvency Service UK Construction Insolvencies (April 2023): 282 UK construction firms went out of business in April 2023, which is 36.6% lower than in March (note that insolvencies tend to peak at financial year end) and is 26.2% lower than a year ago according to the Insolvency Service but it is more useful to look at the 12-month total given the monthly volatility.



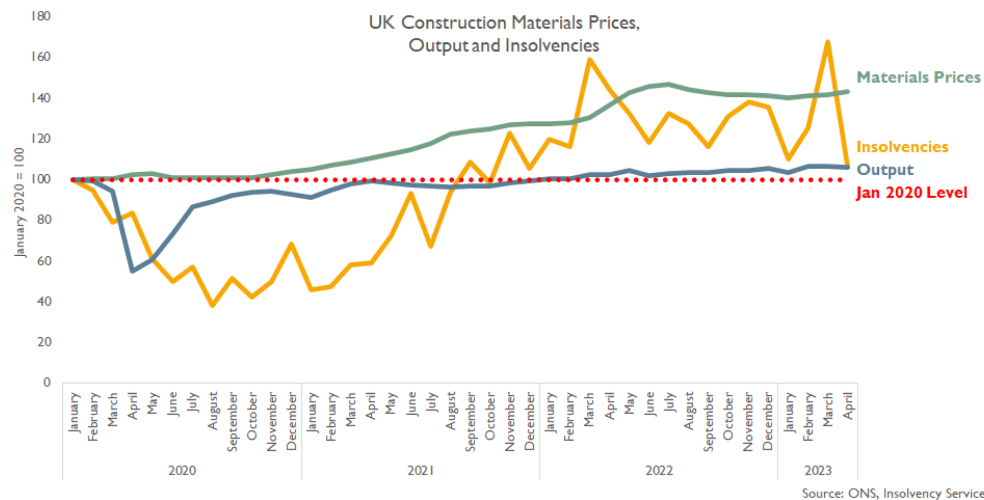
4,087 UK construction firms went out of business in the year to April 2023, which is 2.4% lower than in March but 18.5% higher than a year earlier. Furthermore, UK construction insolvencies in the year to April 2023 were at their 4th highest level since the financial crisis and the construction industry still hasn't seen the full impact of the sharp fall in private housing (the largest construction sector) after the government's Mini Budget or seen the full impact of government delays to roads and rail projects in infrastructure (the 3rd largest construction sector) that were announced by government in March, on the construction supply chain, particularly smaller specialist sub-contractors (and note in UK construction 86% of employment is in SMEs as most construction work is sub-contracted out).



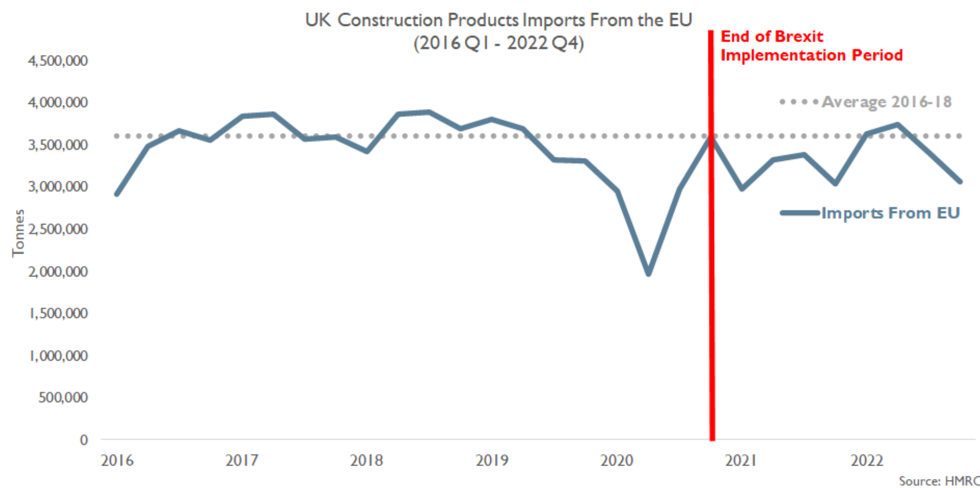
58% of the firms that went out of business in the year to April were specialist contractors. Specialists have had strong demand over the past 3 years but suffered from materials availability (in 2020 and 2021) and materials price inflation (in particular, since 2022). These issues were exacerbated by reverse charge VAT, labour availability and cost, IR35 and rises in P.I. insurance costs plus planning delays. Main building contractors suffered less from these issues but 1,491 firms (36% of UK construction firms) main building contractors still went out of business in the year to April so they clearly aren't immune to the supply issues. 212 (5%) of the firms that went out of business in the year to April were civils contractors, which have benefitted from strong work on major projects and frameworks plus they benefitted from public/regulated sector clients that have been more understanding of cost issues and not enforced fixed-price contracts as much as in private sector so projects have gone overbudget but fewer firms have gone out of business.



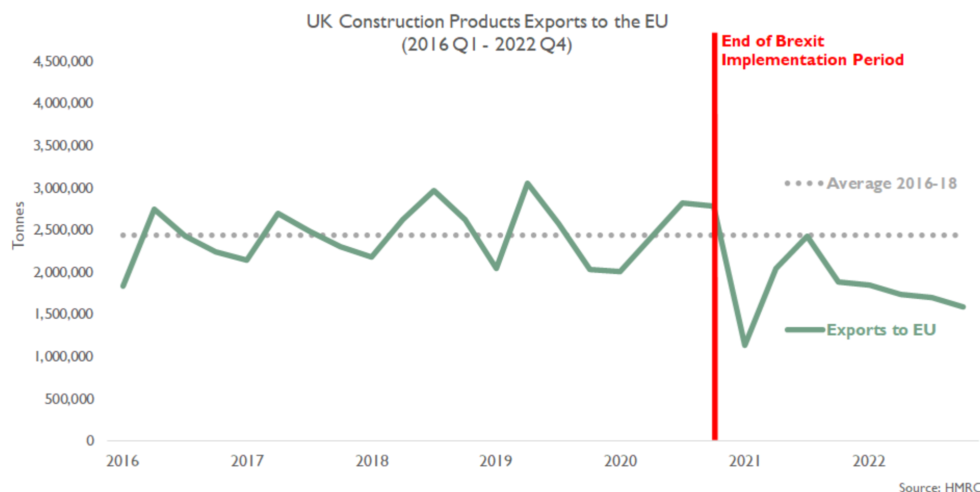
UK construction insolvencies in April 2023 were 6.4% higher than in January 2020, pre-pandemic, despite output 6.0% higher than in January 2020 with materials prices 43.1% higher than in January 2020. Insolvencies have been higher than in January 2020 for the last 18 months despite output being higher than in January 2020 for the last 16 months so demand has not been the main problem, so far, but meeting that demand profitably has been. Furthermore, construction will have to deal with the full impacts of the fall in private housing and the infrastructure delays in the next 12-18 months as well.



ONS UK-EU Construction Products Trade (2022 Q4): The volume of imports of construction products from the EU in 2022 Q4 was 9.9% lower than in Q3 but 0.7% higher than a year ago according to the latest HMRC data. The volume of imports of construction products from the EU in Q4 was also 15.1% lower than the average between 2016 and 2018, which was before delayed Brexit deadlines in 2019, the supply chain difficulties and the end of the implementation period in 2020. Imports in 2022 Q2 were briefly above levels of 2016-18, however, as full checks on EU imports were still not being conducted and construction demand was higher than pre-pandemic levels with strong demand for housing new build and rm&i. Imports tend to be used to supplement domestic production to meet that 'excess demand'. The falls in imports during the second half of 2022 reflect the fall in the 'excess demand' given slower housing new build and rm&i activity, with sufficient domestic production plus housebuilders and merchants destocking on some products.



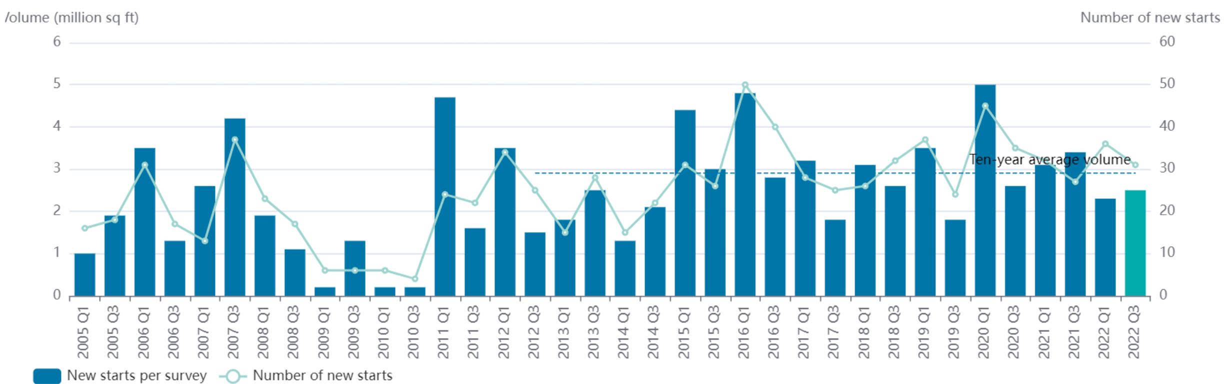
The larger impact has been on exports of UK construction products to the EU. The volume of exports to the EU in 2022 Q4 was 6.4% lower than in Q3 and 16.1% lower than a year ago despite strong EU demand. Exports to the EU in Q4 were also 35.1% lower than the average between 2016 and 2018. The indications from large firms are that they adjusted business models to deal with the cost and resource needed to deal with exporting to the EU so they have largely been unaffected. Some firms, however, chose to source products for EU construction from facilities still in the EU, leading to a reduction in exports. The greatest difficulties have been for small exporters that struggle with resource to deal with the additional costs and bureaucracy. So, some small UK exporters focused on the domestic market.



Deloitte Crane Survey (Winter 2022): According to the latest Deloitte Crane survey, there were 2.5 million sq ft of new commercial starts in Central London, which is 6% higher than in its previous survey but it remained lower than the ten-year average of 2.9 million sq ft. Completions were also higher than in the previous survey (71%) at around 3 million sq ft but this was from a low base and they were below the 4.6 million sq ft expected by Deloitte in its previous survey due to a shortage of materials and continuing supply chain disruptions.

The shift to refurbishments continued and accounted for 26 out of 31 new starts, or 1.7 million sq ft. Deloitte stated that the uptick in refurbs reflects concern from local authority planning committees and occupiers about how embodied carbon is lost in the demolition process but that it may also be a symptom of developer caution – refurbs tend to be smaller, cheaper and quicker than new starts. It also stated that caution over new commercial projects appeared to have several causes. On the supply side, labour and material shortages, higher interest rates and material price inflation are affecting pricing and tendering. On the demand side, the Bank of England warned of a recession lasting between five and eight quarters. Combined with this cyclical downturn, developers now anticipate a structural decline of a 10% in the volume of space required per head due to an increase in home working that was catalysed by the pandemic lockdowns.

As completions are lagging Deloitte's expectations, it now expects 2023 to be a year of the catch-up in the Central London market and it expects a rebound in investment in 2025 creating 'a new wave of opportunity for developers' although the CPA view would be that the high level of uncertainty regarding the depth of the recession and the length of the recession means that the margin of error around forecasts for 2025 is very high. In addition, we would anticipate that, given the high demand for grade A space but an excess supply of commercial space that is lower than grade A, investment is likely to remain strong medium-term for refurbishment and fit-out of existing space but at the expense of investment in new commercial towers projects.



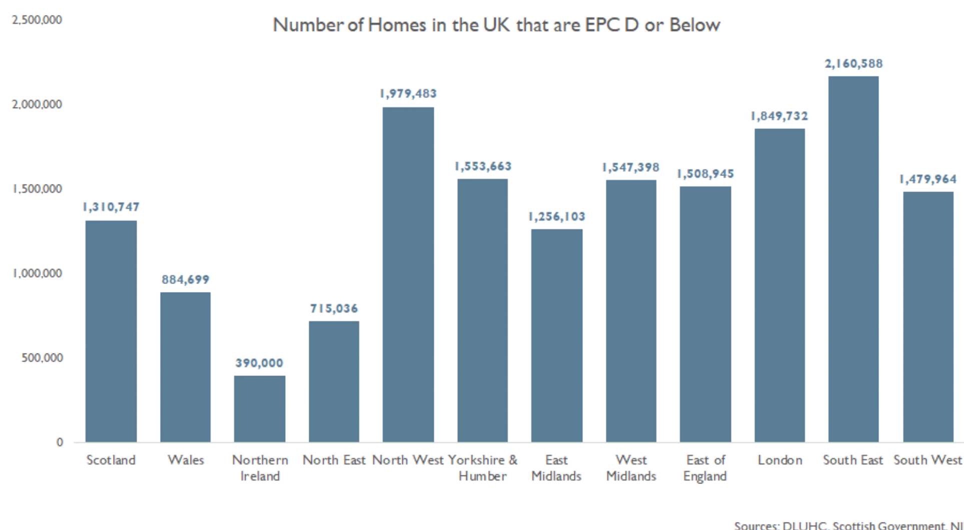
Source: Deloitte

UK Housing Stock by EPC (2021): The latest data on the existing housing stock in England and Wales by EPC, combined with data on the housing stock in Scotland and Northern Ireland, highlights that the total number of homes was 29.8 million homes.

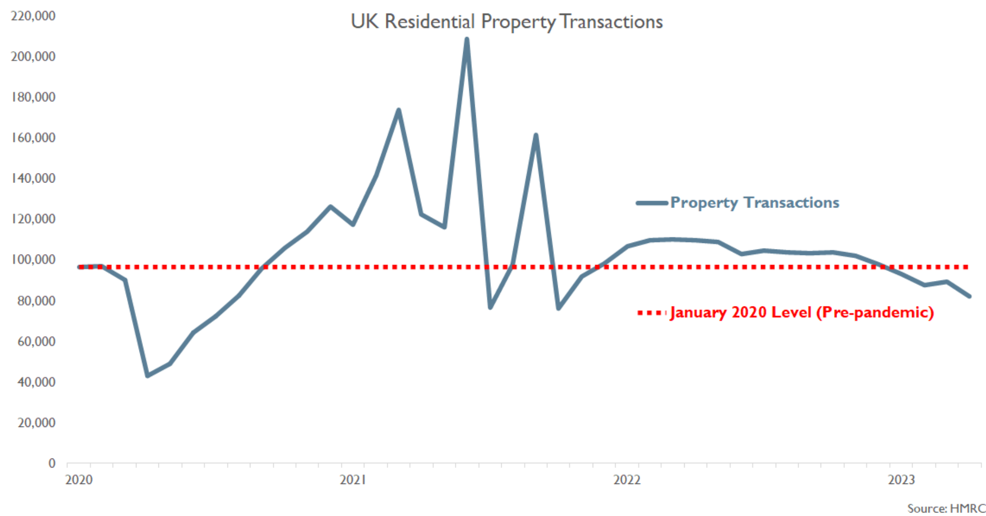
Of this, 16.6 million homes are EPC rated D or below. This is split by region in the chart. To give a reference point for the extent of activity that would need to take place to the meet the EPC rating C or above target that the UK government announced as being sufficient for Net Zero (and note that Scotland has a target for social housing of EPC B rating), if the current UK housing stock is to be retrofitted to EPC rating C or above by 2050, then assuming that this activity ramps up on 1 January 2023, it would require 616,000 energy-efficiency retrofits on homes each year, every year until 2050. In other words, it would require 12,000 energy-efficiency retrofits on homes each week, every week until 2050 starting on 1 January 2023.

If the current UK housing stock is to be retrofitted to EPC rating C or above by 2035, then assuming that this activity ramps up on 1 January 2023, it would require 1.4 million energy-efficiency retrofits on homes each year, every year until 2035. In other words, it would require 27,000 energy-efficiency retrofits on homes each week, every week until 2050 starting on 1 January 2023.

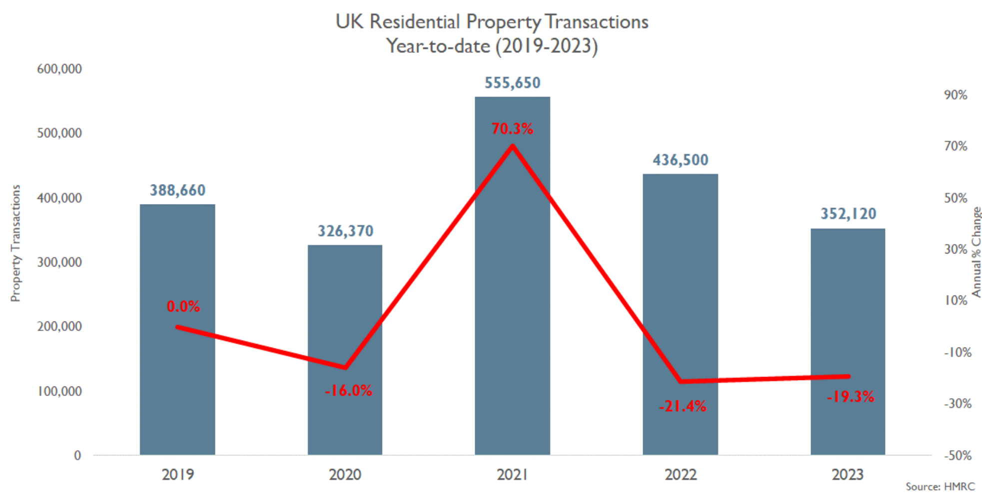
As ever, it is worth highlighting that the extent of retrofit activity that needs to take place on the housing stock alone, requires sustained large investment upfront over the course of many years in skills and capacity for the ability to deliver the retrofit activity, even assuming that the demand, finance and willingness to spend is there from homeowners, central government, housing associations and local authorities as the UK enters a period of reduced spending in real terms in the near-term at the very least.



HMRC UK Residential Property Transactions (April 2023): There were 82,120 residential property transactions in the UK in April 2023, which is 7.9% lower than in March and 25.1% lower than a year earlier according to HMRC. Furthermore they were also 14.8% lower than in January 2020, pre-pandemic, before the 'race for space' and stamp duty holidays and whilst Help to Buy was still in place. The full impact of the fall in mortgage approvals (since the spike in mortgage rates after the government's Mini Budget in Autumn 2022) has still not fed through to transactions due to the lag between mortgage approvals and transactions. Transactions will not fall by as much as mortgage approvals due to cash sales partially sustaining demand. Mortgage approvals had been rising between January and March, since the end of last year as mortgage rates have fallen but going forward mortgage rates are likely to rise again and so approvals will fall as expectations that the Bank of England will continue to raise interest rates further (and additional risk around rate rises) is factored in by lenders.



It is still early in the year but year-to-date (January to April), UK residential property transactions in 2023 were 19.3% lower than in 2022 and 9.4% lower than in 2019.

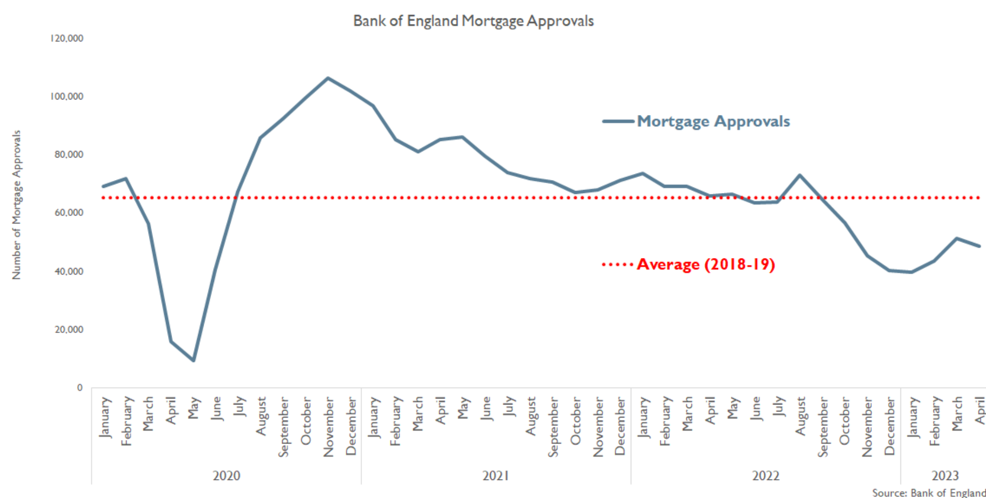


Over the longer-term, transactions in April were 15.1% lower than the 2005-2018 average before economic and political uncertainty distortions in 2019 (due to postponed Brexit deadlines and a General Election) and distortions since 2020 (lockdowns, post-initial lockdown 'catch-up', the 'race for space', stamp duty holidays, gradual end of Help to Buy', cost of living crisis etc.) affected the housing market.

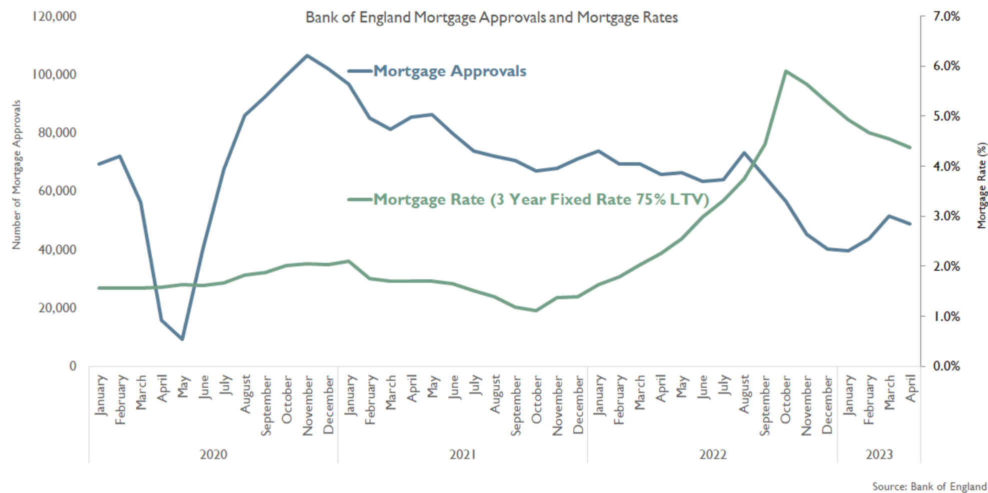
Our latest forecasts have property transactions falling 24% overall in 2023 compared with 2024 although this was assuming that interest rates had peaked already. After the latest core CPI inflation figures, however, financial markets' expectations were that interest rates would rise from the current 4.5% to 5.25%.

Overall, CPI inflation in the year to April 2023 slowed to 8.7% from 10.1% in March. However, core CPI inflation (excluding energy, food, alcohol and tobacco) rose by 6.8% in the year to April 2023, which is higher than the 6.2% in March and it is now at its highest rate since March 1992. Given that the Bank of England and markets' expectations are reacting strongly to every data point, however, if core CPI inflation slows in the next few months then interest rates may not rise as much as markets currently anticipate.

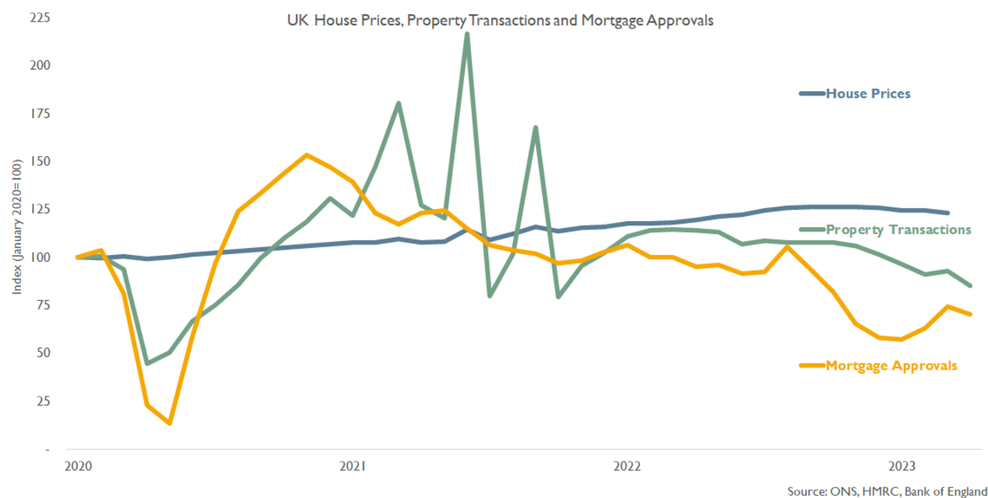
Bank of England UK Mortgage Approvals (April 2023): There were 48,690 mortgage approvals in the UK in April 2023 according to the Bank of England, which is 5.4% lower than in March, 26.0% lower than a year ago and 25.6% lower than the average number of mortgage approvals between 2018 and 2019. The dip in mortgage approvals in April 2023 comes despite further falls in mortgage rates in April (continuing to fall from November's post-Mini Budget peak), which is a concern as mortgage rates will start rising again in line with rises in the Bank of England's interest rate (and as lenders price in more expected rises and additional risk from uncertainty over peak interest rates), leading to lower mortgage demand.



The fall in mortgage approvals continues to outpace the fall in property transactions, as would be expected given that transactions are partially sustained by cash sales, but the data for mortgage approvals in March and April suggests that there is likely to be a brief uptick in transactions in the next couple of months before transactions fall further as the impact of rising interest rates impacts on household real incomes, confidence, spending and rising mortgage rates.

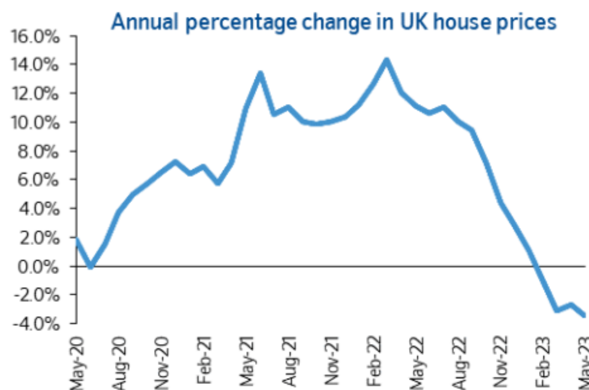


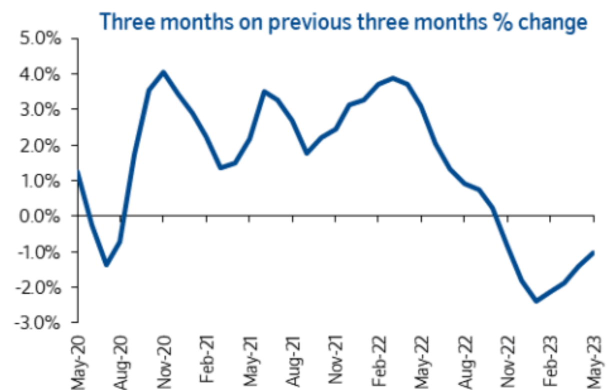
UK house prices have been relatively stable by comparison to mortgage approvals and property transactions as falls in housing demand have been partially offset by a fall in the supply of homes onto the housing market, preventing sharp house price falls so far plus also a higher proportion of transactions have been at the higher end of the market, sustaining average house prices. April's ONS/Land Registry house prices are not available yet but March's were still 22.9% higher than in January 2020 although 2.6% lower than in November.

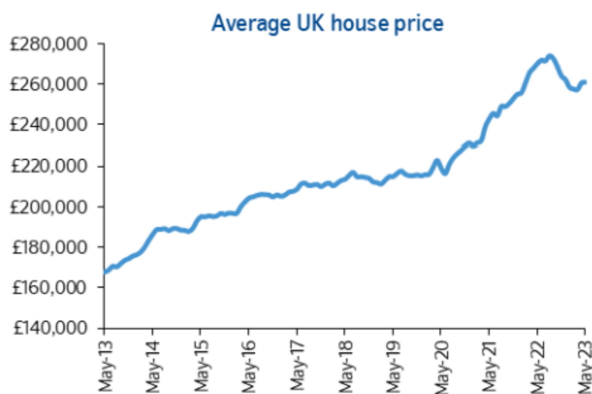


Nationwide UK House Price Index (May 2023): The Nationwide house price index (which is only based on Nationwide's mortgage lending and, consequently, does not take account of cash sales and it tends to be weighted more towards the south of England than the Halifax house price index and the south where higher mortgage rates bite hardest) reported that after initial signs of improvement in April, annual house price growth fell falling back in May to -3.4% from -2.7% in April. However, this largely reflects base effects with prices broadly flat over the month after taking account of seasonal effects. Average prices remain 4% below their August 2022 peak. Nationwide stated that recent Bank of England data had shown some signs of recovery in housing market activity, although the number of mortgages approved for house purchase in March was still around 20% below pre-pandemic levels. Headwinds to the housing market look set to strengthen in the near term, however.

While consumer price inflation did slow in April, it was a much smaller decline than most analysts had expected. As a result, investors' expectations for the future path of Bank Rate increased noticeably in late May, suggesting it could peak at around 5.5%, well above the 4.5% peak that was priced in around late March. Furthermore, rates are also projected to remain higher for longer. This is likely to exert renewed upward pressure on mortgage rates, which had been trending down after spiking in the wake of the mini-Budget last year. A relatively soft landing remains the most likely outcome according to Nationwide since labour market conditions remain solid and household balance sheets appear in relatively good shape. While activity is likely to remain subdued in the near term, healthy rates of nominal income growth, together with modestly lower house prices, should help to improve housing affordability over time, especially if mortgage rates moderate once Bank Rate peaks.

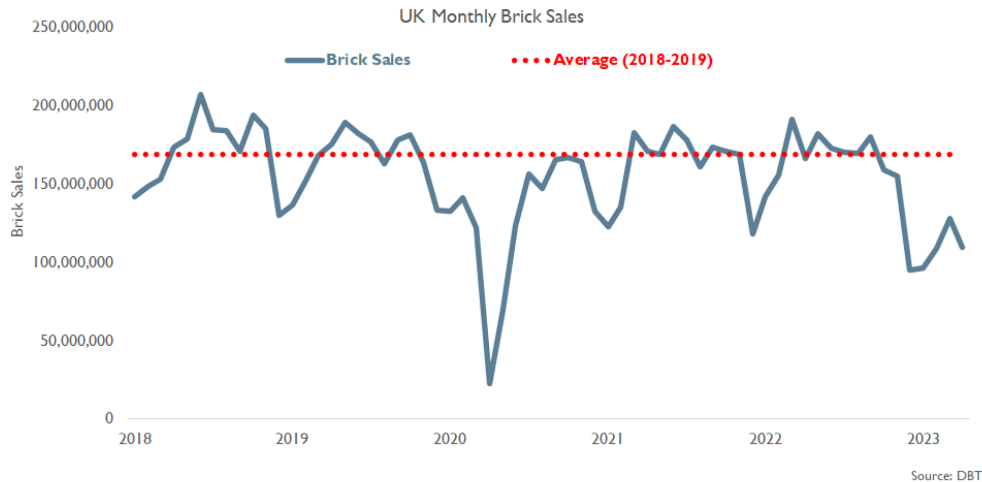




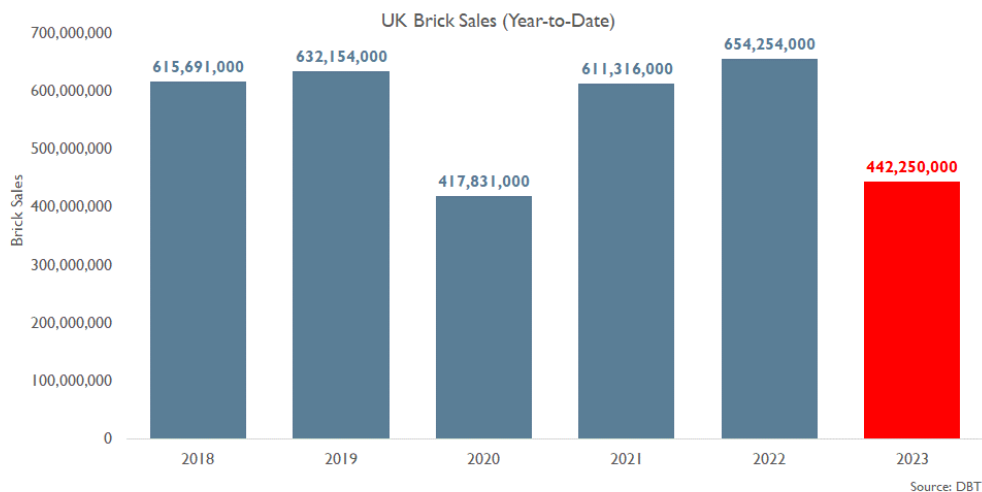


Source: Nationwide, ONS

DBT UK Brick Deliveries (April 2023): UK brick deliveries (a proxy measure for house building starts in the absence of monthly house building data) in April 2023 were 14.4% lower than in March and 15.4% higher than December's low point, according to Department for Business and Trade data. Although brick deliveries began to rise in January 2023 and continued in February and March, the fall in April means brick deliveries were still 34.1% lower than a year ago and 35.1% lower than the average between 2018 and 2019, pre-pandemic. This reflects the low starts in 2022 Q4 and 2023 Q1 after the Mini Budget and the slow recovery as house builders focus on completing existing developments rather than starting new developments except on a few selected regional sites where homebuyer demand remains.

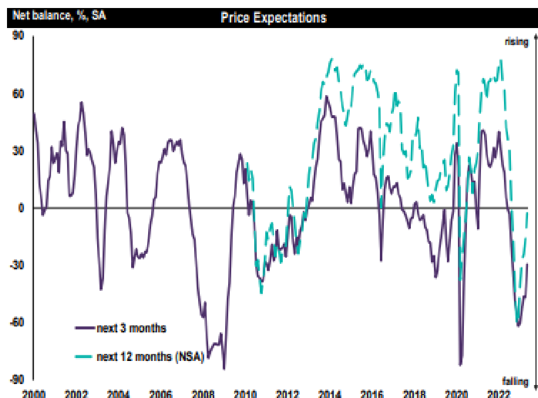


It is still early in the year but brick deliveries year-to-date (Jan-Apr) in 2023 were 32.8% lower than a year ago (although note it is compared with a very strong start to house building in 2022) and 30.0% lower than in 2019, pre-pandemic. The CPA forecasts had a 17-20% fall in private house building this year but it is worth noting that this was based on the assumption that interest rates had peaked at the current 4.5% but after the latest core CPI inflation data, markets have revised up expectations of interest rates peaking to at least 5.25% that, through higher mortgage rates, would have a significant further downward impact on housing, and consequently house building, demand this year.

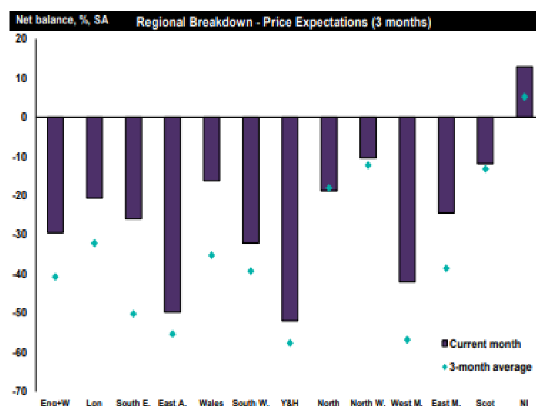


[RICS UK Residential Market Survey (May 2023)](): The RICS UK Residential Survey reported that the net balance for new buyer enquiries was -18% in May, considerably less negative than -34% last month and the least negative value in the last 12 months. Most parts of the UK were less negative on new buyer enquiries compared to the start of the year. The agreed sales index had a net balance of -7%, less negative than -29% in March and -18% in April. The net balance for near-term sales expectations was -7%, up from -17% in April and the least pessimistic since May 2022. The net balance for sales expectations in the next 12 months was +2%, similar to +3% last month. New instructions rose to a net balance of +14% after 13 consecutive negative readings and the strongest reading since March 2021. Average stock levels on estate agents' books picked up slightly but remained historically low and below the average over the past five years. A net balance of -30% cited a further fall in national prices in May, less negative in the last successive three months, having hit a low of -46% in February. In London, the net balance of -3% points to broadly flat prices, considerably higher than the -42% in March and -11% in April. Scotland and Northern Ireland saw an uplift in house prices. Conversely, prices continued to fall in most other English regions, with net balances the most negative in the East Midlands (-68%) and the South East (-48%). National house price expectations for the next 12 months had a net balance of -3%, up from -16% last month. Respondents foresee prices rising over the next 12 months in Northern Ireland, Scotland, London, the North West and South West. Away from these areas however, respondents see prices as flat or modestly negative.

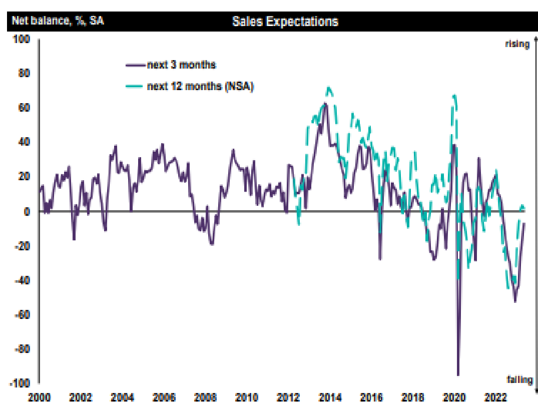
National Price Expectations - Three and twelve month expectations



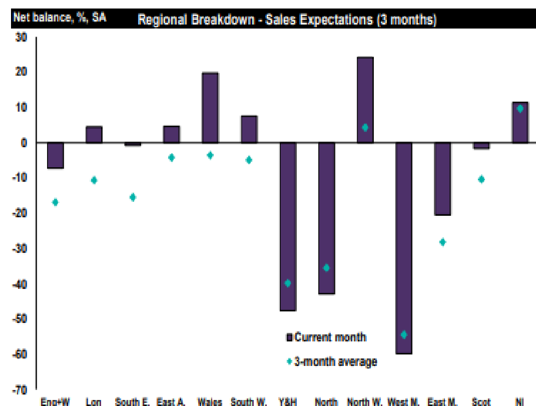
Regional Price Expectations - Next three months



National Sales Expectations - Three and twelve month expectations



Regional Sales Expectations - Next three months



Vistry Group Trading Update (May 2023): Housebuilder Vistry (formerly Bovis Homes and the housebuilding and partnerships divisions of Galliford Try plus the addition of Countryside Partnerships) reported on trading from 1 January 2023 to date that bulk transactions have supported its sales rate, which continued to improve, with the average weekly private sales rate per site per week at 0.83 for the year to date but excluding bulk sales in Housebuilding, the sales rate was 0.65. It also stated that it had been helped by subcontractor savings and the management of preliminary costs whilst it highlighted that its forward order book totalled £4,475 million; Partnerships forward sales were £3,067 million and Housebuilding was £1,408 million.

Forward sales (£m)	**15 May 2023**	20 March 2023	13 May 2022
Housebuilding			
- Private	**699**	630	904
- Private - Vistry share of JVs	**157**	107	151
- Affordable	**482**	524	446
- Affordable - Vistry share of JVs	**70**	78	62
Total Housebuilding	**1,408**	1,339	1,563
Partnerships			
- Mixed tenure	**1,556**	1,489	380
- Mixed tenure - Vistry share of JVs	**424**	381	171
Total mixed tenure	**1,980**	1,870	551
Total partner delivery	**1,087**	970	860
Total Partnerships	**3,067**	2,840	1,411
Total Group	**4,475**	4,179	2,974

Note: 13 May 2022 forward sales restated to include Vistry share of JVs (previously included 100% of JV forward sales)

Persimmon Q1 Trading Statement (April 2023): House builder Persimmon, the third largest by number of homes built, reported that its forward sales position at 1 January 2023 was £1.0 billion, down 36% year-on-year due to the challenging trading environment in 2022 H2 resulted in lower sales rates and elevated cancellation rates, particularly in Q4. This led to a 42% reduction in completions in Q1 to 1,136 homes compared with 1,950 homes in 2022 Q1. Of this, 902 were private homes compared with 1,631 homes a year earlier whilst 234 homes were with housing association partners compared with 319 homes a year ago.

Since the start of the year, it reported a steady improvement in sales rates, with net private sales per outlet of 0.62 in Q1, compared with 0.30 in 2022 Q4 and 0.98 a year ago. It also stated that pricing remained firm in Q1, with the group's private average selling price on completions up 10% on a year ago and up 4% on 2022 Q4.

Incentives on new home reservations continued at around 3%. Overall, it reported build cost inflation continued at around 8-9% with limited signs of easing in the short-term.

Build rates in the first quarter were 30% lower year-on-year at 176 units per week compared with 252 a year earlier.

In April, it committed to invest £25 million into TopHat, a modular home manufacturer to help manage the challenge of labour shortages in key trades.

It also stated that if sales rates continue at the level seen year-to-date, it would expect full year 2023 volumes to be at the top end of the range of 8,000 to 9,000 completions. However, it highlighted that with sales rates having been atypical in recent months, it remains unclear how trading will develop for the remainder of 2023.

Q1 Highlights

	Q1 2023	Q1 2022	% change
New home completions	**1,136**	1,950	-42%
Average open sales outlets	**266**	245	+9%
Cash at 31 March	**£353m**	£433m	-18%
Net private sales per outlet[1]	**0.62**	0.98	-37%
Current forward sales position[2]	**£1.7bn**	£2.4bn	-30%
Of which private forward sales[2]	**£1.0bn**	£1.8bn	-47%
Land holdings (plots owned and under control)	**c.86,400**	c.92,100	-6%

Crest Nicholson Half-year Report (June 2023): House builder Crest Nicholson, which focuses on the South East, reported for the six months ending 30 April 2023 that revenue was at £282.7 million compared with £364.3 million a year earlier, reflecting the economic uncertainty and lower confidence in the housing market during the first half of the year.

Home completions were 894 compared with 1,096 a year earlier, comprising of open market completions (including bulk deals) of 647 compared with 912 a year earlier and affordable completions of 247 compared with 184, in line with CPA forecasts that affordable demand has been strong whilst private sale demand has suffered most from the sharp fall in demand post-Mini Budget. Its sales per outlet week was 0.54 compared with 0.72 a year earlier whilst the average number of outlets was 48 compared with 58 a year earlier.

It also stated that forward sales at 2 June 2023 were 2,354 units and £597.4 million Gross Development Value (GDV) compared with 2,891 units and £814.9 million (GDV) and approximately 85% of its financial year 2023 revenue has been covered. Adjusted profit before tax was £20.9 million compared with £52.5 million a year ago whilst adjusted operating profit margin was 7.8% compared with 15.0% a year ago. However, it's return on capital employed was still 14.6% compared with 18.3% a year earlier.

In the results meeting, following the results, Crest Nicholson highlighted that build cost inflation has persisted for "longer than expected".

Key financial metrics

£m (unless otherwise stated)	HY23	HY22	% Change
Adjusted basis[2]			
Operating profit	22.1	54.5	(59.4)
Operating profit margin	7.8%	15.0%	-720bps
Profit before tax	20.9	52.5	(60.2)
Basic earnings per share (p)	6.1	15.7	(61.1)
Statutory basis			
Revenue	282.7	364.3	(22.4)
Operating profit/(loss)	30.7	(50.5)	(160.8)
Operating profit/(loss) margin	10.9%	(13.9)%	+2480bps
Profit/(loss) before tax	28.4	(52.5)	(154.1)
Basic earnings/(loss) per share (p)	8.2	(16.5)	(149.7)
Other metrics			
Home completions (number)	894	1,096	(18.4)
Net cash[2,3]	66.2	173.3	(61.8)
Dividend per share (p)	5.5	5.5	-

Taylor Wimpey Trading Statement (April 2023): House builder Taylor Wimpey, the second largest by number of units, reported for 1 January to 23 April 2023 that as the Spring selling season has progressed, it has seen an increase in the sales rate and pricing has remained resilient with continued commitment by mortgage providers to lend and with rates reduced from the highs of 2022 Q4. It's net private sales rate for the year to 23 April was 0.75 compared with 0.97 a year earlier, with a cancellation rate of 15%, only marginally higher than 14% a year earlier. It is worth noting that the sales in the period include planned bulk deals and, excluding bulk deals, its net private sales rate for the year to 23 April 2023 was 0.66 so major private investors are offsetting a part of the fall in private housing demand. By 23 April 2023, its total order book value was £2,379 million compared with £3,027 million a year earlier, equivalent to 8,576 homes compared with 11,119 homes a year ago. It also reported that build cost inflation remains high but is beginning to moderate from the 9-10% it reported in March, a trend it expects to continue as the year progresses. It stated that it remains highly selective in land additions and has, year-to-date, approved fewer than 500 new plots, as would be expected given the housing market demand slowdown and the current uncertainties. In line with other house builders, it highlighted that customer interest continued to recover from the weak conditions 2022 Q4. It expects completions in 2023 to be in the range of 9,000 to 10,500, with completions more weighted to 2023 H2.

Bellway Trading Update (June 2023): House builder Bellway, which is one of the top five house builders, reported for the period 1 February to 4 June 2023 that its forward order book had a value of £1,710 million compared with £2,404 million a year earlier, which represents 6,172 homes compared with 8,152 homes a year earlier. In line with previous guidance, it stated that it is on track to deliver full year volume output of around 11,000 homes compared with 11,198 homes a year ago with an overall average selling price of around £300,000 compared with £314,399 a year earlier.

It also stated that customer demand has shown a sustained improvement compared to the very challenging trading environment in the fourth quarter of calendar year 2022. There was a week-on-week improvement in private reservations during January and February 2023, to levels which have been maintained throughout an encouraging spring selling season. Mortgage rates are currently higher than the equivalent period last year, although customers are adapting to new higher borrowing costs and affordability has been helped, in part, by ongoing wage rises. However, it also highlighted that the recent expiry of Help-to-Buy in England has led to lower year-on-year demand from first time buyers, and there remains a relative lack of affordably priced higher loan-to-value mortgage products. Furthermore, it is worth noting that Bellway was reporting for period before the most recent sharp rise in markets' expectations of interest rates and consequent impact on mortgage availability and mortgage rates.

Since 1 February, the overall reservation rate was 24.9% lower than the equivalent period in 2022 at an average of 190 per week compared with 253 a year earlier, with the Group's programme of accelerating the construction of social homes partially offsetting softer private demand. The average private weekly reservation rate reduced by 29.8% to 139 compared with 198 a year ago. Help-to-Buy, which is still available to customers in Wales, was used for only 1% of reservations in the period compared with 16% a year ago. During the period, build cost inflation has persisted across the industry, for both labour and materials. Since January 2023, lower demand for construction materials has supported an improvement in product availability and it continues to expect overall cost inflation to ease through the remainder of the calendar year.

Travis Perkins Trading Update (June 2023): The builders' merchant Travis Perkins, which also owns Toolstation, issued a brief profit warning stating that it now anticipates an adjusted operating profit of around £240 million, which is down from £272 million in their trading update in April 2023. It reported that "Volumes in both the new build housing and private domestic RMI markets continue to be impacted by higher interest rates and weaker consumer confidence driven by persistent, higher than anticipated consumer price inflation. By contrast, the Group continues to see more resilient performance across its other end markets - namely commercial, industrial, infrastructure and public sector housing - and Toolstation continues to perform in line with expectations both in the UK and Europe."