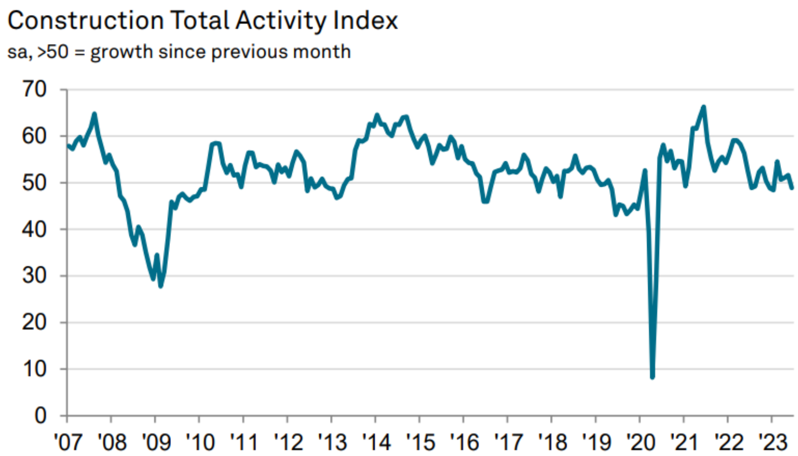
(Updated – 7 July 2023)

Weekly Economic and Construction Update

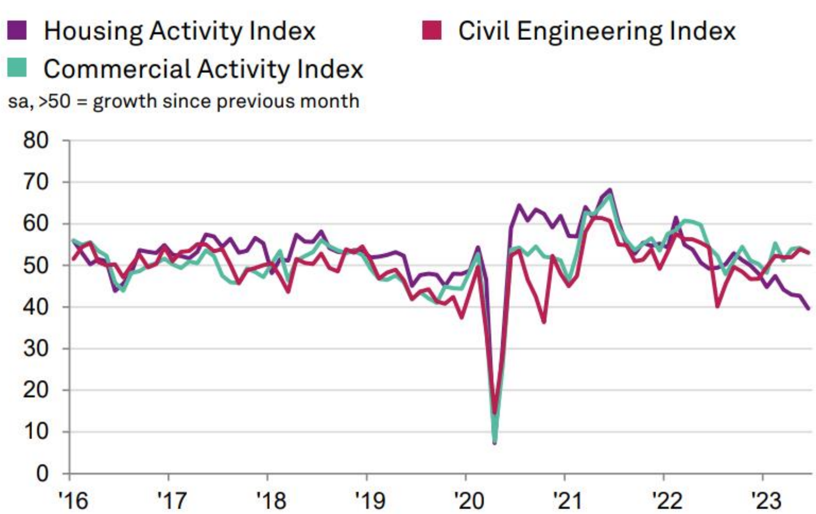
1) S&P Global/CIPS UK Construction PMI (June 2023):

The S&P Global/CIPS UK Construction PMI in June was 48.9, down from 51.6 in May. 50 = no monthly change in the PMI so June's figure represents a dip in activity compared with May. The fall was marginal overall but it masked divergent trends across the three major categories monitored in the survey.



Sources: S&P Global PMI, CIPS.
Data were collected 12-29 June 2023.

The PMI for residential work was 39.6 in June, indicating that housing decreased at its fastest pace since May 2020, which was in the initial national lockdown. Aside from the lockdown-related fall, the rate of contraction was its fastest since April 2009, during the financial crisis. Survey respondents commented on weaker demand due to rising borrowing costs and a subdued outlook for the housing market. Civil engineering was the best-performing sector with a PMI of 53.1, indicating activity rising at the second-fastest pace since June 2022. The commercial PMI was 53.0, highlighting growth although the rate of growth slipped to a three-month low. Rising demand for refurbishment projects was cited in June but some firms reported more cautious decision-making by clients.



Source: S&P Global PMI.

New order volumes decreased for the first time since January, although the pace of decline was only marginal. Subdued demand was mostly linked to the impact of rising interest rates on house building projects, alongside concerns among clients about the general economic outlook. Construction companies sought to reduce inventories and cut back on purchases of products and materials in June. Mirroring the trend for new orders, the reduction in input buying was the first for five months.

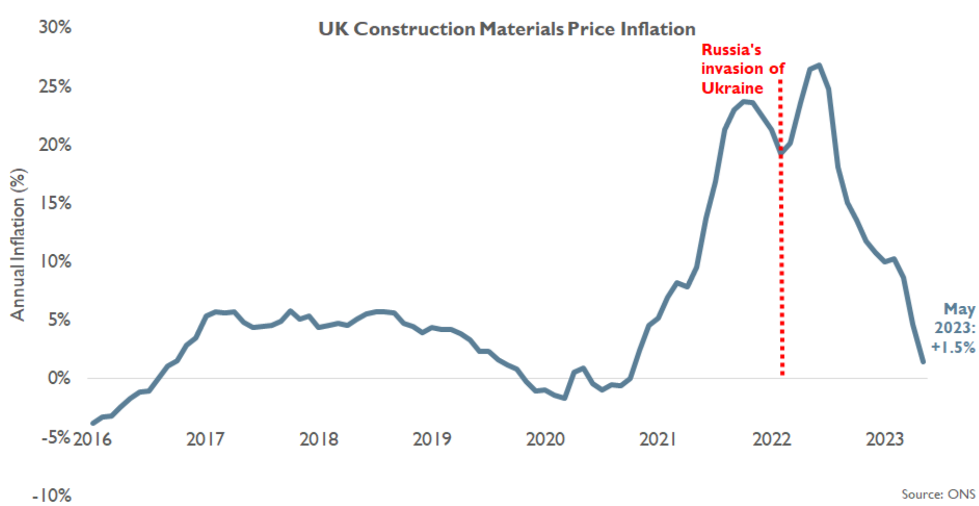
Suppliers' delivery times shortened for the fourth month running. The latest improvement in vendor performance was the strongest for around 14 years. Survey respondents widely commented on improved availability of inputs due to rising stocks among vendors and softer underlying demand.

June data signalled a marginal decline in overall input prices across the construction sector. This was the first reduction in average cost burdens since January 2010. Construction companies cited lower fuel, steel and timber prices, alongside more competitive market conditions in response to falling demand. Meanwhile, sub-contractor charges increased at the slowest pace for 31 months.

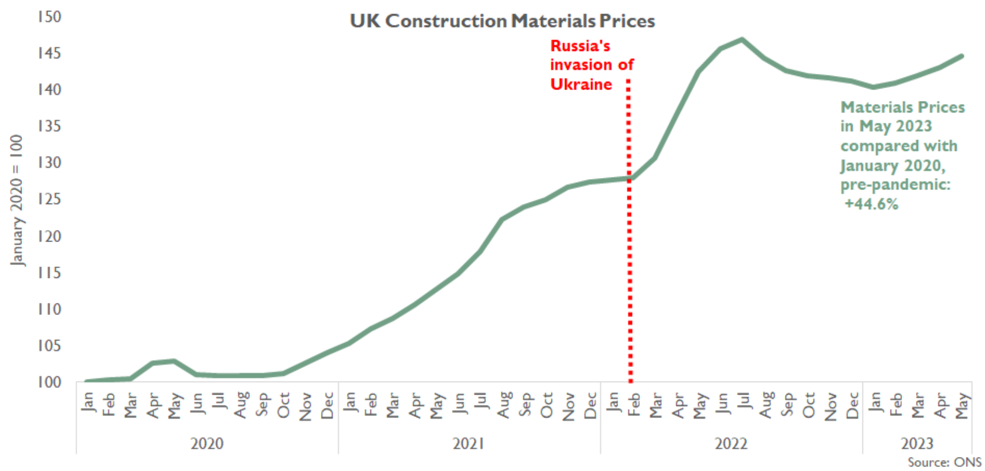
Construction firms signalled a downturn in business confidence for the third month running in June. Weaker optimism about future workloads mostly reflected concerns related to rising interest rates and subdued housing market conditions.

2) ONS UK Construction Materials Prices (May 2023):

UK construction materials prices in May 2023 were 1.5% higher than a year ago according to the latest data from the ONS, which is lower than the 4.7% inflation in April and 8.7% inflation in March as it continues to slow from the peak of 26.8% in June 2022 as the spikes in input energy, oil and commodity price spikes fall out of the annual change figures.

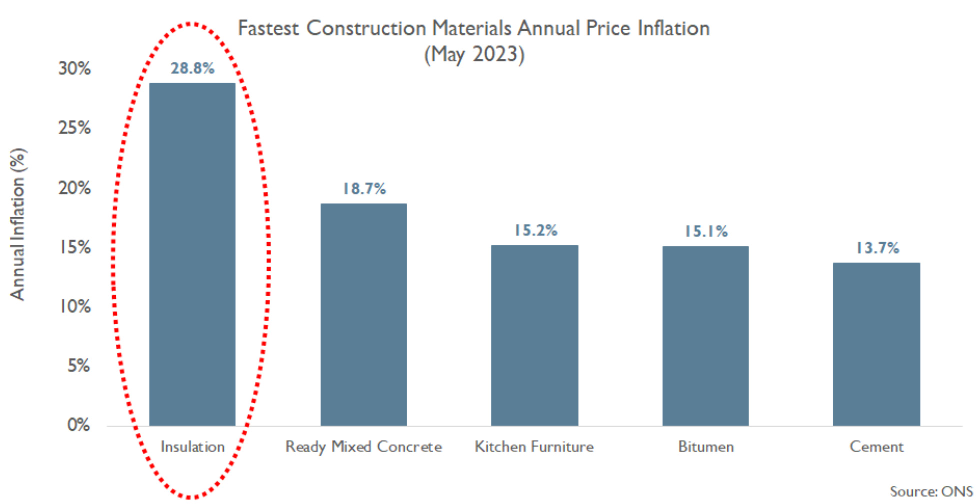


However, this just means the rate of price increases has been slowing and although materials prices in May were 1.6% lower than the peak in Summer 2022, they have risen in the last four consecutive months and in May they were still 44.6% higher than in January 2020, pre-pandemic.

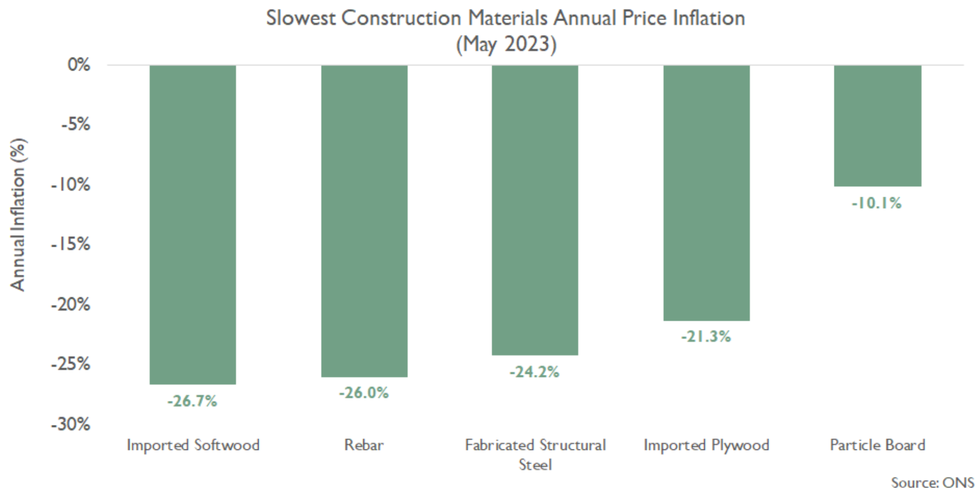


This is concerning for contractors, particularly smaller specialist sub-contractors that are working within the 2 largest construction sectors, private house building and housing repair, maintenance and improvement, where demand has fallen sharply (except in insulation and solar/PV improvements work which continues to rise) so they are getting hit from both demand and supply.

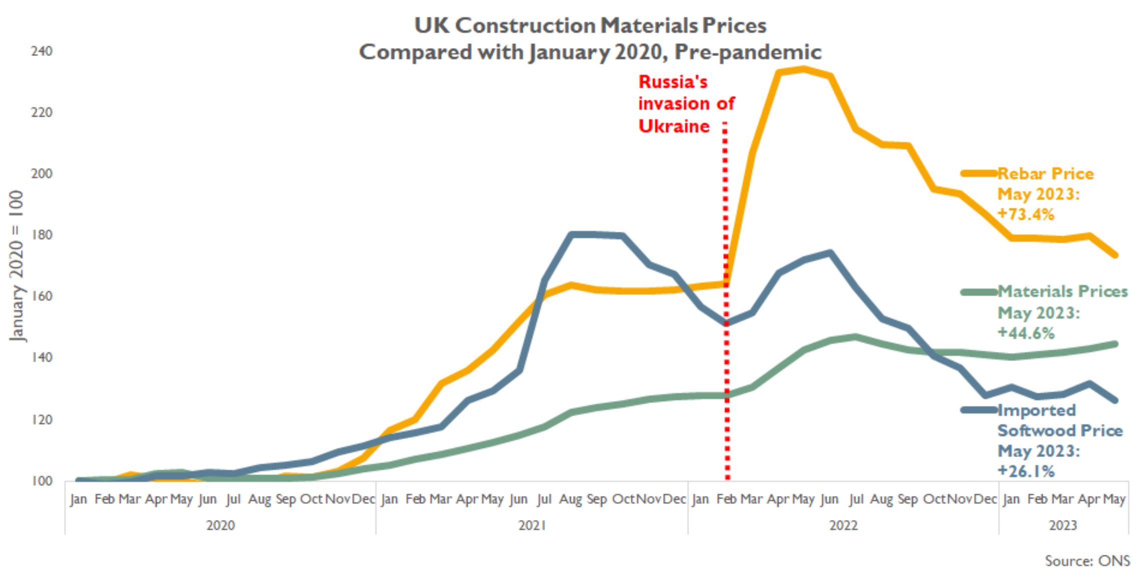
The fastest rates of construction materials price rises in the year to May 2023 were insulation, due to strong demand for energy-efficiency retrofit with homeowner concern over energy prices in the past year, and products such as RMC and bitumen products as energy-intensive manufacturers are still moving from forwards energy contracts signed 1-2 years ago onto new, higher priced forwards contracts despite recent falls in energy prices.



Conversely, the sharpest falls in materials prices in the year to May 2023 were in imported softwood (26.7%), rebar (26.0%), fabricated structural steel (24.2%), imported plywood (21.3%) and particle board (-10.1%) so effectively in steel-related products and timber-related products.



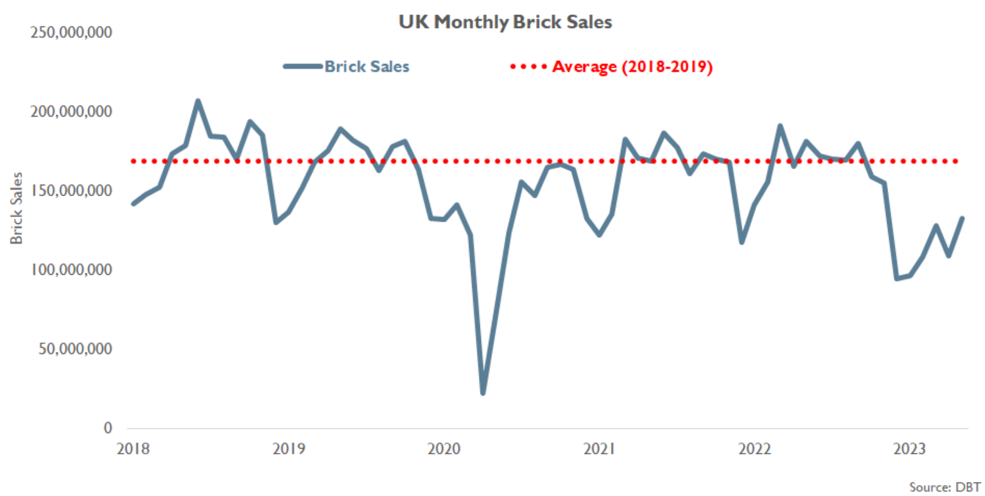
It is worth noting, however, that even with double-digit annual price falls in steel and timber products, they are coming from historic high peaks so, in May 2023, rebar prices were still 73.4% higher than in January 2020, pre-pandemic, and imported softwood prices in May 2023 were still 26.1% higher than in January 2020, pre-pandemic, despite having fallen 26.7% in price during the past year.



3) DBT UK Brick Deliveries (May 2023):

According to the latest data from the Department for Business and Trade, UK brick deliveries (a proxy measure for house building starts in the absence of monthly house building data) in May 2023 were 21.2% higher than in April and 39.8% higher than December's nadir as home buyer demand had been rising this year after the collapse in demand in 2022 Q4 following the government's calamitous Mini Budget and consequent spike in mortgage rates.

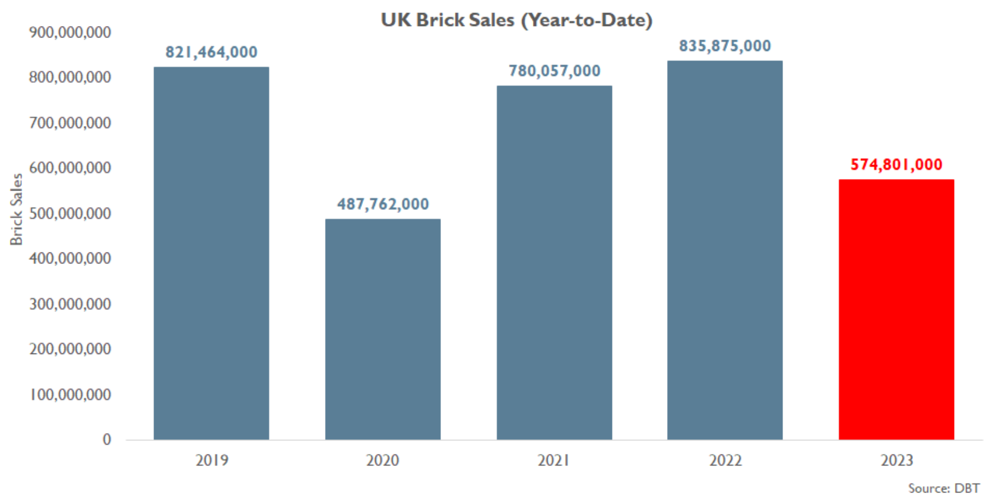
UK brick deliveries in May 2023 were, however, still 27.0% lower than a year ago and 21.4% lower than the average between 2018 and 2019, pre-pandemic.



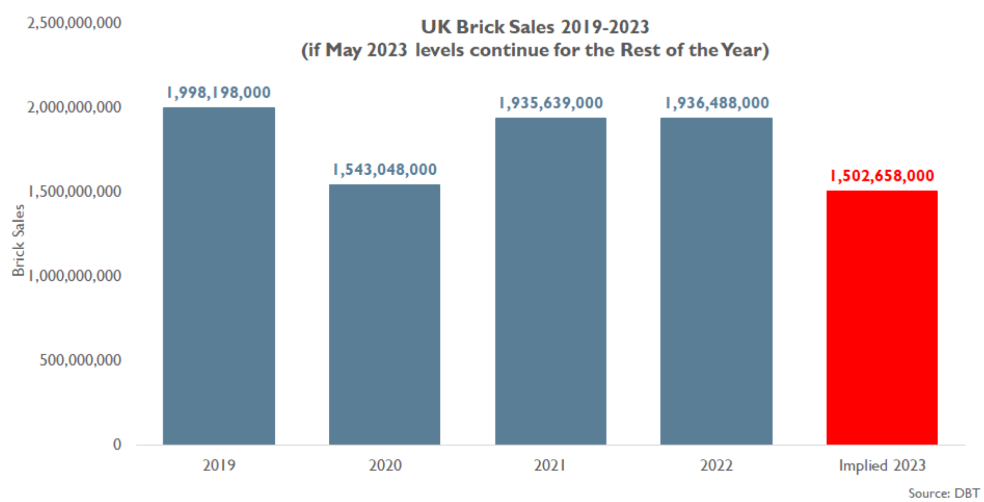
It is worth noting that brick deliveries and starts reflect house builders' confidence to build out later in the year of greater concern is that May's brick deliveries were before June's interest rates increases and before the sharp rise in markets' expectations of interest rates, which they had priced in at peaking already at 4.5% two months ago, to now reaching 6.0% (and consequently before the rises in mortgage rates).

Given the current uncertainty and risk regarding how high interest rates and mortgage rates will rise, how long rates will stay at these high levels, and the impact on home buyer confidence and affordability, in the next few months house builders are likely to have a 'Summer pause' on starting new developments whilst they continue focus solely on completing existing developments to meet the current levels of demand until they have a clearer sight of what future demand is once interest rates have peaked and mortgage rates have settled.

Overall, year-to-date (January-May), UK brick deliveries in 2023 were 31.2% lower than in 2022, which was a strong year for house builders, at least in the first three-quarters of last year, and were also 30.0% lower than in 2019, pre-pandemic.

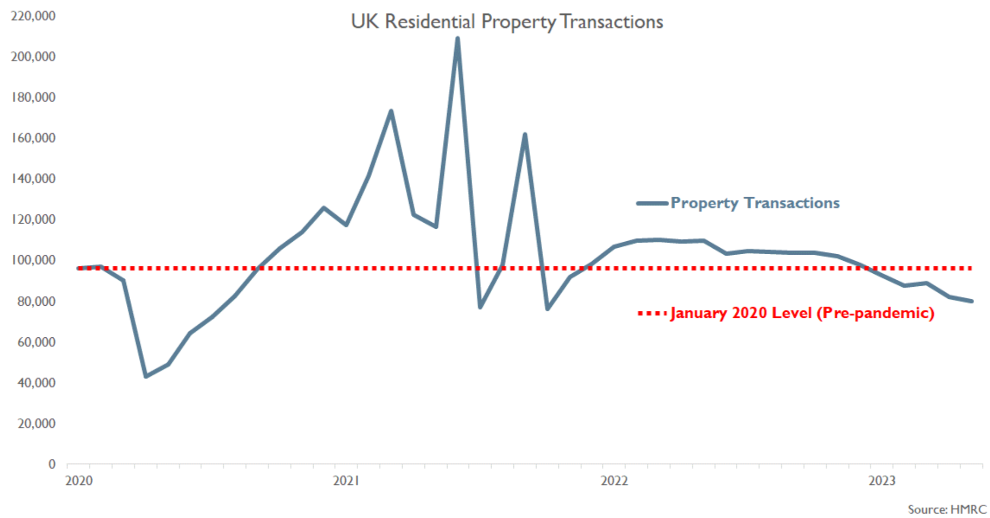


As another reference point for house building starts in the year, if UK brick deliveries were to continue at May 2023 levels for the rest of the year (which is optimistic as they slow towards the end of the year whilst house builder focus is completing for year-end) then UK brick deliveries in 2023 would be 22.4% lower than in 2022 and 24.8% lower than in 2019, pre-pandemic and pre-'race for space' with the unconstrained version of Help to Buy still in place.

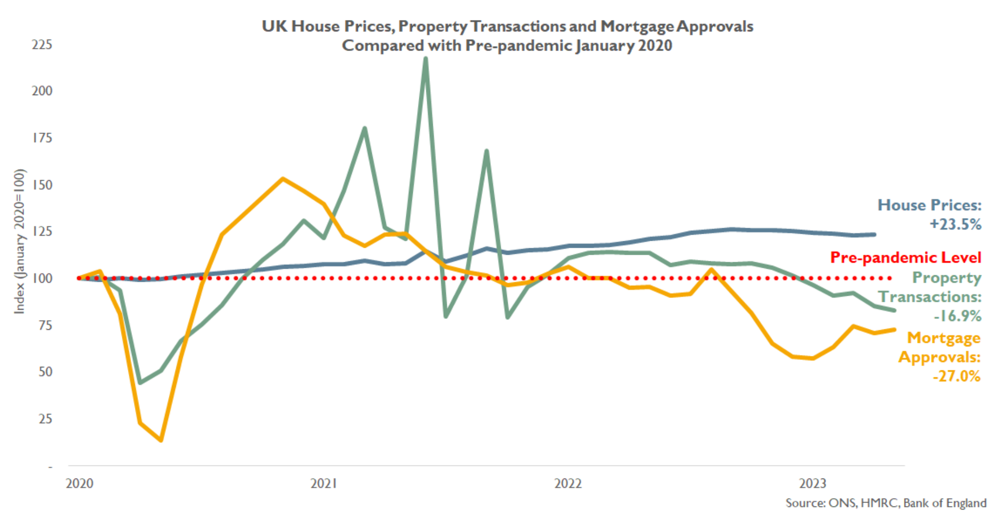


4) HMRC UK Residential Property Transactions (May 2023):

There were 80,020 residential property transactions in the UK in May 2023, which is 2.7% lower than in April and 27.0% lower than a year earlier according to HMRC, as mortgage rates started to rise again and markets' expectations of interest rates peaking rises.



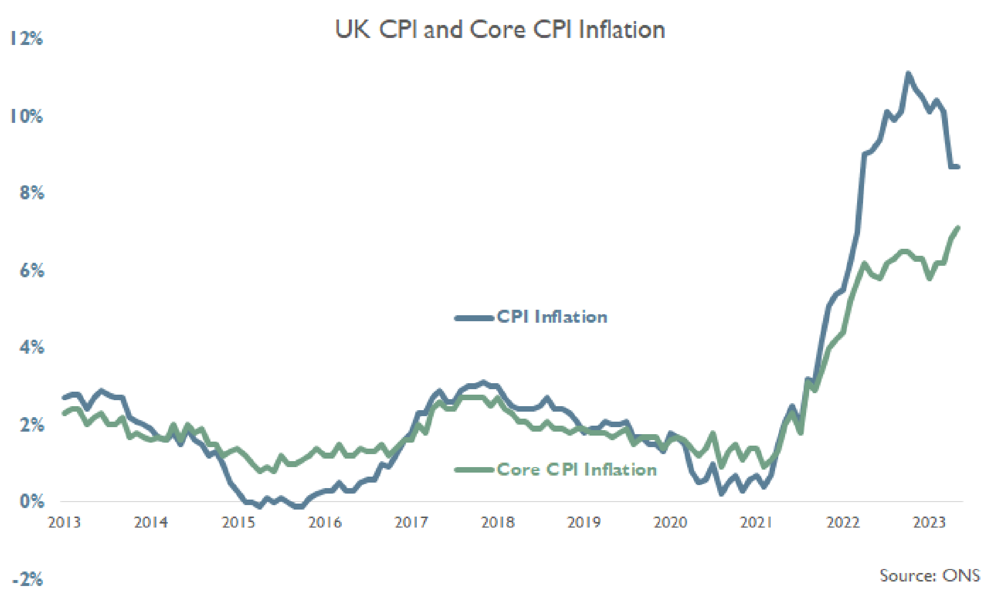
The number of transactions in May 2023 was also 16.9% lower than in January 2020, pre-pandemic, before the 'race for space' and stamp duty holidays and whilst Help to Buy was still in place. The impact of the fall in mortgage approvals since the spike in mortgage rates after the government's Mini Budget debacle in Autumn is feeding through to property transactions after the lag between mortgage approvals and transactions. There has been a slight offset with property transactions partially sustained by cash sales and institutional investment. The official ONS/Land Registry house prices, which include cash sales and institutional investment unlike the Nationwide and Halifax house price indices, have only fallen 2.2% since peak so far as sharp falls in demand have been partially matched by falls of homes onto the housing market but for mortgage approvals, property transactions and house prices. The latest house price data are, however, all before the recent rises in interest rates, mortgage rates and sharp rises in markets' expectations of peak interest rates that were expected to have already peaked at 4.5% at the start of May but are now expected to peak above 6.0% at the end of 2023. This implies mortgage rates higher than 6.5-7.0%, which would have a further impact on mortgage approvals and transactions in 2023 H2.



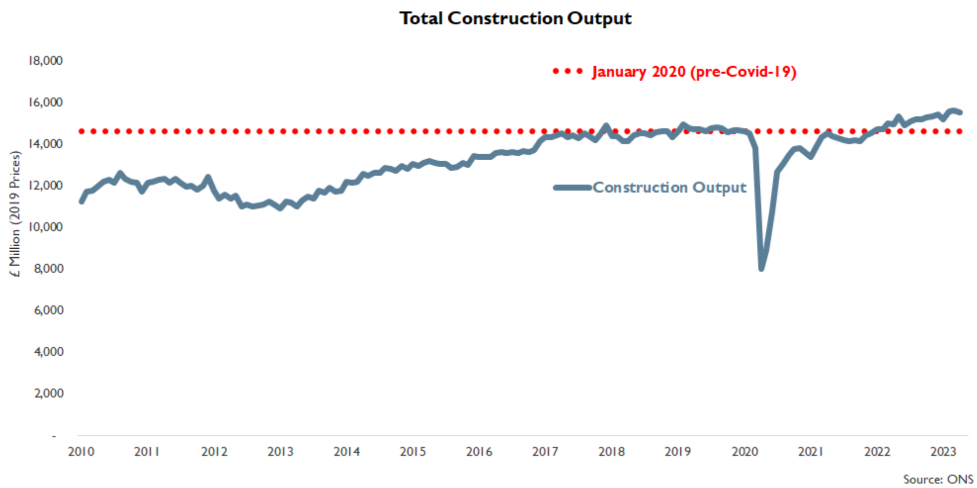
EXISTING INFORMATION

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.

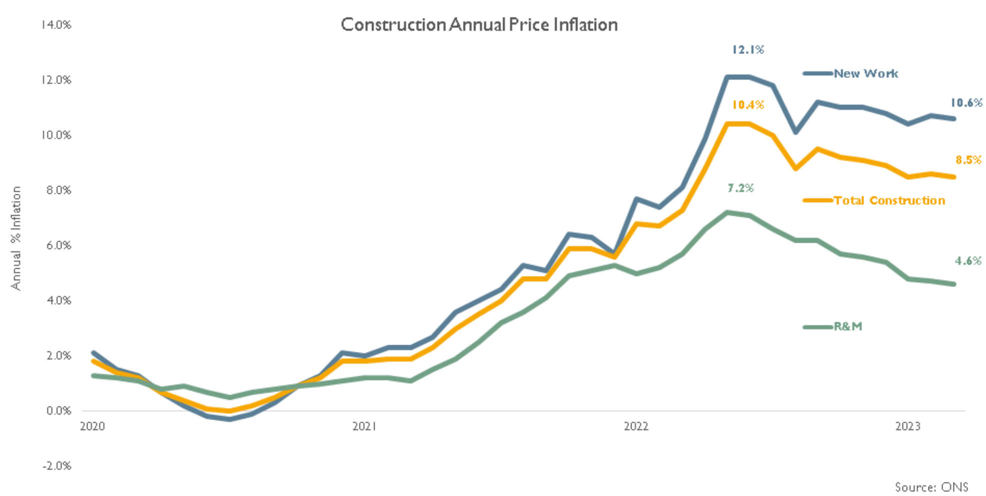
The key direct concern of further rate rises is the impact that it would have on household finances and the housing market, via higher mortgage rates and payments. Indirectly, there is also the impact on consumer confidence as well as lenders having to price in additional risk and uncertainty as well 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.



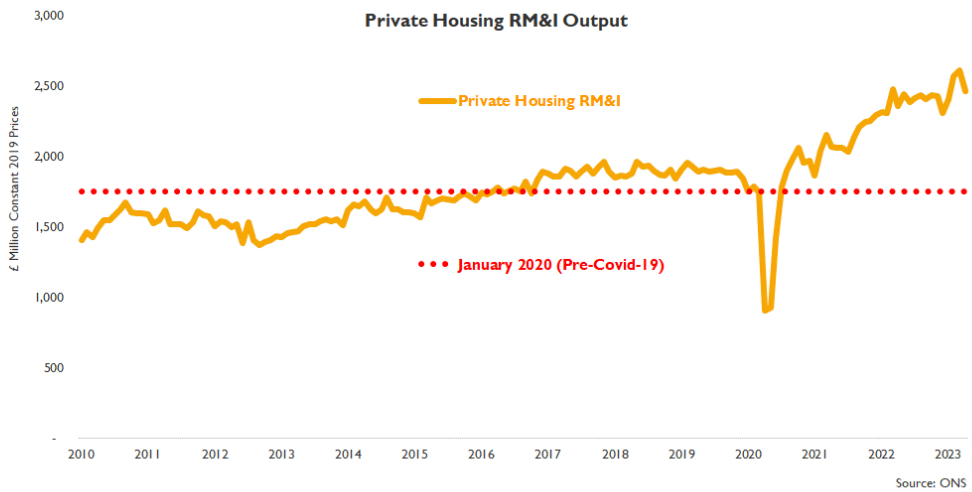
ONS Construction Output (April 2023): Construction output volume in April 2023 was 0.6% lower than in March, 3.6% higher than a year ago and 6.0% higher than in January 2020, pre-pandemic, according to the Office for National Statistics (ONS). Firms in the construction supply chain that the CPA has been 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.



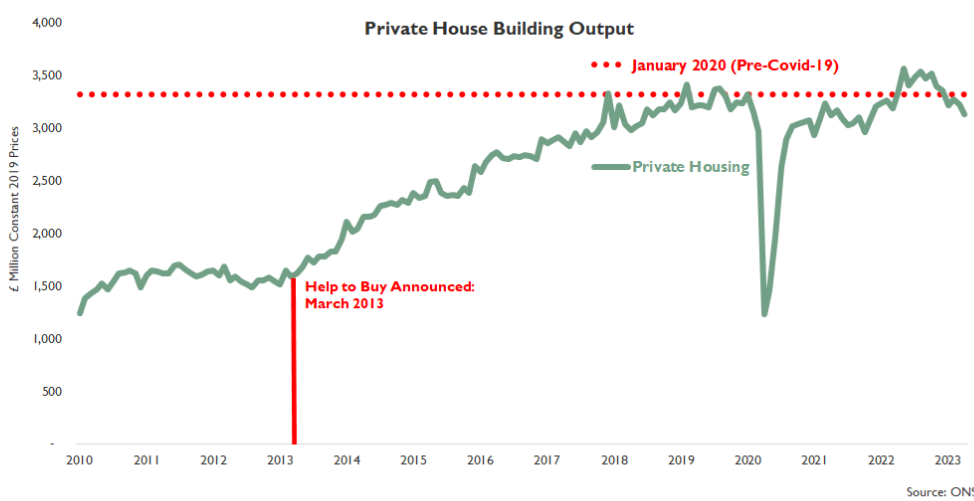
There still appear to be issues with ONS's estimation of construction price inflation (that it uses to turn value of construction output into volume) for repair and maintenance and this has been a problem since the energy, oil and commodity price spikes after Russia's invasion of Ukraine in early 2022. 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.



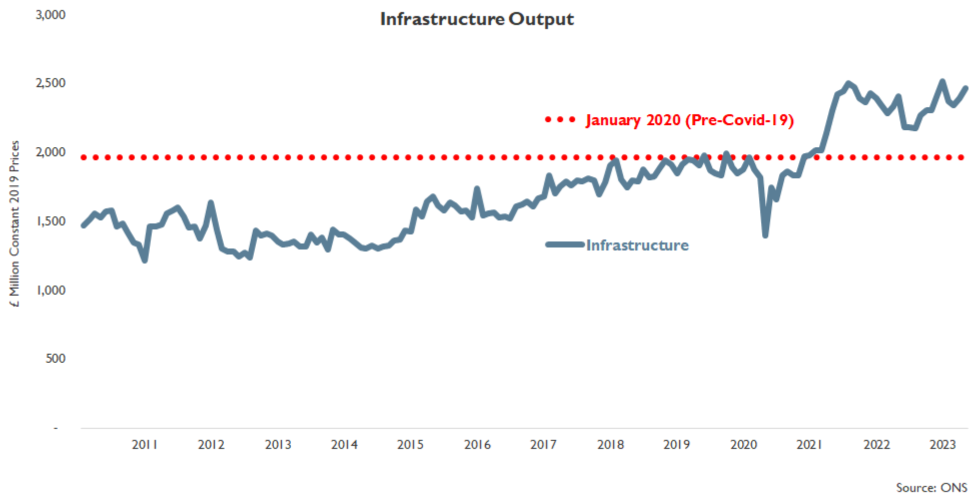
This is a big issue as it means that private housing rm&i is the second largest construction sector and in March 2023 (just before the latest fall in April) reached its highest level on record, 49.0% higher than in January 2020, which is not what small contractors and merchants report to the CPA. Firms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



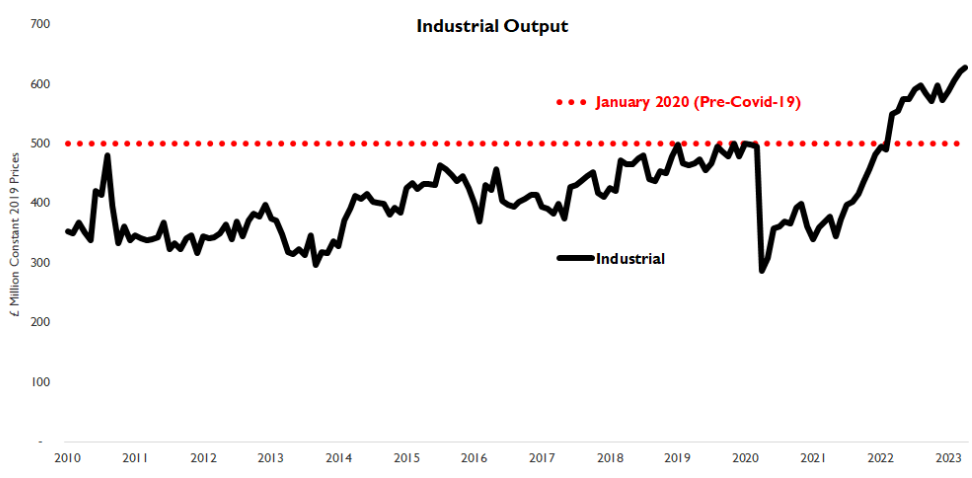
Private housing output in April 2023 was 3.0% lower than in March, 5.8% lower than a year ago and 5.7% lower than at the pre-pandemic January 2020 level. Private housing output in April was also 12.1% lower than at the recent peak in May 2022, prior to the Mini-Budget and consequent mortgage rate rises. 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.



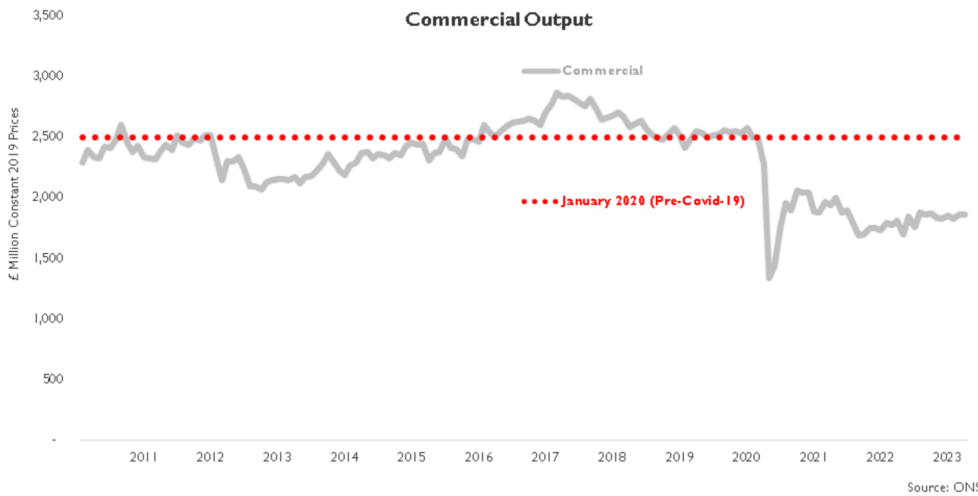
Infrastructure output in April 2023 was 2.9% higher than in March, 2.4% higher than a year earlier and 25.5% higher than in January 2020 as work continues on major projects (such as HS2, Thames Tideway, Hinkley Point C) and frameworks. Going forward, projects signed up to and/or started in previous years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



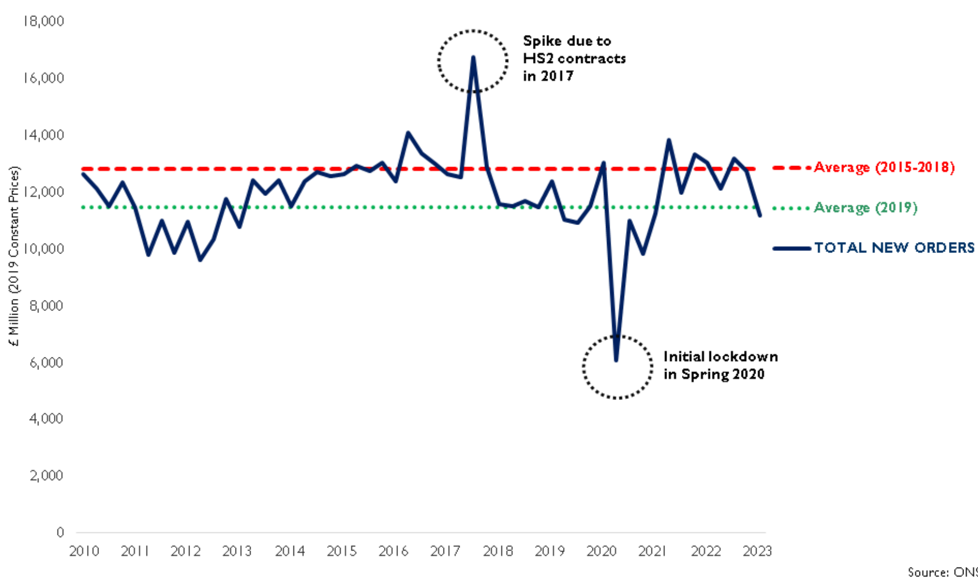
Industrial output in April 2023 was 1.0% higher than in March, 13.0% higher than a year ago and at its highest level on record driven by due to strong warehouses and factories activity. This is likely to continue to remain strong in 2023 Q2 and Q3. The new investment market for warehouses has now peaked, 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.



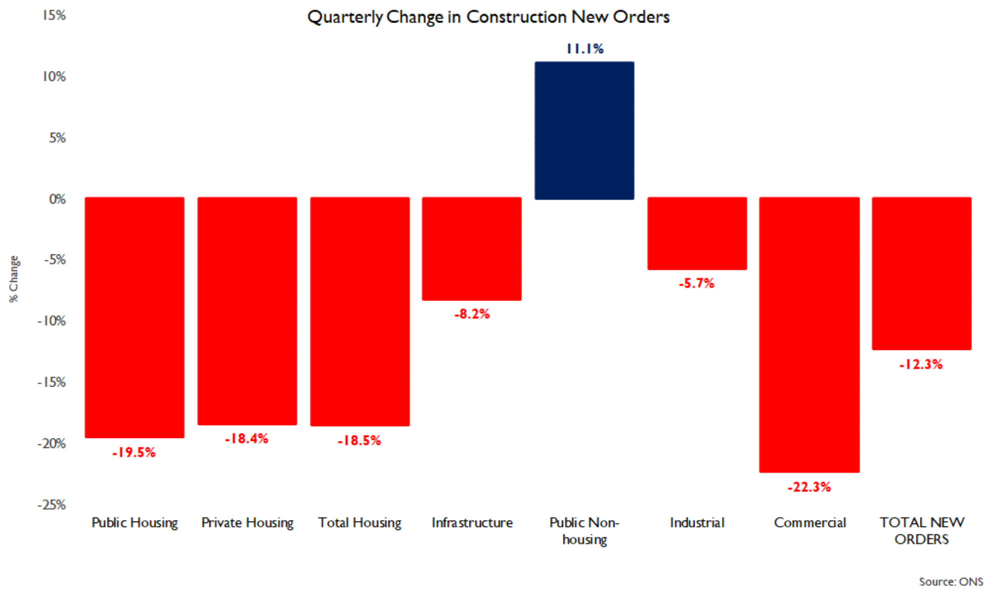
Commercial output in April 2023 was 1.8% lower than in March but 7.5% higher than a year earlier (although note that April a year ago was a particularly low figure compared with other months last year) and output in April was still 27.0% lower than pre-pandemic. Firms working on high-end refurbishment 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.



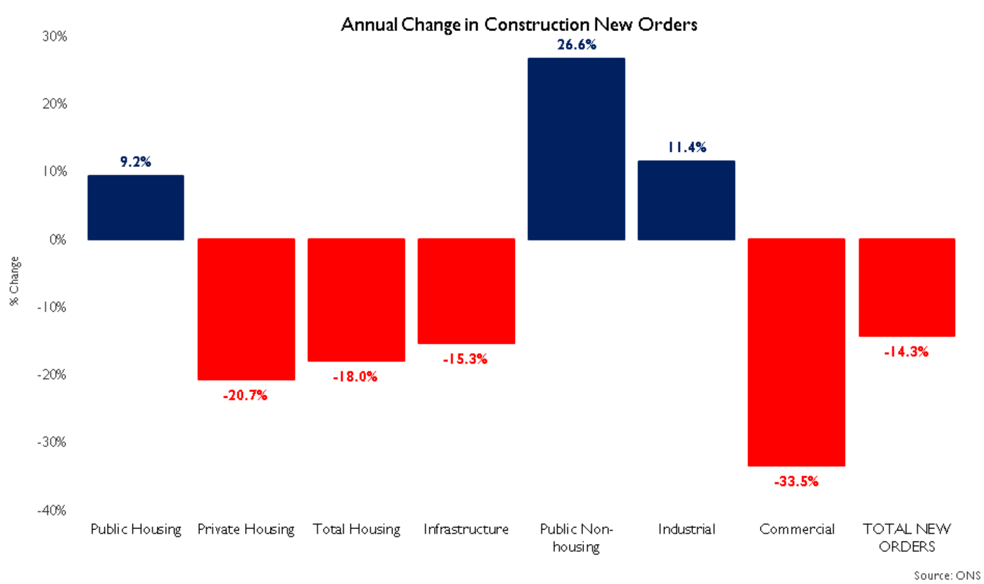
ONS Construction New Orders (2023 Q1): Construction new orders in 2023 Q1 were 12.3% lower than in Q4 and 14.3% lower than a year earlier according to the ONS. They were also 2.5% lower than the average for 2019 (and note that although 2019 was pre-pandemic, new investment in construction in 2019 was 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%).

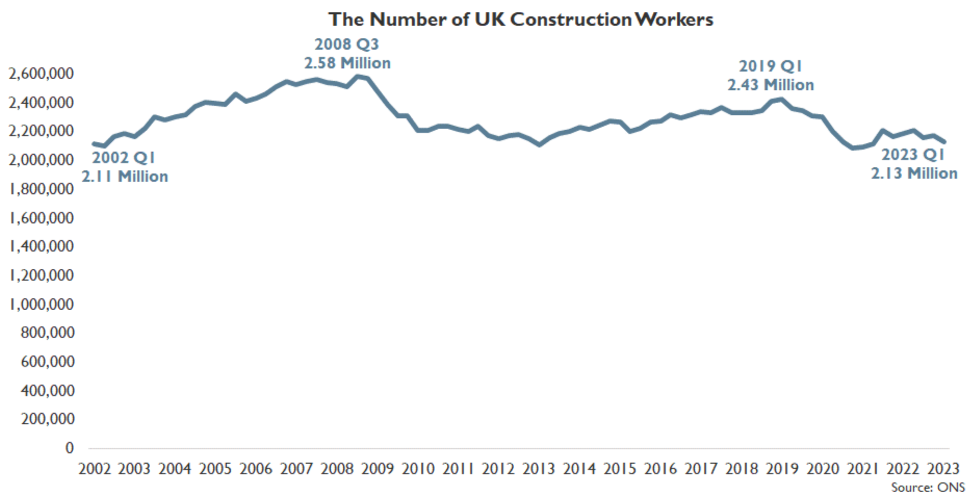


In 2023 Q1, construction new orders were 14.3% lower than a year earlier with the largest falls in commercial new build (-33.5%), private housing new build (-20.7%) and infrastructure (-15.3%). The fall in commercial new orders is unsurprising given the focus on refurbishment and fit-out of existing 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.



UK Construction Employment and Self-employment (2023 Q1): As materials cost and availability eases, the greatest issue facing the construction industry in the medium-term will be skills shortages, particularly given the number of people that have left the industry in recent years and entrants into the industry each year are a drop in the ocean and nowhere near enough to compensate.

There were 2.13 million workers in UK construction in 2023 Q1, which is 1.9% lower than in 2022 Q4 and 2.5% than a year ago according to the Office for National Statistics. UK construction employment in 2023 Q1 was also 7.8% lower than in 2019 Q4, pre-pandemic, and 12.3% lower than at the recent peak in 2019 Q1. This also means that in 2023 Q1 there were 297,437 fewer workers in UK construction than in 2019 Q1.



Looking at the breakdown by employees and self-employment in UK construction, the number of employees in 2023 Q1 was unchanged compared with a year ago and broadly similar (-0.3%) compared with 2019 Q4, pre-pandemic. The number of employees in UK construction in 2023 Q1 was, however, still 50,375 (3.5%) lower than the recent peak of UK construction employment in 2019 Q1.

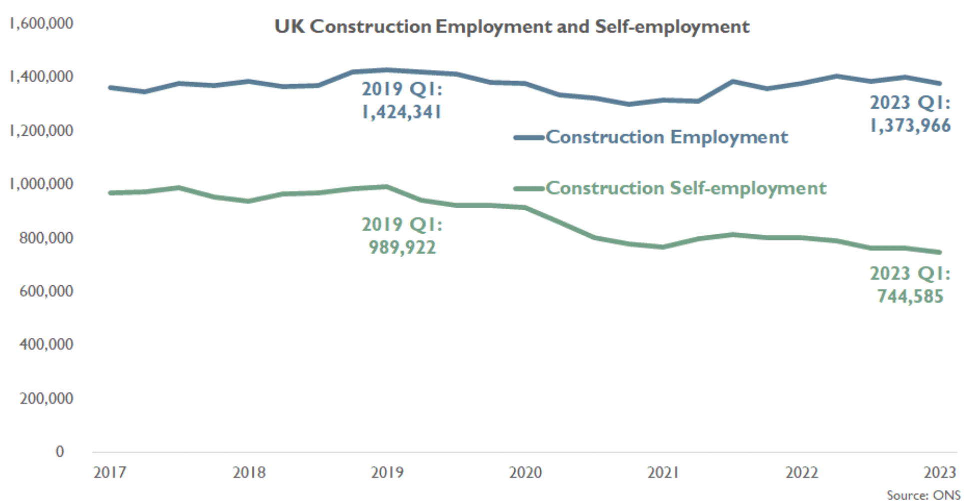
The greater concern, however, is the loss of self-employed workers in UK construction. In 2023 Q1, the number of self-employed workers in UK construction was 6.8% lower than a year earlier and 19.2% lower than in 2019 Q4, pre-pandemic. It was also 24.8% lower than in 2019 Q1, the recent peak of UK construction employment.

This means that in 2023 Q1 there were 245,337 fewer self-employed workers in UK construction than in 2019 Q1. Hence the acute shortages in many skilled trades and specialist engineers despite the recent slowdown in construction activity.

Self-employed workers in UK construction tend to be in the higher age-demographics (the spike in construction self-employment is between 50 and 65 years old), where many workers have chosen to retire early, particularly in light of the upcoming loss of grandfather rights next year.

In addition, self-employed workers have also been hit in recent years by issues in recent years such as IR35, reverse charge VAT, rising P.I. insurance costs and trade credit insurance issues.

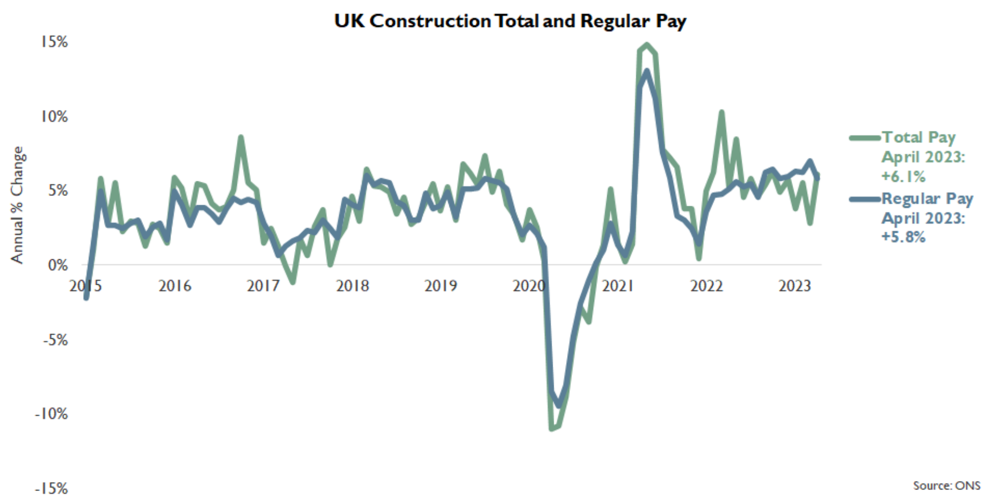
There has also been a loss of younger self-employed EU construction workers with many EU workers since 2019 choosing to go back to their home countries or to other EU countries where construction activity is strong. Furthermore, many EU construction workers that would usually come over to replace others going back after their projects have finished have not been able to do so due to work permit costs and requirements.



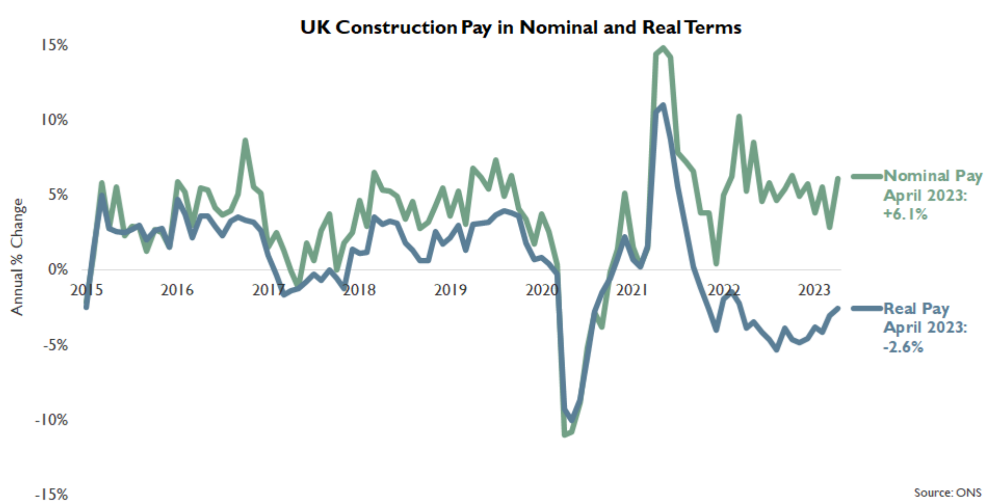
Clearly, the main concerns over the past two years have been over materials availability and price inflation and as construction activity falls this year skills shortages are unlikely to be key problem for the industry.

In the medium-term, however, skills shortages are likely to be the greatest constraint to any major ambitions a government, whoever is in charge after the General Election next year, has of 300,000 net additional homes per year, Levelling Up, Net Zero (via retrofitting the existing housing and non-housing building stock), energy security and a £600 billion infrastructure pipeline. Note that over the last 5 years, construction apprenticeship starts in Great Britain have been 31,000 per year but the drop-out rate is over 40%.

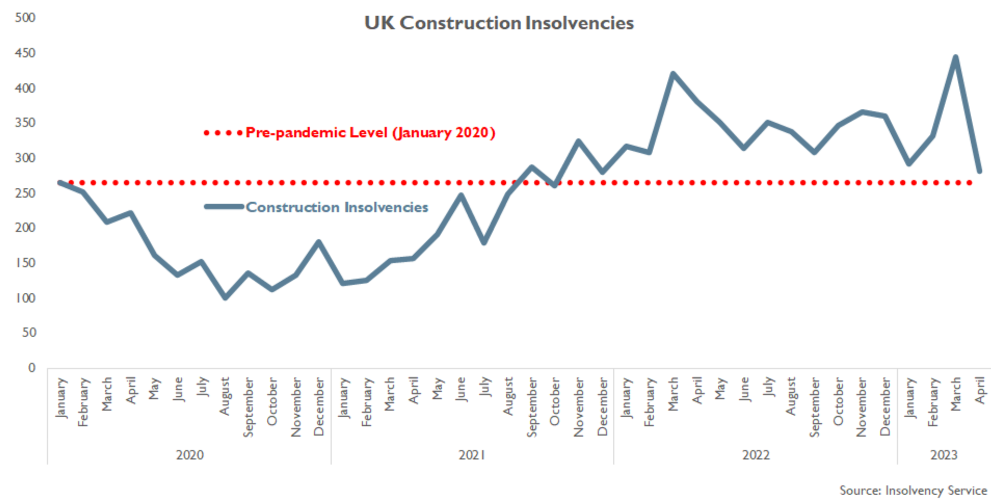
ONS Construction Average Weekly Earnings (April 2023): UK construction total pay (including bonuses) in April 2023 was 6.1% higher than a year earlier whilst regular pay (excluding bonuses) in April was 5.8% higher than a year earlier.



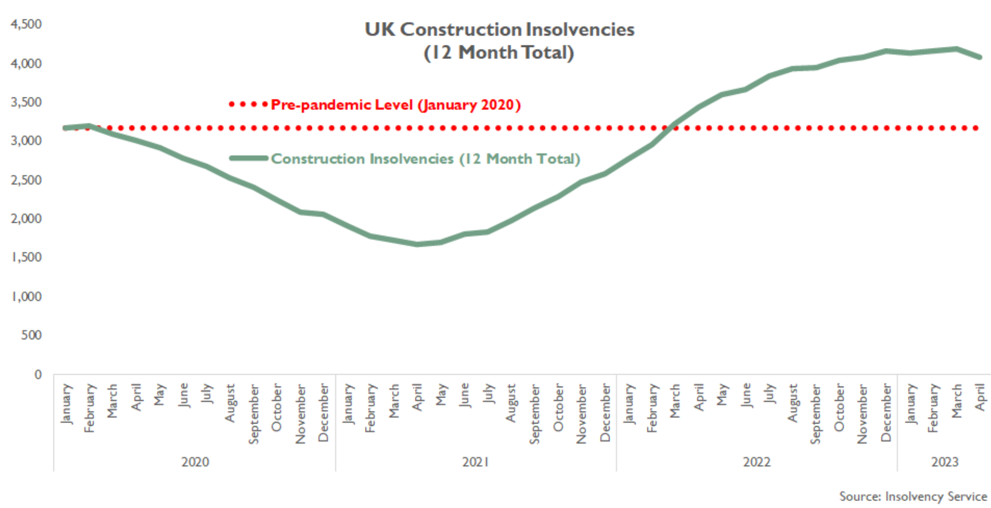
The 6.1% rise in total construction pay in the year to April in nominal terms meant that, given CPI inflation of 8.7% in April, real pay in UK construction still fell by 2.6% and real pay inflation in UK construction has been negative for 19 consecutive months, since November 2021, despite persistently 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.



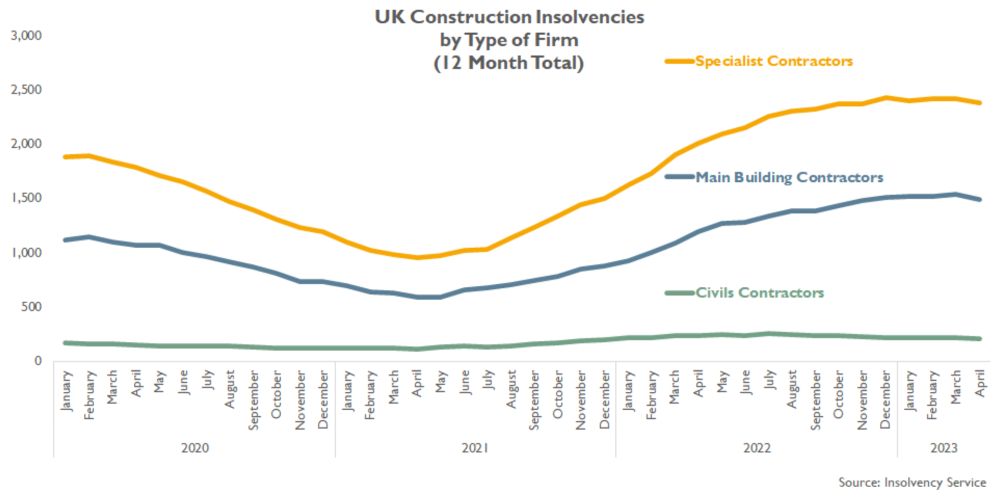
Insolvency Service UK Construction Insolvencies (April 2023): 282 UK construction firms went out of business in April 2023, which is 36.6% lower than in March (note that insolvencies tend to peak at financial year end) and is 26.2% lower than a year ago according to the Insolvency Service but it is more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



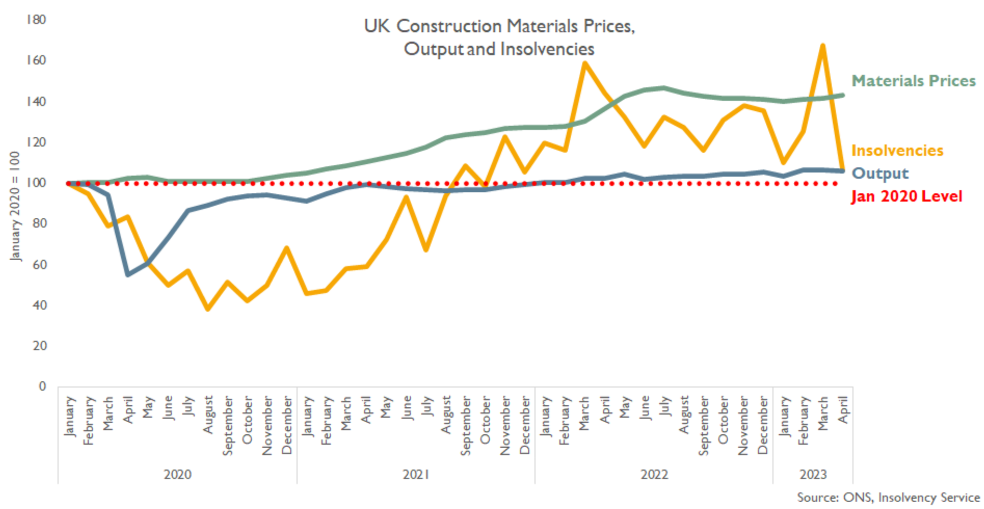
4,087 UK construction firms went out of business in the year to April 2023, which is 2.4% lower than in March but 18.5% higher than a year earlier. Furthermore, UK construction insolvencies in the year to April 2023 were at their 4th highest level since the financial crisis and the construction industry 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.

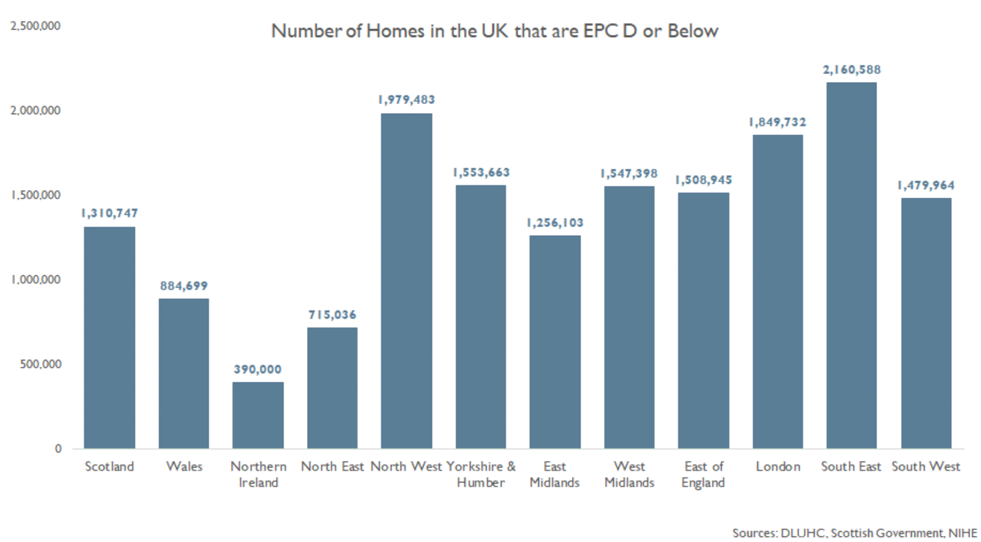


UK Housing Stock by EPC (2021): The latest data on the existing housing stock in [England and Wales by EPC](), combined with data on the housing stock in Scotland and Northern Ireland, highlights that the total number of homes was 29.8 million homes.

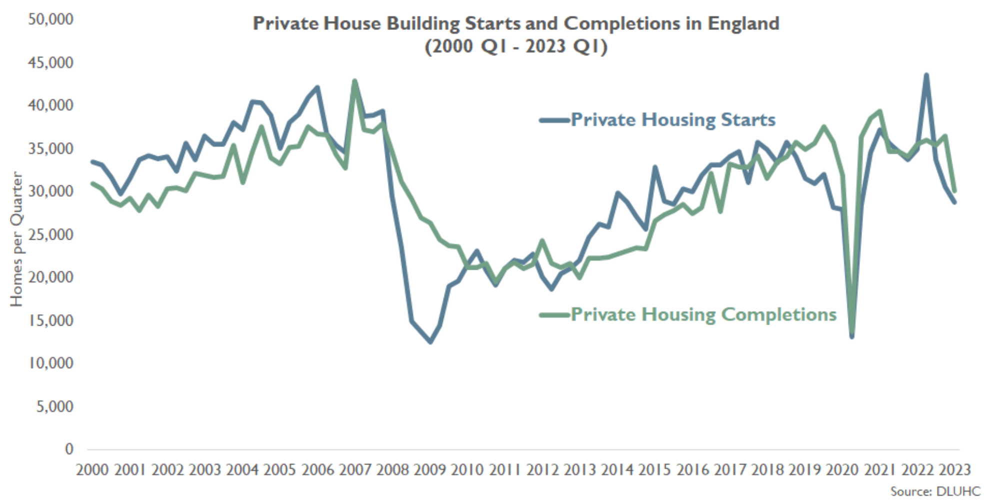
Of this, 16.6 million homes are EPC rated D or below. This is split by region in the chart. To give a reference point for the extent of activity that would need to take place to the meet the EPC rating C or above target that the UK government announced as being sufficient for Net Zero (and note that 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.

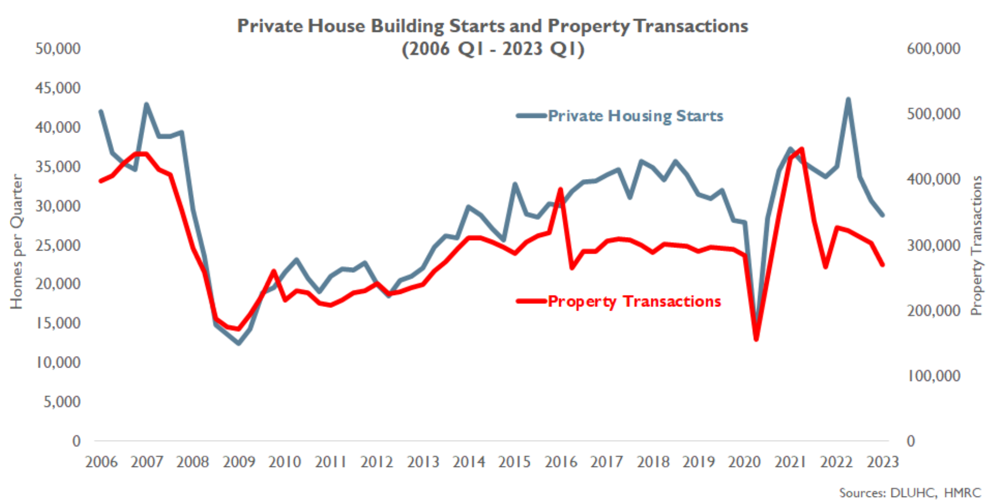
As ever, it is worth highlighting that the extent of retrofit activity that needs to take place on the housing stock alone, requires sustained large investment upfront over the course of many years in skills and capacity for the ability to deliver the retrofit activity, even assuming that the demand, 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.



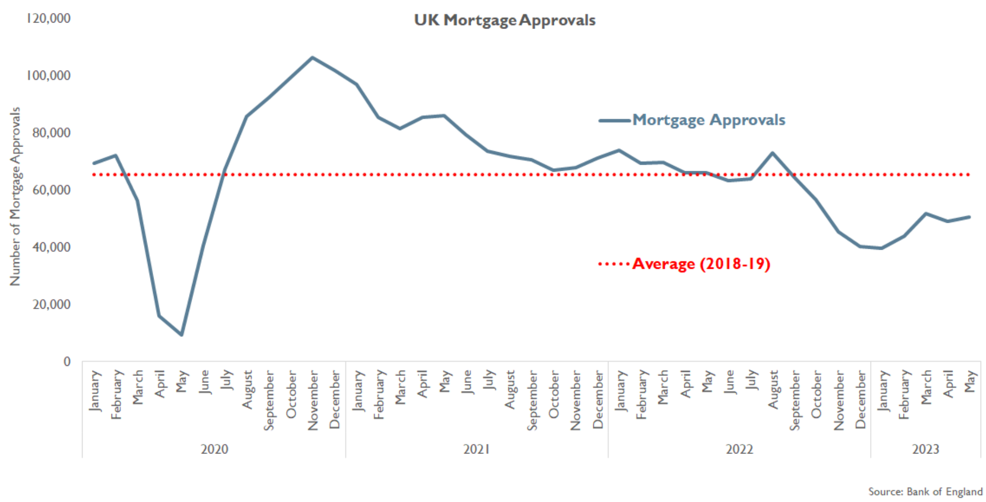
DLUHC Housing Starts and Completions in England (2023 Q1): Private housing starts in England in 2023 Q1 were 6.1% lower than in the previous quarter and 17.8% lower than a year ago according to DLUHC. Private starts in Q1 were also 34.0% lower than the recent peak in 2022 Q2 but note this recent peak for starts was artificial, boosted by house builders getting ahead of building regulations changes that add extra cost due to uprated Part F, L, O and S (Infrastructure for charging electric vehicles). Hence, why completions did not spike in line with starts last year. Private completions in 2023 Q1 were 17.7% lower than in Q4 (when house builders were rushing to complete for year-end) and 15.5% lower than a year ago, when the housing market was strong and before sharp mortgage rate rises and increased risk and uncertainty lenders have to price in.



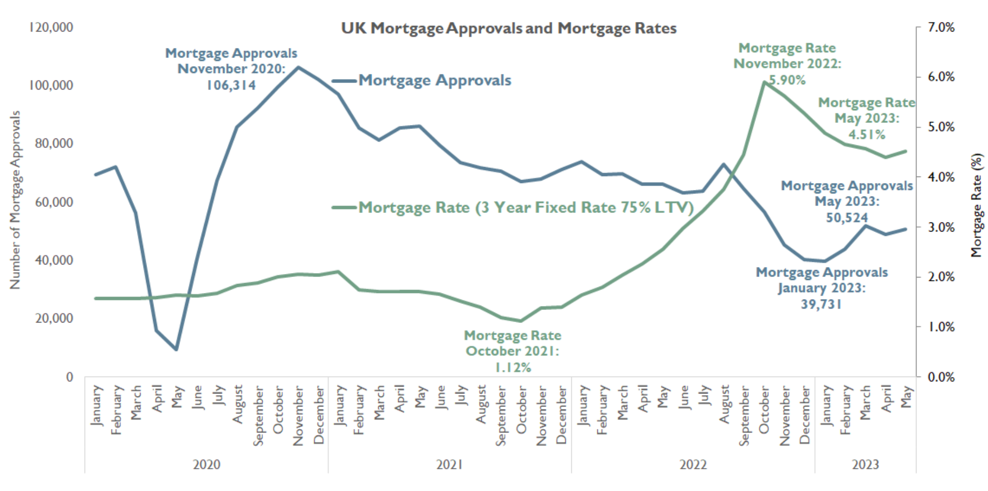
Property transactions in 2023 Q1 were 39.7% lower than at the recent peak (2021 Q2, after the 3rd national lockdown and 'race for space'), which suggests starts may remain subdued. The annual change in starts in 2023 Q2 may appear bad compared with the peak in starts in 2022 Q2, especially as some majors stated they may have a 'Summer pause' due to heightened uncertainty after markets' expectations of interest rates mortgage rates rose sharply. House builders found that demand rose in 2023 Q1 (compared to the subdued 2022 Q4 following the Mini Budget and consequent spike in mortgage rates) so they were hoping demand would continue to rise in the key 'Spring selling season' but that has not been the case so house builders will continue to focus on completing existing developments rather than starting new except in a few hotspots where demand remains solid.



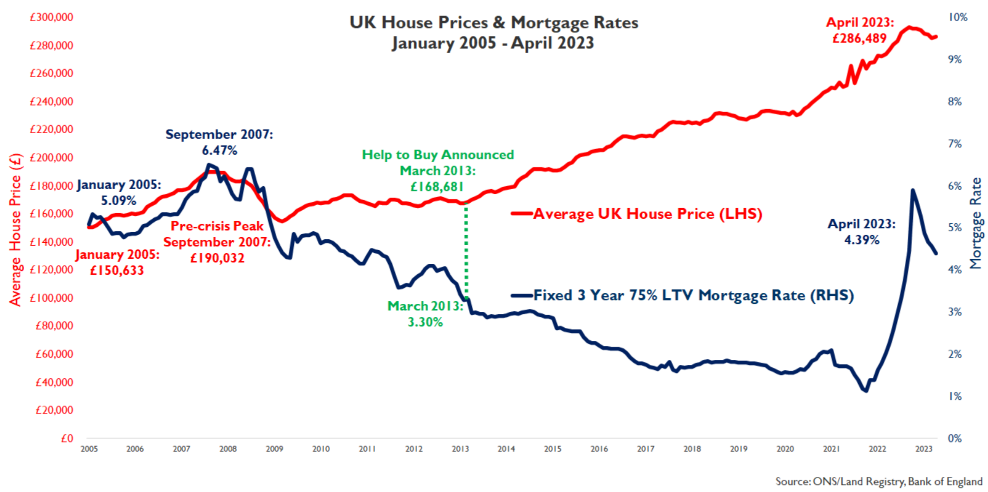
Bank of England UK Mortgage Approvals (May 2023): There were 50,524 mortgage approvals in the UK in May 2023 according to the Bank of England, which is 3.1% higher than in April 2023 and 27.2% higher than the post-Mini Budget debacle nadir in January 2023 but the number of UK mortgage approvals in May 2023 was also 23.7% lower than a year ago (and for what it is worth 60.0% lower than the post-national lockdown catch-up/'race for space' November 2020 peak) and 27.2% lower than in January 2020, pre-pandemic.



It is worth noting that the rises in mortgage approvals since January (from a low base) were driven by falling mortgage rates and improving housing sentiment (again, from a low base, in 2022 Q4 after the Mini Budget debacle) but mortgage rates started to rise again in May 2023, the Bank of England has already raised interest rates to 5.0% in June and financial markets' expectations are that interest rates will peak above 6.0%, by the end of this year, which points towards mortgage rates rising above 6.5%-7.0% once additional lender risk and uncertainty has been factored in. This would clearly impact affordability even with longer-term mortgages, particularly for first-time buyers, and hit mortgage approvals.



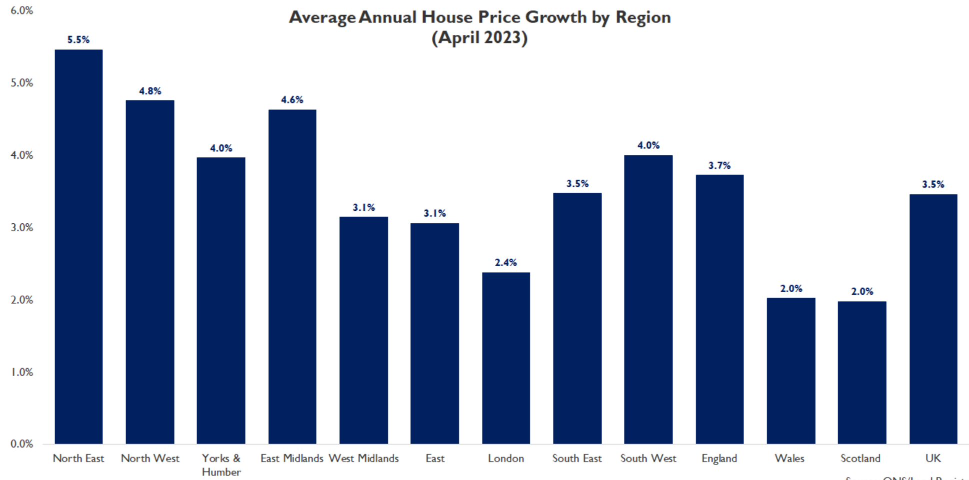
[ONS UK House Price Index (April 2023)](): The average UK house price in April 2023 was £286,489 according to the latest official ONS/Land Registry data, which is 0.5% higher than in March and 3.5% higher than a year ago but 1.9% lower than at the recent peak in November 2022 before the full impacts 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).



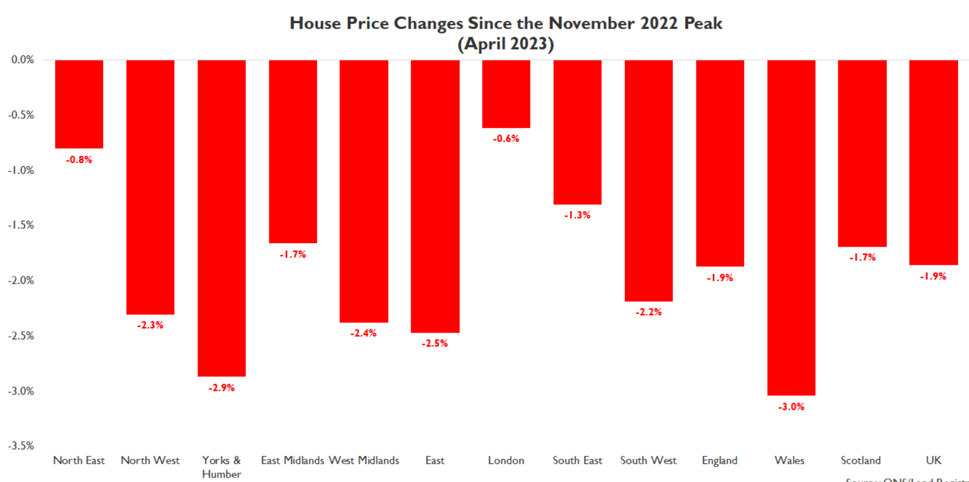
UK house prices in April rose for the first time after 4 consecutive monthly falls and falls in 5 of the last 6 months. So far, house price falls have not been as deep or as quick as the declines in mortgage approvals or property transactions as some housing analysts were predicting back in November 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.

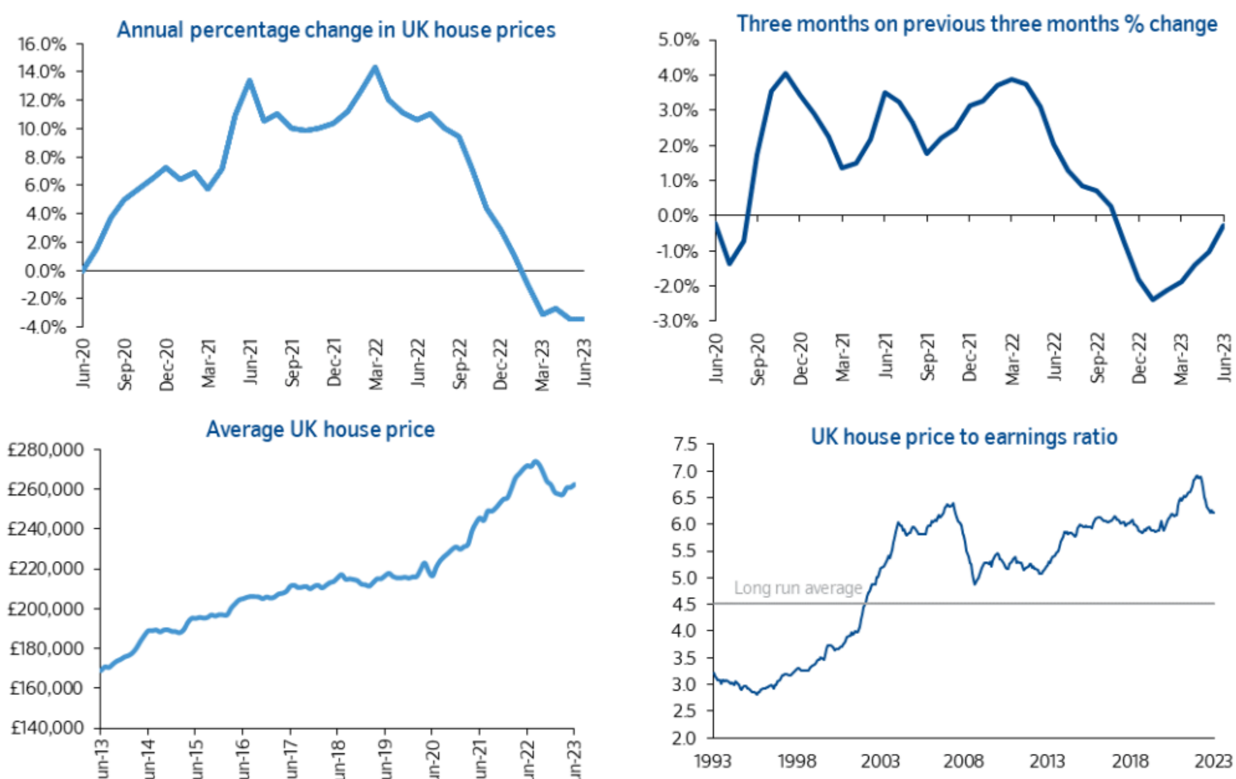


It is worth noting our UK house price forecast was an 8%-10% fall (and this has been our forecast since the Mini Budget last year) after two consecutive years of double-digit growth as the demand falls post-Mini Budget in Q4 and more subdued demand in 2023 despite recovery from the Q4 nadir continue 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.



[Nationwide UK House Price Index (June 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 house prices remained broadly flat in June 2023 but were 3.5% lower than a year ago, similar to the 3.4% annual fall in May.

Nationwide stated that longer term interest rates, which underpin mortgage pricing, have increased sharply in recent months, in response to data indicating that underlying inflation in the UK economy is not moderating as fast as expected. This has prompted investors to expect the Bank of England to increase its policy rate further and for it to remain higher for longer. Longer term borrowing costs have risen to levels similar to those prevailing in the wake of the mini-Budget last year, but this has yet to have the same negative impact on sentiment. For example, the number of mortgage applications has not yet declined and indicators of consumer confidence have continued to improve, though they remain below long run averages. It also stated that the sharp increase in borrowing costs is likely to exert a significant drag on housing market activity in the near term. For example, for a representative first-time buyer earning the average wage and buying the typical property with a 20% deposit, mortgage payments as a share of take-home pay are now well above the long-run average. Moreover, house prices remain high relative to earnings, and as a result, deposit requirements are still a significant barrier for those looking to enter the market. A 10% deposit on a typical first-time buyer home is equal to around 55% of gross annual income – this is down from the all-time highs of 59% prevailing in late 2022, but still marginally above the levels prevailing before the financial crisis struck in 2007/8.



Source: Nationwide, ONS

Barbour ABI Home Improvement Report (2023): The latest Barbour ABI Home Improvement Report 2023 highlights the different trends in larger improvements work by region and by type of work. The number of applications for extensions fell sharply in line with overall application numbers. This is not surprising given that extensions are cited in more than 60% of applications. Meanwhile, applications for loft works also fell but less than applications overall, so its share within the mix increased. One reason for the slower fall is likely to be the smaller reduction relative to the national average in 2022 in applications overall in London. Around 17% of applications in London cite loft works, compared with 12% nationally.

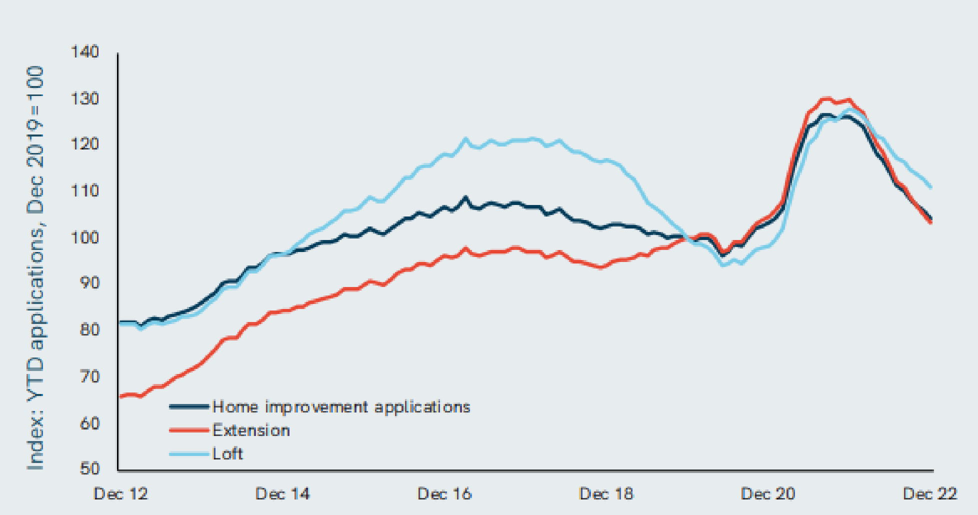


Chart T1 Sources: Barbour ABI, ONS Construction Output

Applications for solar panels and insulation continued to rise, driven by homeowner increased focus on energy security and prices, particularly over the last 12 months, which implies further growth in activity over the course of the rest of this year. The number of applications citing insulation has more than doubled since 2019 and those citing solar panels have risen threefold.

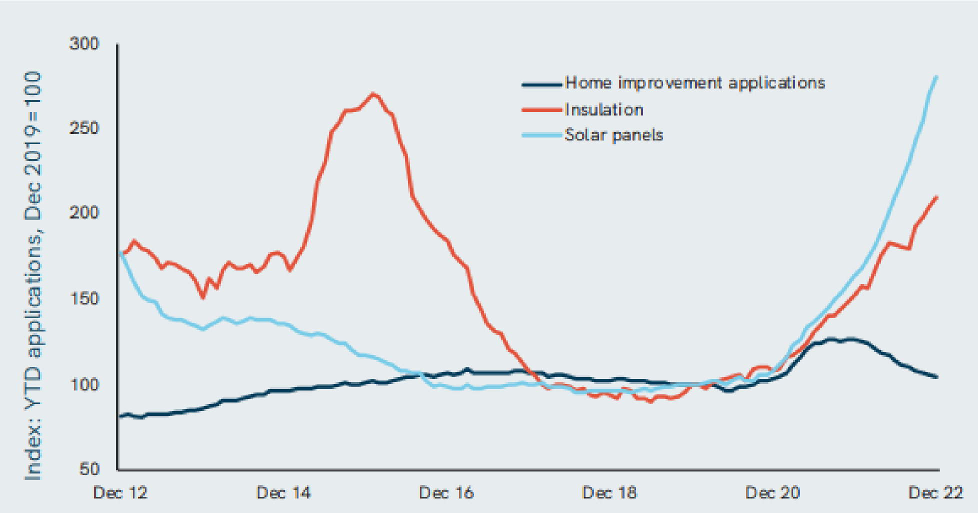


Chart T2 Sources: Barbour ABI, ONS Construction Output

Conversely, applications for home-office improvement projects unsurprisingly spiked after the pandemic lockdowns due to the 'race for space' and increased working from home but applications for new home-office projects fell sharply in the second half of last year as working from home reduced and workers partially returned to offices with the economy moving towards the 'new normal'. In addition, new home-office projects were also affected by the rising cost of living leading to falling real wages and the rising cost of construction projects leading to homeowner hesitancy on doing new projects.

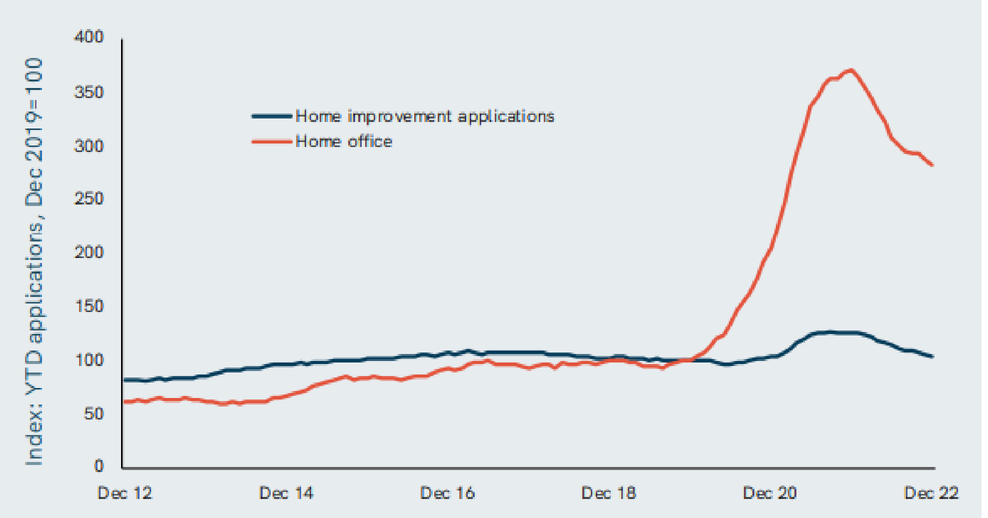


Chart T3 Sources: Barbour ABI, ONS Construction Output

There was a well-publicised swell of activity during the pandemic aimed at making the most of outside space. And matching it was a big jump in applications for garden buildings and works. Compared with 2019 the number of applications were up by around 45% in 2021. The level expectedly eased in 2022, but the level remains about 20% up on 2019. And the uplift between 2019 and 2022 is highest in London at 30%. In line with the rise in garden buildings and works, there as a similar rise in landscaping, but less signs that demand is easing.

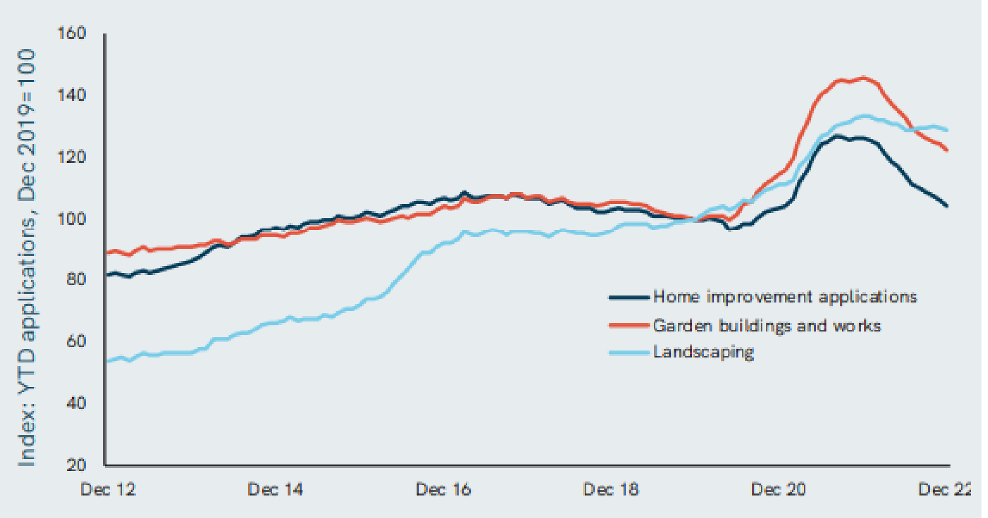


Chart T4 Sources: Barbour ABI, ONS Construction Output

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."