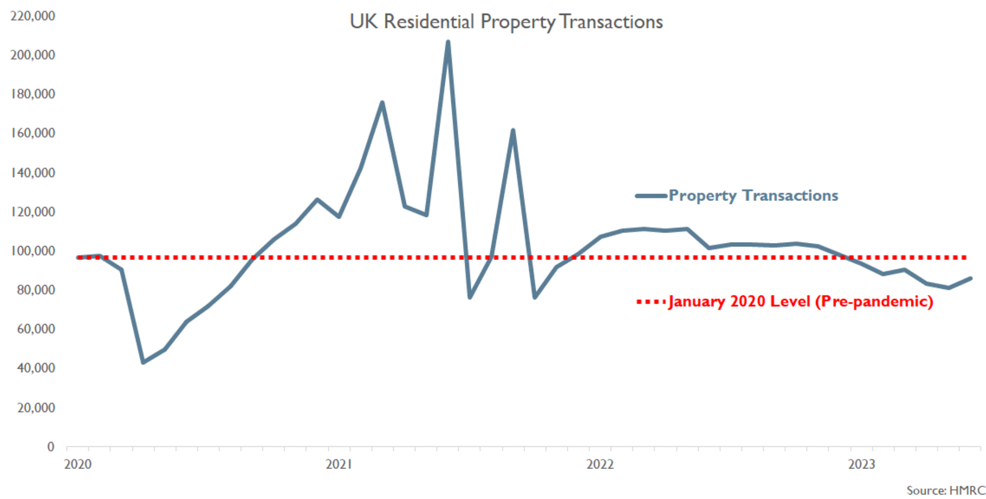
construction products association

(Updated – 28 July 2023)

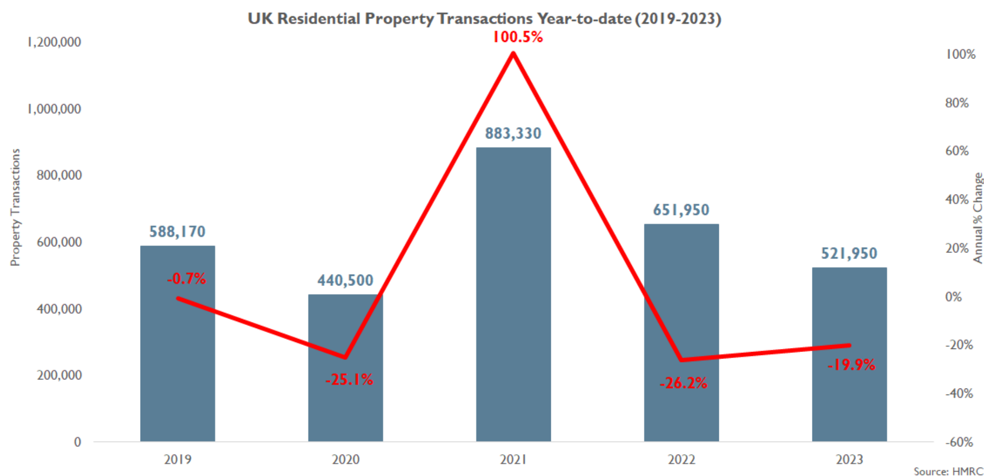
Weekly Economic and Construction Update

1) HMRC UK Residential Property Transactions (June 2023):

There were 85,870 property transactions in the UK in June 2023, which is 6.1% higher than in May but 15.4% lower than a year ago, according to HMRC. The number of property transactions in June was also 11.0% lower than in January 2020, prior to the 'race for space' spike in the housing market demand. It is worth noting that property transactions rising in June compared with May were largely based on mortgages approved in late April and early May as mortgage rates were falling from the spike in rates post-Mini Budget last year and the latest transactions are based on mortgage approvals before the recent sharp rises in mortgage rates so transactions will fall further in the second half of the year.



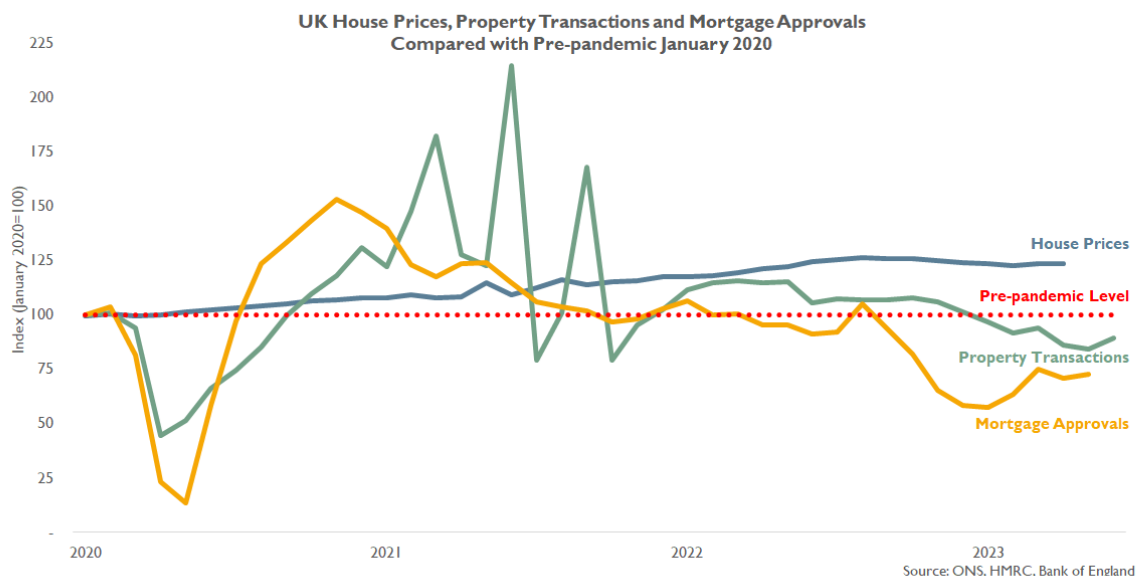
Year-to-date (January to June), there were 521,950 residential property transactions in the UK in 2023, which is 19.9% lower than in 2022 and 11.3% lower than in 2019, pre-pandemic.



It is worth highlighting again that the largest impacts of the fall in demand in the housing market since the government's Mini-Budget and consequent spike in mortgage rates as well as the most recent sharp rise in mortgage rates will be on mortgage approvals. This is particularly as mortgage lenders not only factor in interest rates rises but also factor in increased risk and uncertainty over future interest rate rises (especially as market expectations of peak rates are currently volatile).

Mortgage rate rises are having a slightly less negative impact on property transactions than on mortgage approvals as cash buyers and investors are accounting for a higher proportion of transactions and partially offsetting falls in mortgage-related demand.

UK house prices will fall less than mortgage approvals and property transactions as housing demand falls are partially offset by a low supply of homes, unless there's a sharp rise in unemployment leading to a rise in forced sellers, which is not currently expected in our forecasts given the tightness of the labour market and with UK economic activity broadly flatlining rather than enduring a sharp recession.

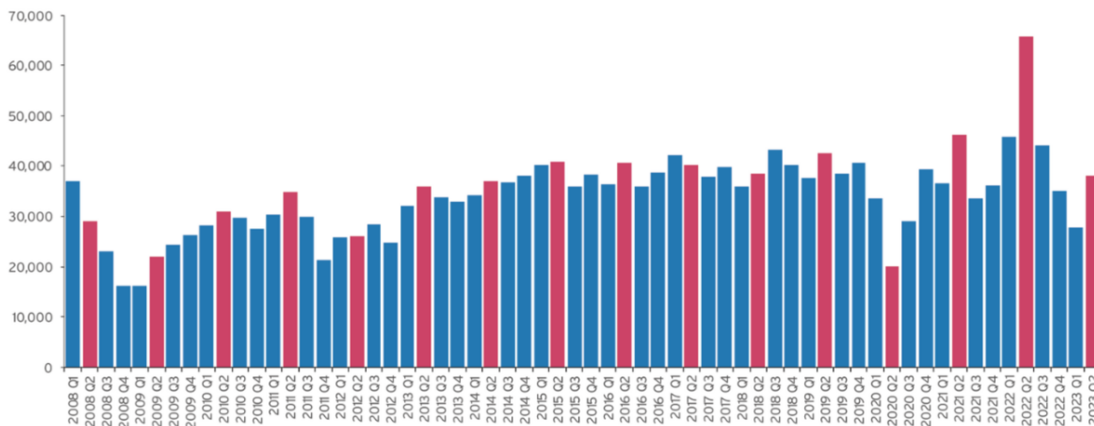


2) NHBC New Home Registrations (2023 Q2):

UK new house building registrations (which are generally in line with house building starts) in 2023 Q2 fell 42% compared with a year ago according to the NHBC. However, Q2 a year ago was very high base, almost double the long-term average, as house builders got ahead of the new building regulations. House builders were very keen to get ahead of the new and uprated Parts F, L, O and S building regulations from June 2022 that require low-carbon heating systems, high fabric efficiency standards and EV chargers etc. that add extra cost.

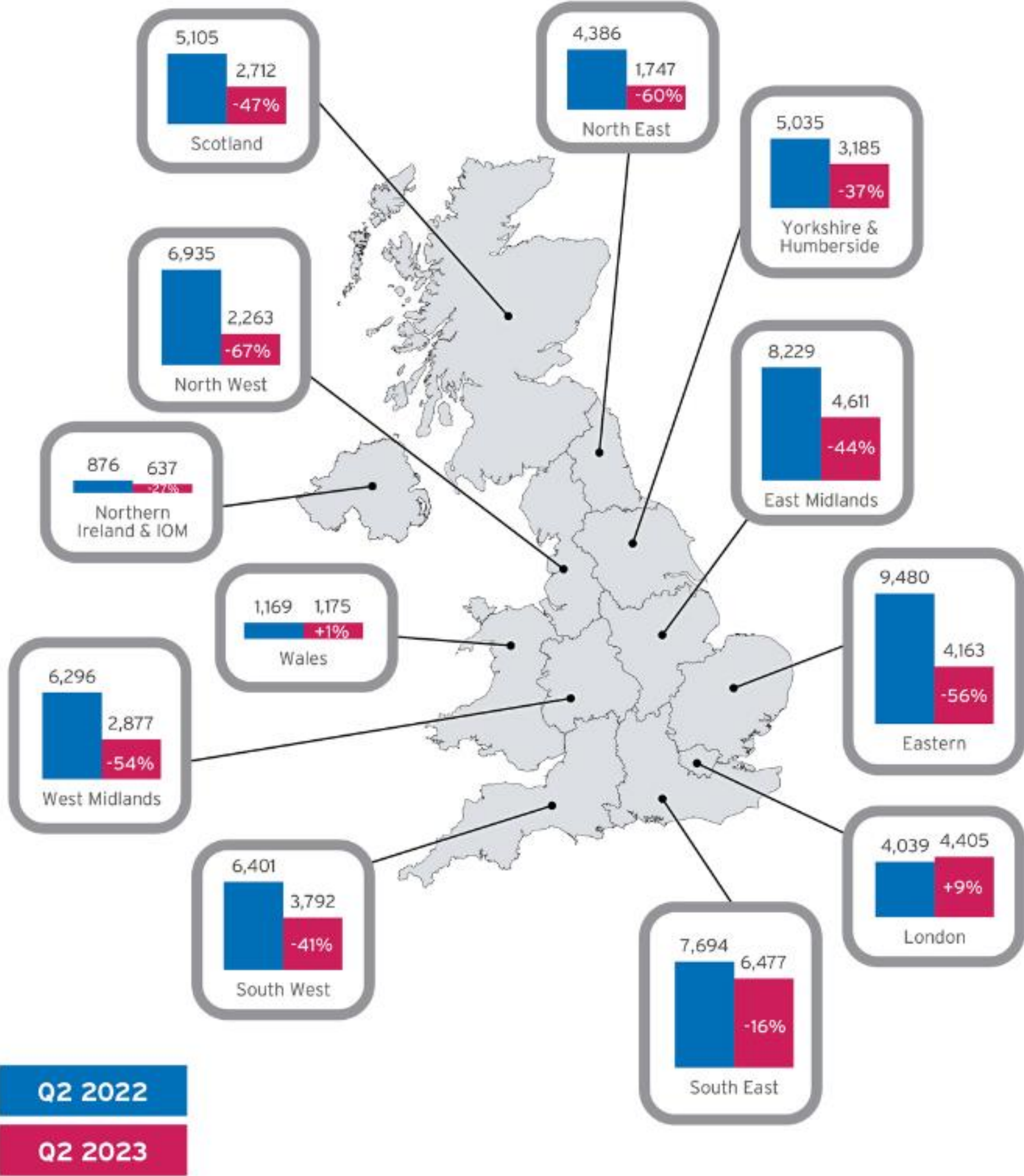
So, as a result, private sector new home registrations in 2023 Q2 were 51% lower than in 2022 Q2 whilst the new home registrations in the rental sector in Q2 2023 were 14% lower than a year earlier.

New home registrations – quarter on quarter comparison



New home registrations in 2023 Q2 fell most in the areas that had been most buoyant in 2022 Q2, which were areas of greater affordability due to the 'race for space', with registrations falling most in the North West (-67%), North East (-60%) and East (-56%). New home registrations in 2023 Q2 actually rose 9% in London compared with a year ago, partly reflecting a higher proportion of new build-to-rent homes and also house builders focusing on affordable homes in the capital given the slowdown in the private housing market.

Regional registrations Q2 2023 vs Q2 2022



3) RICS UK Commercial Property Market Survey (2023 Q2):

The RICS UK Commercial Property Monitor points to a renewed setback for the commercial market, with the recent rise in interest rate expectations weighing on investor demand and placing downward pressure on capital values. As a result, a majority of respondents (68%) are now of the view that the market is in a downturn phase of the property cycle. There are, however, pockets of resilience across occupier markets with industrials exhibiting positive rental growth projections for the year ahead.

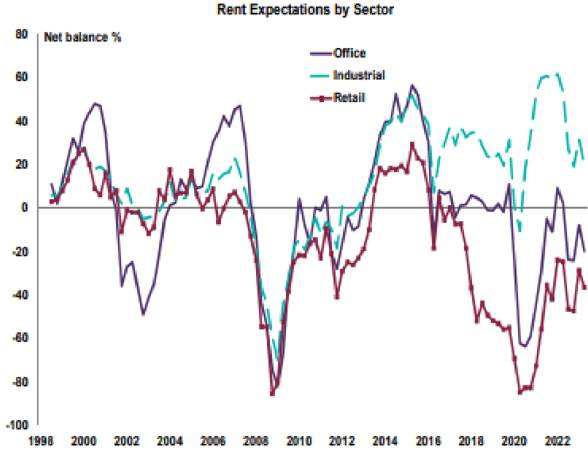
The tenant demand index posted a net balance of -10% in Q2, down from -3% previously. When viewed at the sector level, tenant demand fell across office and retail sectors, evidenced by negative net balance readings of -21% and -26% respectively. Conversely, a net balance of +10% of respondents noted an increase in tenant demand for industrial space. This is noticeably more modest than the average reading of +30% since the beginning of 2022, however. Availability was broadly unchanged across the industrial market during Q2, whilst survey participants reported an increase in vacant space within the office and retail sectors. As a consequence, the availability of leasable office and retail space has continued to increase in each quarter since the start of the pandemic and this has been accompanied by a prolonged period of rising incentive packages on off er to tenants in both sectors.

Twelve-month rental growth projections remain mixed at the sector level. A net balance of +42% of respondents foresee prime industrial rents rising over the year ahead although this is softer than the reading of +58% in last quarter. Likewise, prime office rents are anticipated to rise by a net balance of +22% of contributors, similar to last quarter's reading of +29%. Further emphasising the divide between best-in-class office space and secondary stock, twelve-month rental expectations for the latter remain firmly negative, with the net balance slipping to -47% down from -37% previously. On the same basis, prime retail rents are seen slipping by a net balance of -23% of respondents whilst expectations for secondary retail rents remain in negative territory with a net balance of -51%. This general pattern is evident right across the UK, with the outlook for prime industrial rents solid for virtually all regions while retail continues to struggle. Interestingly, Central London displays the widest gap between prime and secondary office markets. Indeed, while prime office rents are projected to rise by +3.6% (equalling the firmest outlook across all regions), secondary office rents in Central London are envisaged declining by -6.2% over the year to come. Back at the national level and away from the mainstream sectors, rental growth expectations remain comfortably in positive territory across multi-family residential, aged care facilities, student housing, life sciences and data centres.

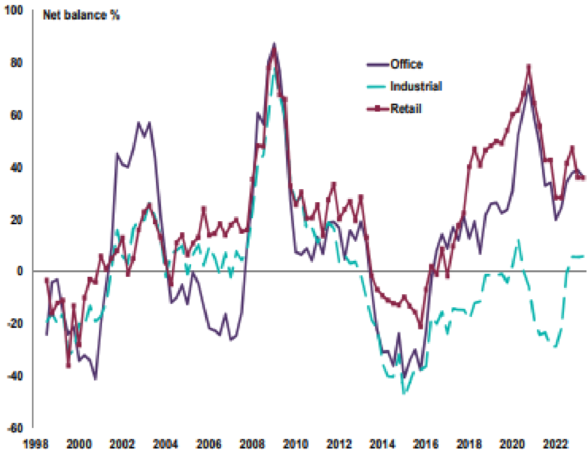
The all-sector average indicator for investment demand posted a net balance reading of -22% in Q2, marking a renewed decline following a figure of -14% in the last quarter. Disaggregating the data shows the net balances falling to -34% for both the office and retail sectors whilst a flat to marginally negative trend was cited for industrial investment demand (net balance -2%). In each instance, the net balance readings for Q2 weakened relative to those seen in the previous iteration of the survey. At the same time, the downward trend in overseas investment demand has become further entrenched across all mainstream sectors during Q2. Weighing heavily on investment market activity, the latest feedback signals a significant deterioration in the lending environment during Q2. The latest net balance of -75% for the credit conditions indicator represents the most negative reading on record (which go back to 2014, falling from a figure of -37% previously. With bond yields climbing higher over the recent weeks, this appears to have reintroduced downward pressure on capital values.

With respect to the twelve-month outlook for capital values, respondents now anticipate virtually all sectors chalking-up declines in the year to come. Secondary retail and office values are seen posting the sharpest falls (returning respective net balances -63% and -54%), while prime retail (net balance -35%) secondary industrial (net balance -15%) and prime offices (net balance -17%) all now exhibit a clearly negative twelve-month assessment for values. Bucking the wider trend somewhat however, prime industrial capital value expectations are broadly flat. Similarly, data centres, aged care facilities and student housing values are expected to prove more resilient and post modest gains over the year ahead.

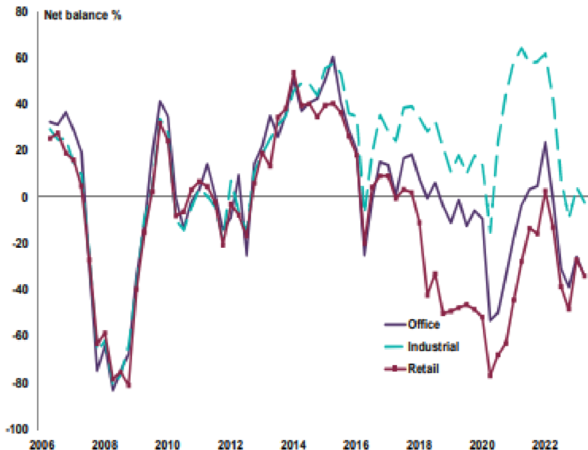
Rent expectations



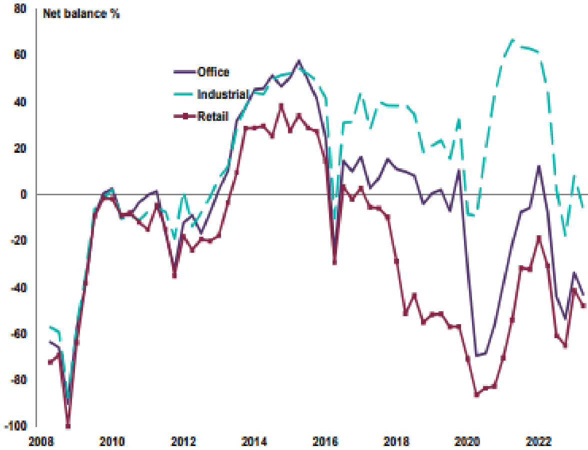
Inducements



Investment enquiries



Capital value expectations



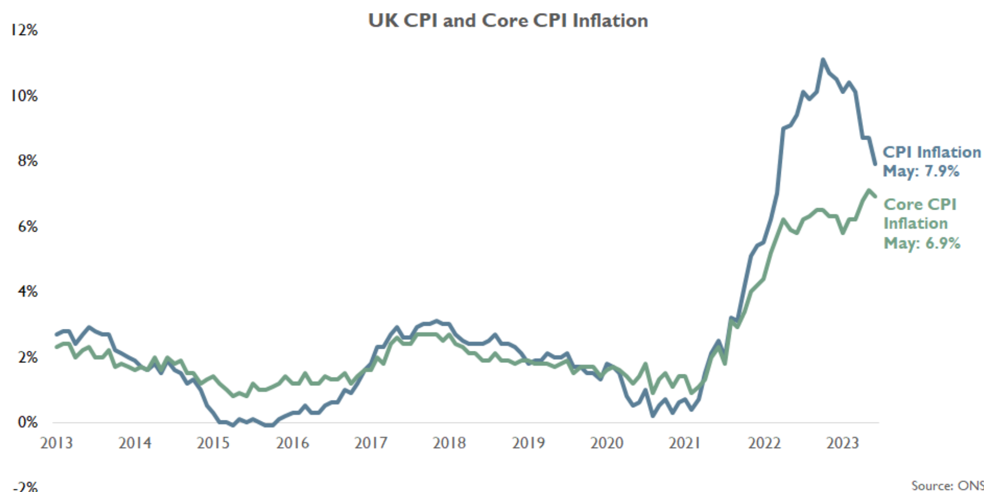
EXISTING INFORMATION

ONS UK CPI and Core CPI Inflation (June 2023): According to the ONS, CPI inflation in the UK economy in the year to June 2023 fell to 7.9% from 8.7% in May, its lowest level in 15 months. Financial markets had expected it to slow to 8.2%. Critically, Core CPI (excluding energy, food, alcohol and tobacco) fell from 7.1% in the year to May (which was its highest rate since 1992) to 6.9%.

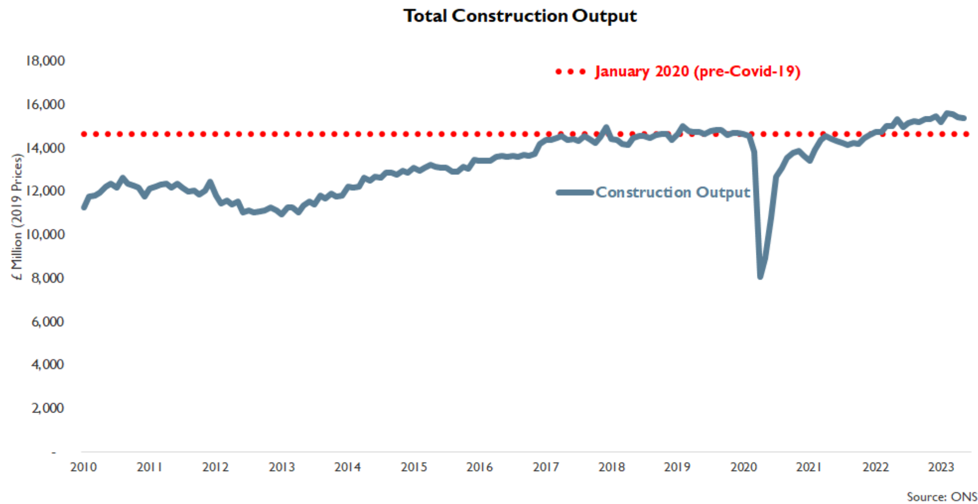
The Bank of England focuses on Core CPI inflation to view medium-term trends in inflation. As a result, the fall in Core inflation in June, albeit only a small fall, means that financial markets substantially revised their expectations of peak interest rates down.

Back in May, financial markets had priced in that interest rates had already peaked at 4.5% but after two successive rises in Core Inflation markets revised up their forecast of peak interest rates to over 6.0% in 2023 Q4 with an 80% probability of interest rates reaching 6.5%, which would have meant mortgage rates above 7.0%. Due to the latest Core inflation data in June, financial markets immediately revised down their peak interest rate forecast to just under 6.0% in 2023 Q4, with an anticipation that the Bank of England will only raise interest rates by 0.25 percentage points in August. This is clearly positive news but it also suggests that the financial markets (and consequently the Bank of England) are reacting significantly to every single latest data point during a volatile period, so their peak interest forecast may potentially be revised significantly once again with next month's data.

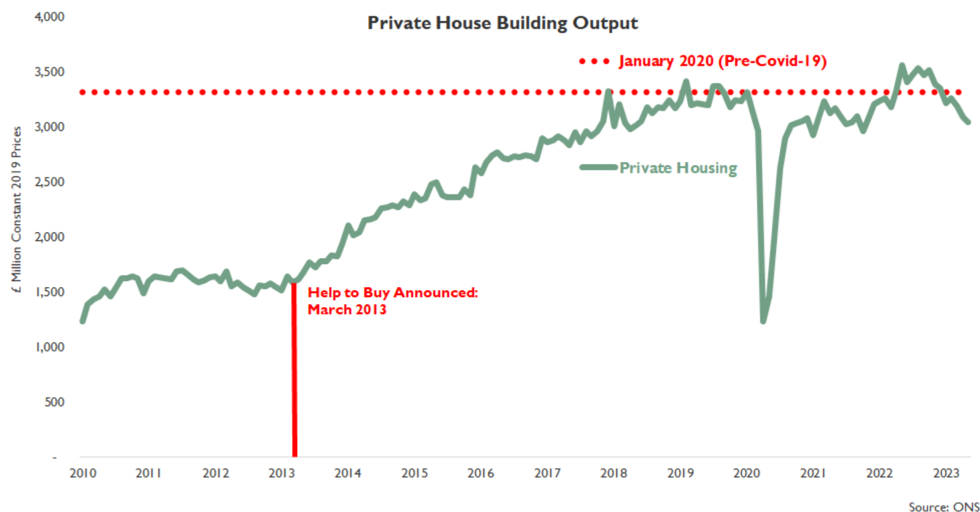
The CPA's Summer forecasts, which will be published on Monday 24 July assume that the Bank of England's interest rate peaks at 5.75% in 2023 Q4.



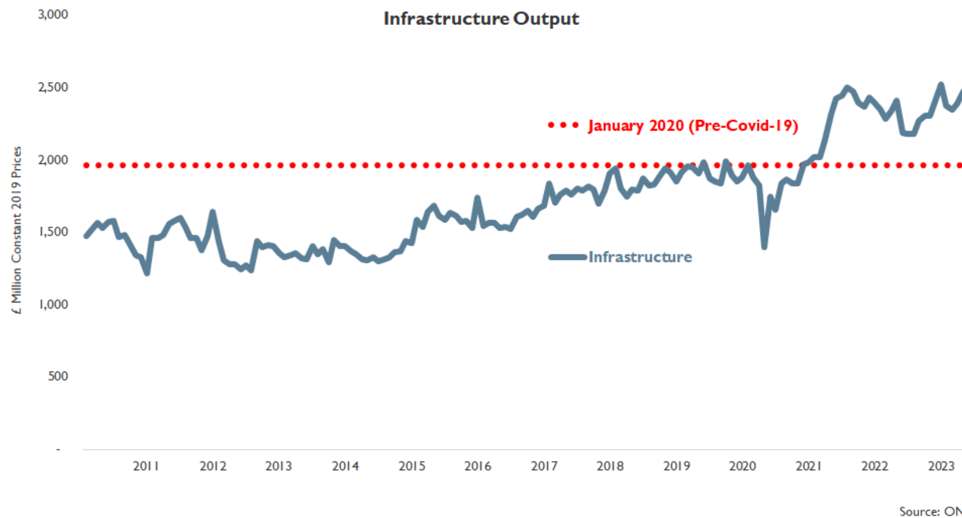
[ONS Construction Output (May 2023)](): According to the latest ONS data, construction output volume in May 2023 was 0.2% lower than in April and it was a third consecutive monthly fall (although note that May had an additional Bank Holiday that meant there was 1 less working day) but construction output in May 2023 remained 0.2% higher than a year ago and was 4.9% higher than in January 2020, pre-pandemic, Clearly, however, this masks stark differences between how the different construction sectors are currently doing.



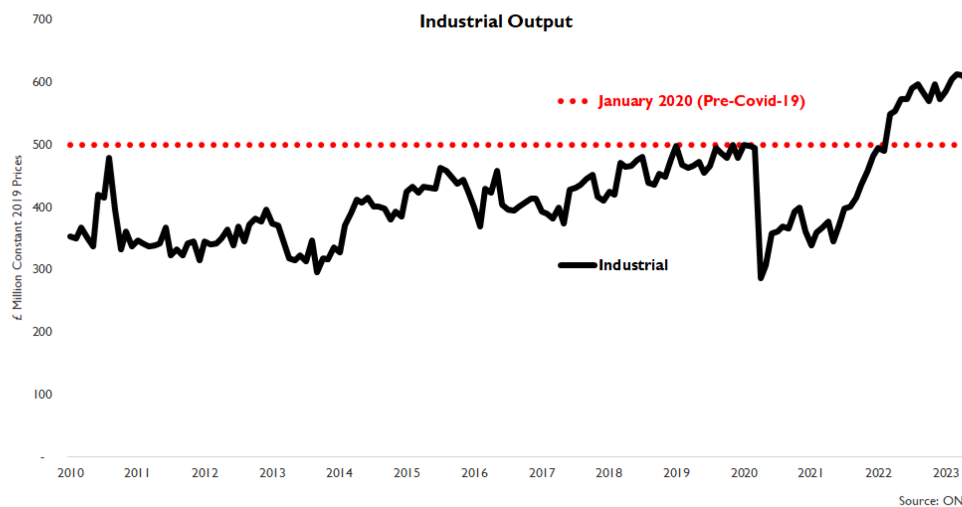
Private housing output in May 2023 was 1.5% lower than in April and 14.6% lower than a year ago as activity continues to fall from peak pre-Mini Budget. Private housing output in May 2023 was still based on starts when mortgage rates were falling (after the Mini Budget mortgage rate spike and collapse in demand) but it was before recent sharp mortgage rate rises (in June and July) that has led many major house builders to go on a 'Summer pause' until they see what the levels of new housing demand are likely to be once mortgage rates (as well as approvals and transactions) settle. As a result, private housing output is likely to fall further in 2023 H2.



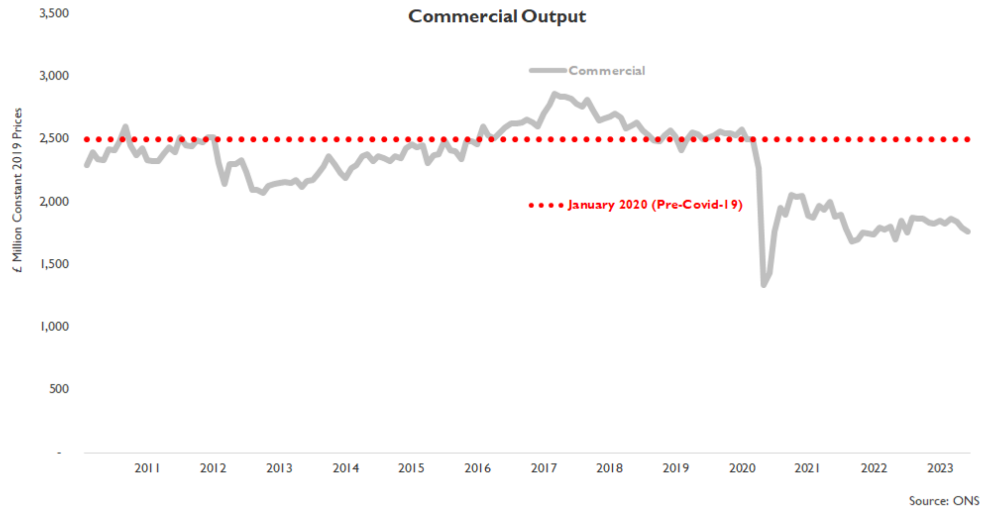
Infrastructure output in May 2023 was 1.4% higher than in April and 14.9% higher than a year ago, mainly due to major projects on the ground already such as HS2 Phase 1, Hinkley Point C and Thames Tideway, which continue to provide double-digit growth. This has been enough to offset declines in local authority infrastructure (due to financial constraints) as well as delays and cancellations to roads projects in RIS2 and work stopping at Euston station. Government announced two-year delays to HS2 Phase 2 and the Lower Thames Crossing in March but the majority of this work would only have been after 2025 even before the announcements so it has little impact on output near-term.



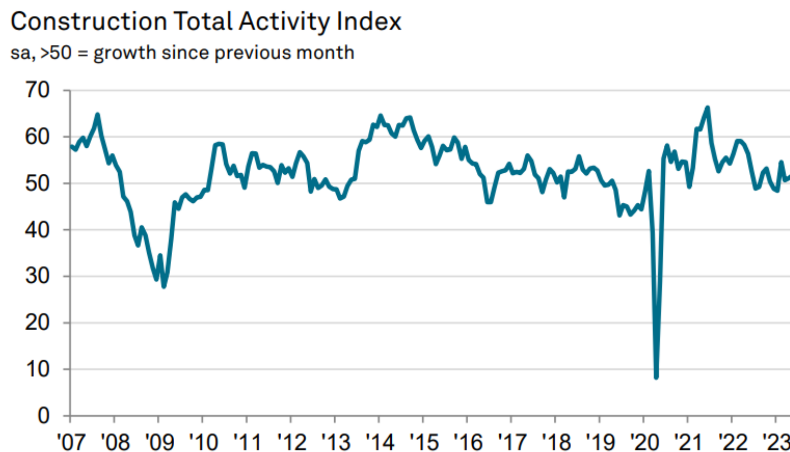
Industrial output reached its highest ever level in March 2023, due to the long-term structural shift towards online shopping boosting warehouses, exacerbated by a spike in online shopping during the pandemic. Output was also boosted in 2022 by factories construction as many manufacturers faced strong demand and were capacity constrained in 2021 so signed-off investments in Autumn 2021, which fed through to output last year. Output in May 2023 was 2.1% lower than in April but 4.4% higher than a year ago as activity starts to come down from March's historic high levels. Whilst factories activity benefitted from investment decisions in Autumn 2021, firms didn't sign off investment in Autumn 2022 due to the high level of uncertainty post-Mini Budget so as previous factories finish there are fewer new projects to replace them. Whilst warehouses activity remains strong, new investment peaked at the end of last year and so activity is likely to fall away from historic highs as current projects finish in 2023 H2.



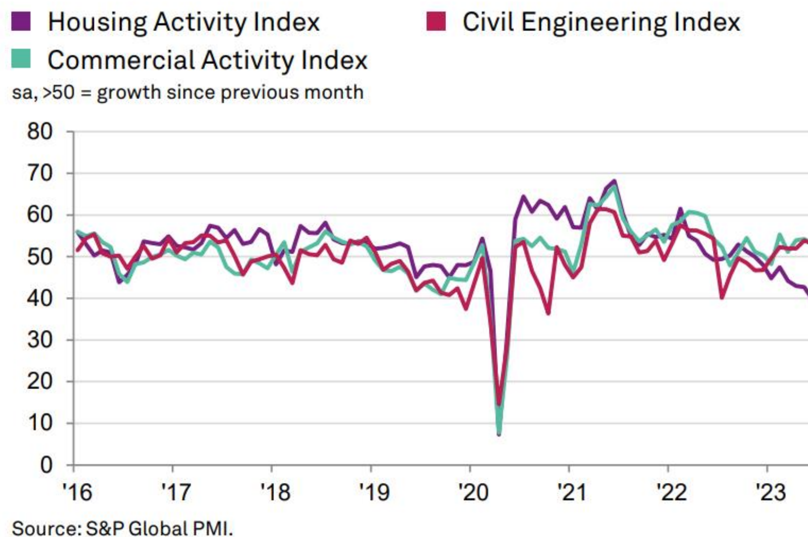
Commercial output in May 2023 was 1.8% lower than in April and 4.5% lower than a year ago plus it was 29.5% lower than in January 2020, pre-pandemic, as the majority of sector activity is traditionally new office/mixed-use towers, where activity is 1/3 lower than pre-pandemic due to it being increasingly difficult to make large upfront investments for a long-term rate of return in new towers given a sharp rise in excess existing commercial space since the pandemic, particularly given sharp increases in construction costs and funding costs (due to interest rate rises). However, the demand for grade A office space by tenants at the end of leases downsizing remains robust. As a result, refurbishment and fit out of existing commercial space and the change in use of existing commercial space from offices/retail into residential or industrial/logistics continues to remain strong and is higher than pre-pandemic.



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.



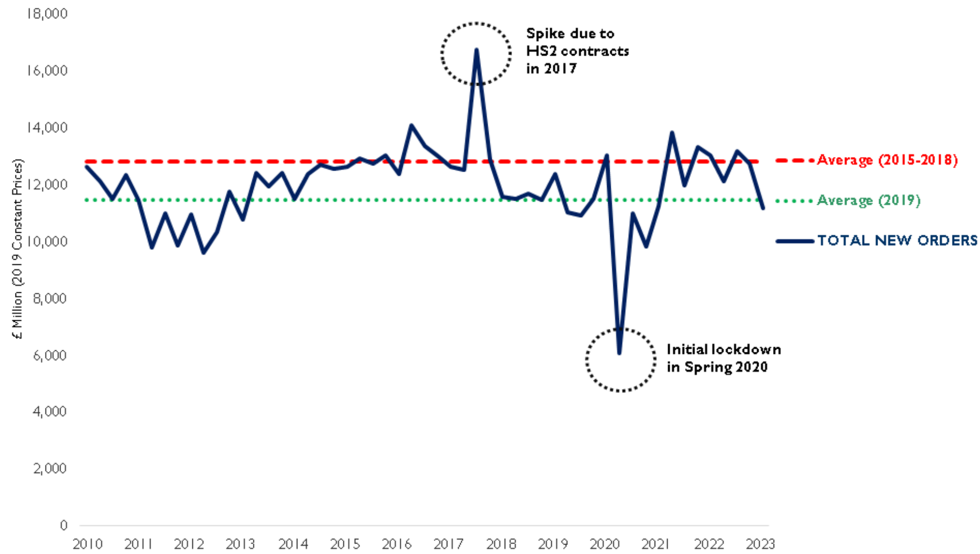
The PMI for residential work was 39.6 in June, indicating that housing decreased at its fastest pace since May 2020, which was in the initial national lockdown. Aside from the lockdown-related fall, the rate of contraction was its fastest since April 2009, during the financial crisis. Survey respondents 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.



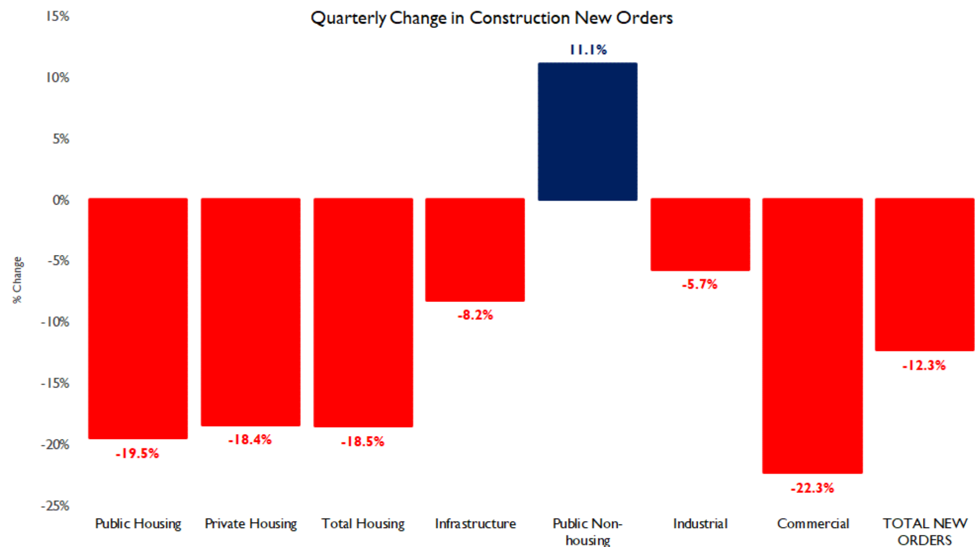
New order volumes decreased for the first time since January, although the pace of decline was only marginal. Subdued demand was mostly linked to the impact of rising interest rates on house building projects, alongside concerns among clients about the general economic outlook. Construction companies 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.

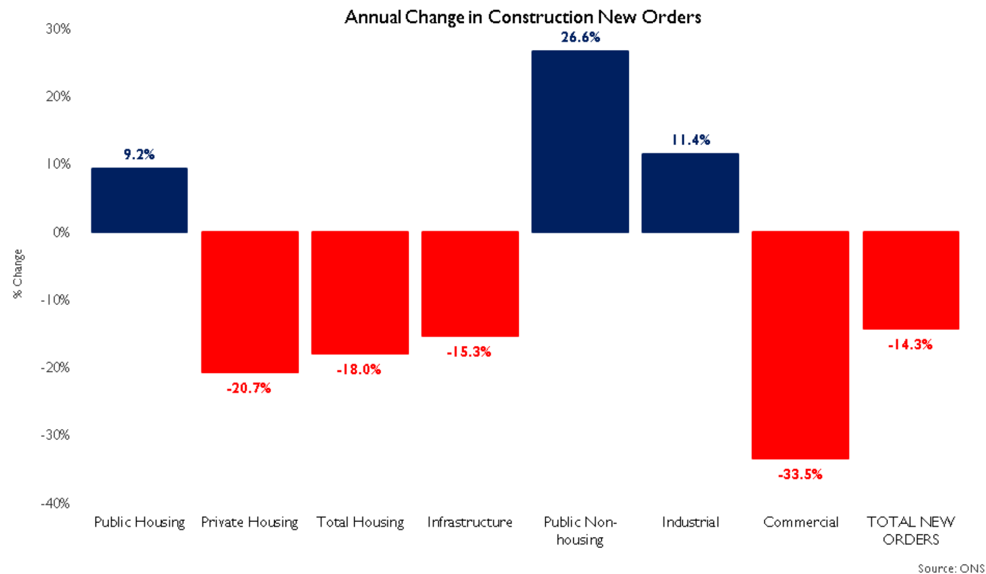
ONS Construction New Orders (2023 Q1): Construction new orders in 2023 Q1 were 12.3% lower than in Q4 and 14.3% lower than a year earlier according to the ONS. They were also 2.5% lower than the average for 2019 (and note that although 2019 was pre-pandemic, new investment in construction in 2019 was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



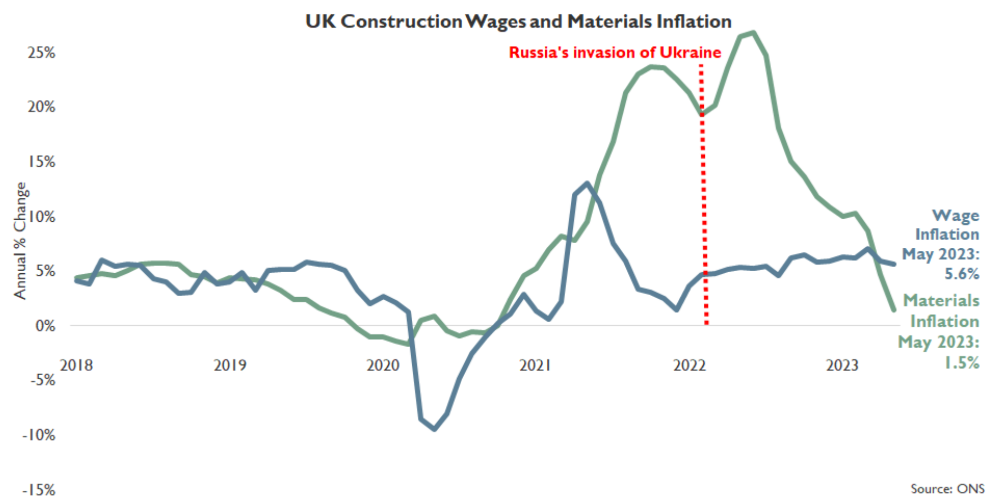
Construction new orders in 2023 Q1 compared with 2022 Q4 fell in every sector except public non-housing, which rose by 11.1% whilst the sharpest falls were in commercial new build (-22.3%), public housing new build (-19.5%) and private housing (-18.4%).



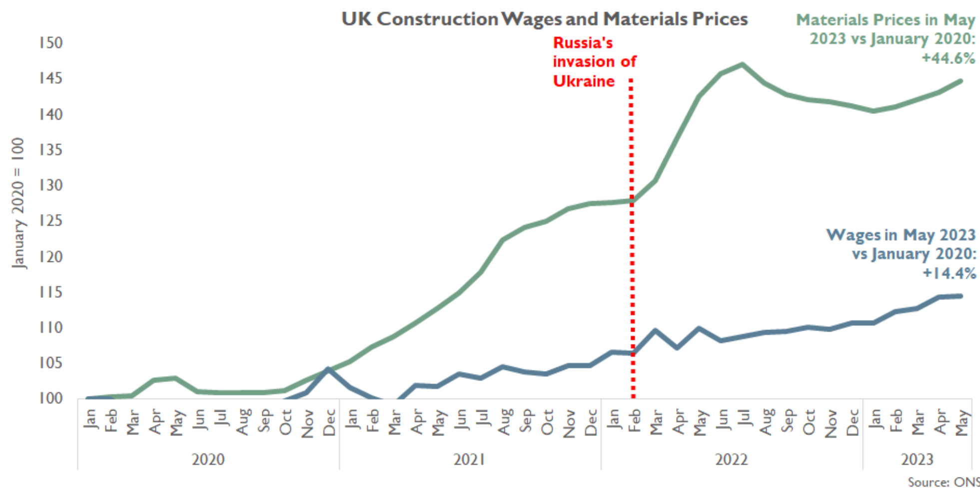
In 2023 Q1, construction new orders were 14.3% lower than a year earlier with the largest falls in commercial new build (-33.5%), private housing new build (-20.7%) and infrastructure (-15.3%). The fall in commercial new orders is unsurprising given the focus on refurbishment and fit-out of existing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



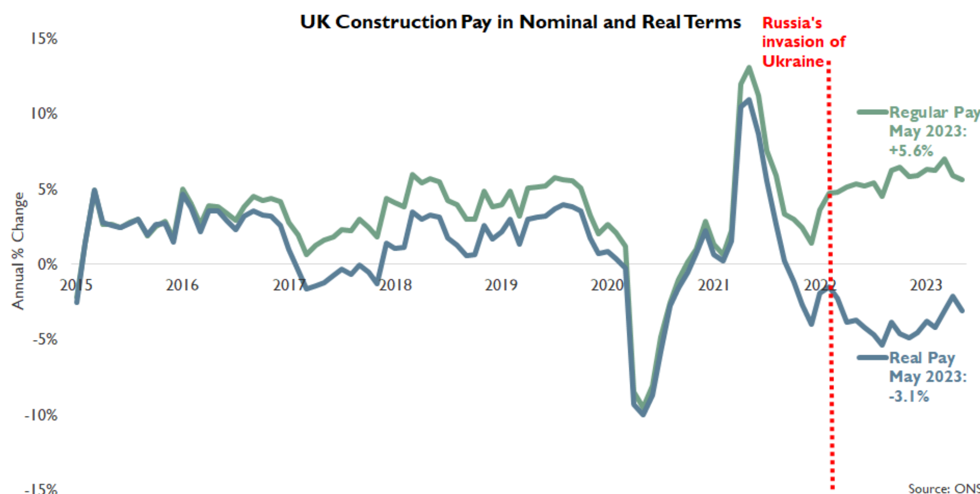
[ONS UK Construction Wage Inflation (May 2023)](): UK construction wages were 5.6% higher than a year earlier and are now rising considerably faster than construction materials, which were 1.5% higher than a year ago so whilst materials inflation is becoming less of an issue now, any benefits from this are being offset by construction wages rising.



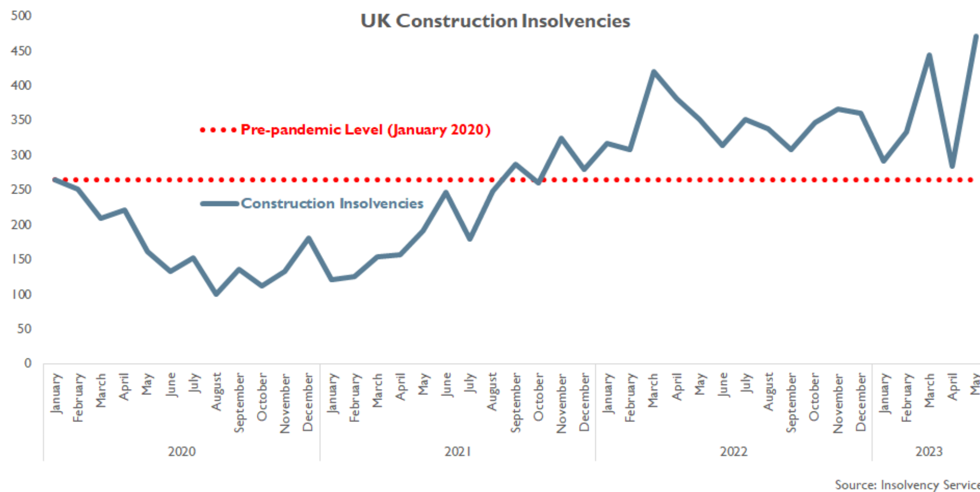
Despite the sharp slowdown in UK construction materials inflation, to 1.5% in May 2023, materials prices are still the key problem for contractors and in May 2023 they were still 44.6% higher than in January 2020, pre-pandemic, with the sharp rises occurring in 2021 due to the supply chain difficulties and then in Summer 2022 after the spikes in input energy and commodity prices after Russia's invasion of Ukraine (although note that prices have been rising again since the start of this year). 7Until recently, construction wages have not been rising at the same rate and in May 2023, wages were only 14.4% higher than they were in January 2020, pre-pandemic (although clearly it will vary considerably across different construction occupations). Since the end of the initial lockdown and the return to sites in 2020, construction wages have been gradually accelerating apart from a brief spike in 2021 when there were severe labour shortages across the economy and supermarkets/haulage firms were making large wage offers and large bonuses to attract workers from other sectors.



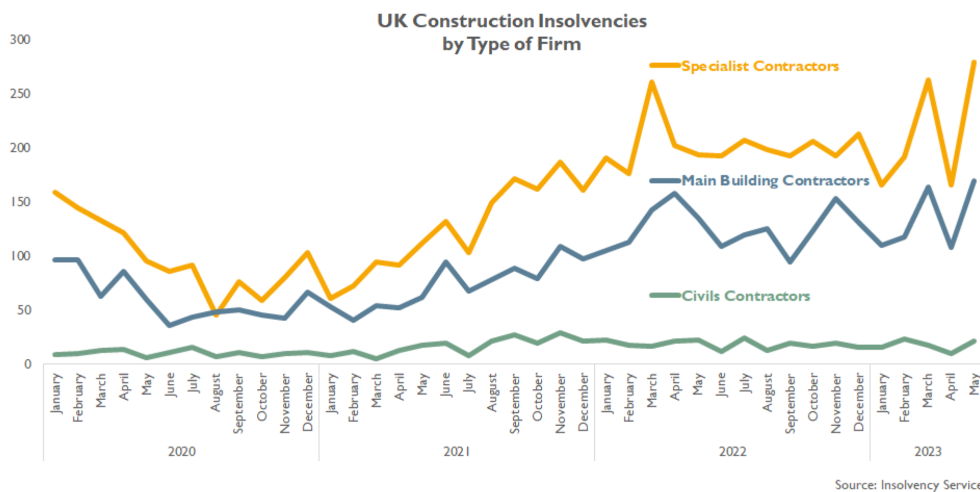
What is most of interest is that despite the 5.6% rise in construction wages in the year to May 2023, wages continue to fall in real terms (because the price of everything else is rising faster and CPI inflation in the year to May was 8.7%). Furthermore, construction wages in real terms have been falling for 20 consecutive months (note that falls in real wages started in October 2021, before the spikes in energy and commodity prices). What this means is that simultaneously rising wages are hitting contractors, particularly those on longer-term fixed price contracts signed up to before the materials and wage inflation but it also means that a lot of construction workers are unhappy having suffered falling real wages for almost two years.



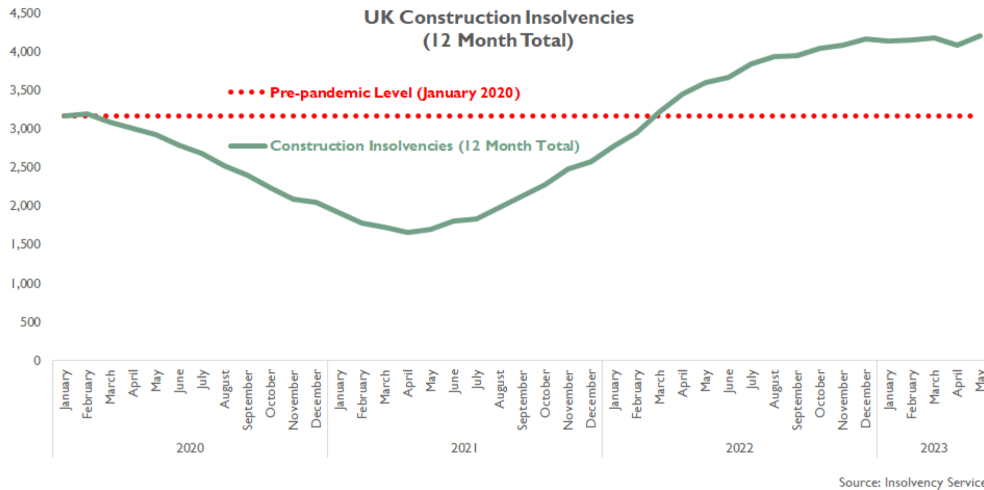
Insolvency Service UK Construction Insolvencies (May 2023): 471 UK construction firms went out of business in May 2023, which is 34.2% higher than a year ago and 77.7% higher than in January 2020, pre-pandemic, according to the Government's Insolvency Service. We are starting to see the sharp downturns in the two largest construction sectors, private housing new build and private housing repair, maintenance & improvement (rm&i) affect firms down on the ground plus the impacts of government's announced delays to infrastructure projects, such as contractors having to down tools at Euston station as well as delays and cancellations to roads projects.



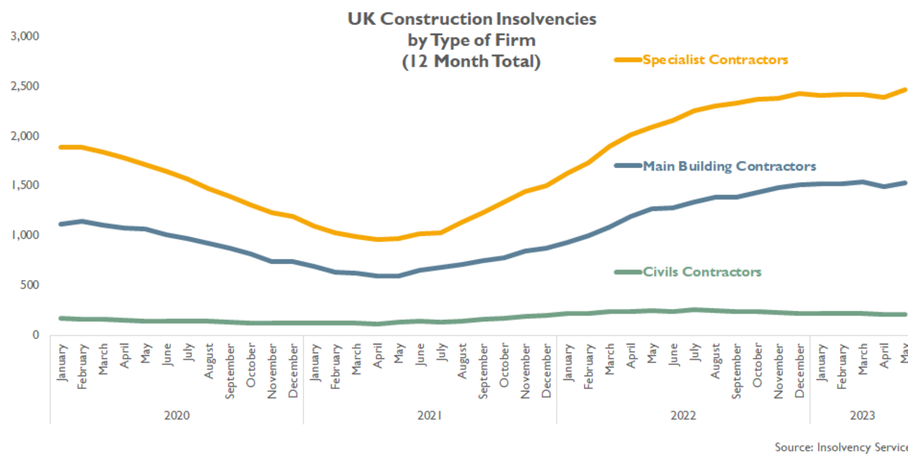
The largest impacts were on the smaller, specialist sub-contractors and 59% (280) of the UK construction firms that went under in May 2023 were specialist contractors. As well as the recent sharp downturns in private housing and private housing rm&i demand, specialist contractors have had to deal with an array of supply side issues as we have been pointing out over the past 18 months including materials cost rises, IR35, reverse charge VAT, skills shortages, planning delays and cost issues, which have hit financial viability that recent sharp downturns in housing have exacerbated. It is worth noting that whilst specialist contractors have been the worst hit, main building contractors still accounted for 36% (170) of UK construction insolvencies in May 2023 so they are not immune to the demand and supply issues.



4,209 UK construction firms went out of business in the year to May 2023, which is 2.9% higher than in the year to April 2023, 16.6% higher than a year ago, 32.8% higher than in the year to January 2020, pre-pandemic and UK construction insolvencies in the year to May 2023 were also at their highest level since the financial crisis.

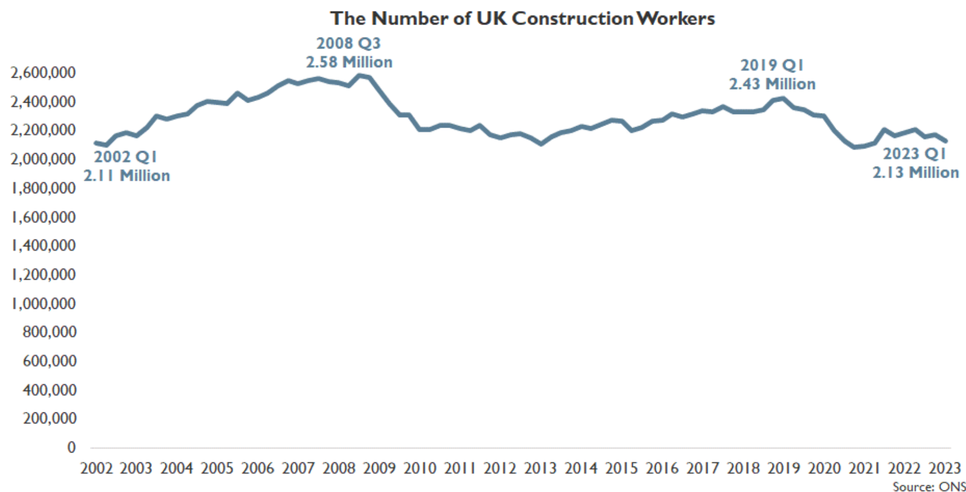


Of greatest concern, house building may fall further in the second half of the year as interest rates and mortgage rates rise and as the fall in starts feeds through to a lack of a completions in later this year. Private housing rm&i activity may also fall further as the 19% fall in planning applications for larger improvements projects last year continues to feed through, particularly given falling real wages and further interest and mortgage rate rises in the second half of this year. In addition, government's recent announcements of delays to roads and rail projects (as well as persistent delays on schools and hospital programmes) will affect activity and increasingly affect contractors, primarily specialist contractors, in the next 6-12 months.



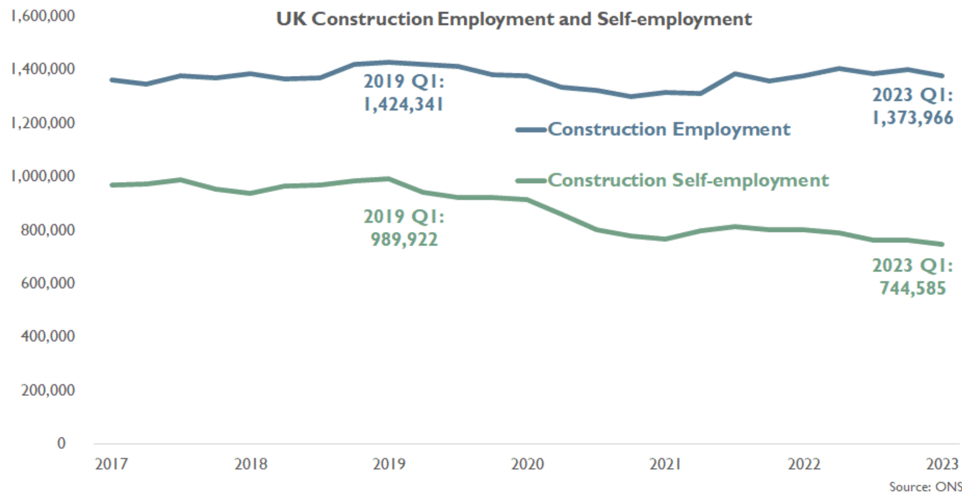
UK Construction Employment and Self-employment (2023 Q1): As materials cost and availability eases, the greatest issue facing the construction industry in the medium-term will be skills shortages, particularly given the number of people that have left the industry in recent years and entrants into the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



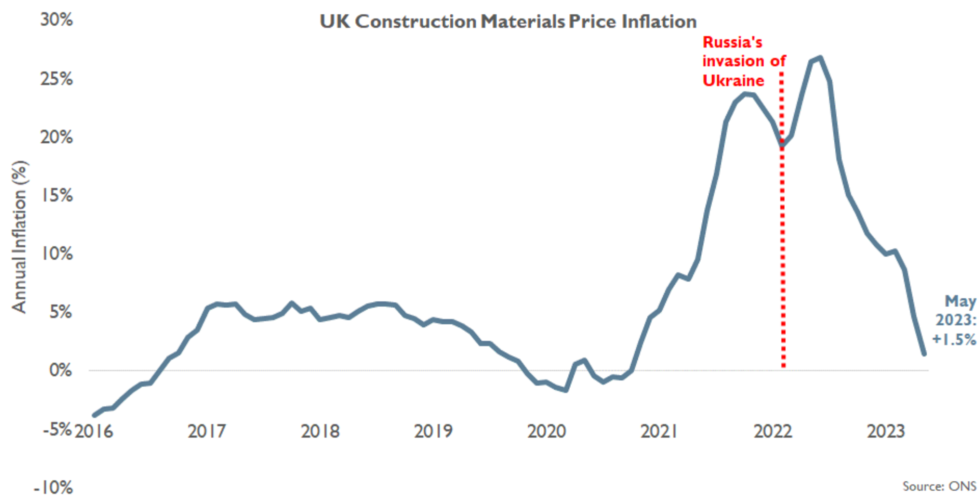
Looking at the breakdown by employees and self-employment in UK construction, the number of employees in 2023 Q1 was unchanged compared with a year ago and broadly similar (-0.3%) compared with 2019 Q4, pre-pandemic. The number of employees in UK construction in 2023 Q1 was, however, still 50,375 (3.5%) 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. Plus, many EU construction workers that would usually come over to replace others returning after projects have finished have not been able to due to work permit costs and requirements.

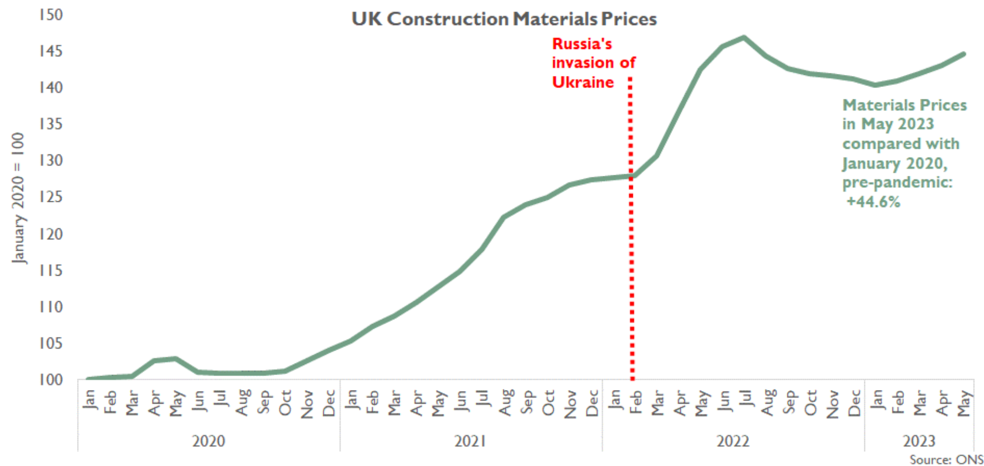


Clearly, the main concerns over the past two years have been over materials availability and price inflation and as construction activity falls this year skills shortages are unlikely to be key problem for the industry. In the medium-term, however, skills shortages are likely to be the greatest constraint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

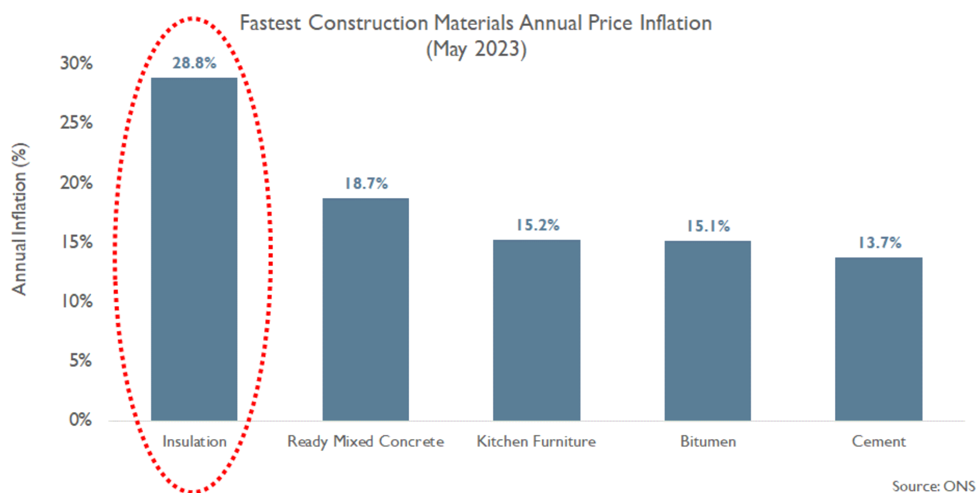


However, this just means the rate of price increases has been slowing and although materials prices in May were 1.6% lower than the peak in Summer 2022, they have risen in the last four consecutive months and in May they were still 44.6% higher than in January 2020, pre-pandemic.

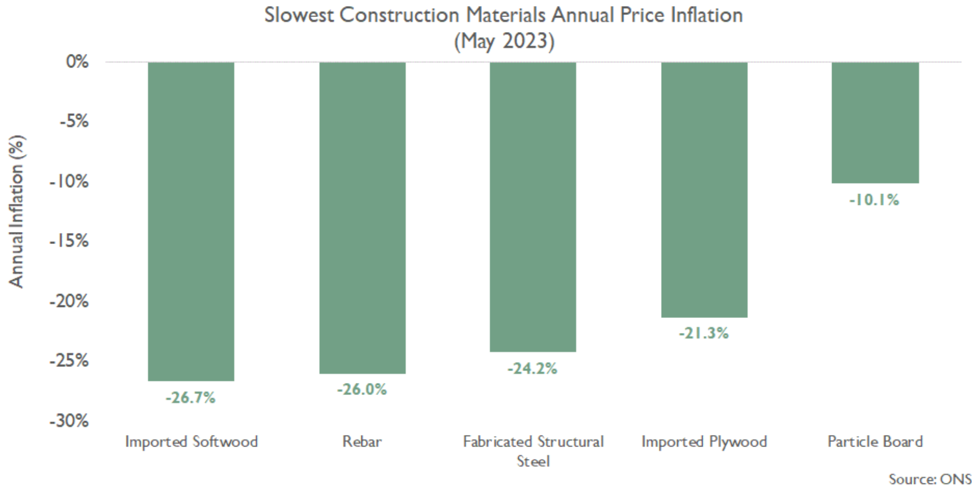


This is concerning for contractors, particularly smaller specialist sub-contractors that are working within the 2 largest construction sectors, private house building and housing repair, maintenance and improvement, where demand has fallen sharply (except in insulation and solar/PV improvements work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

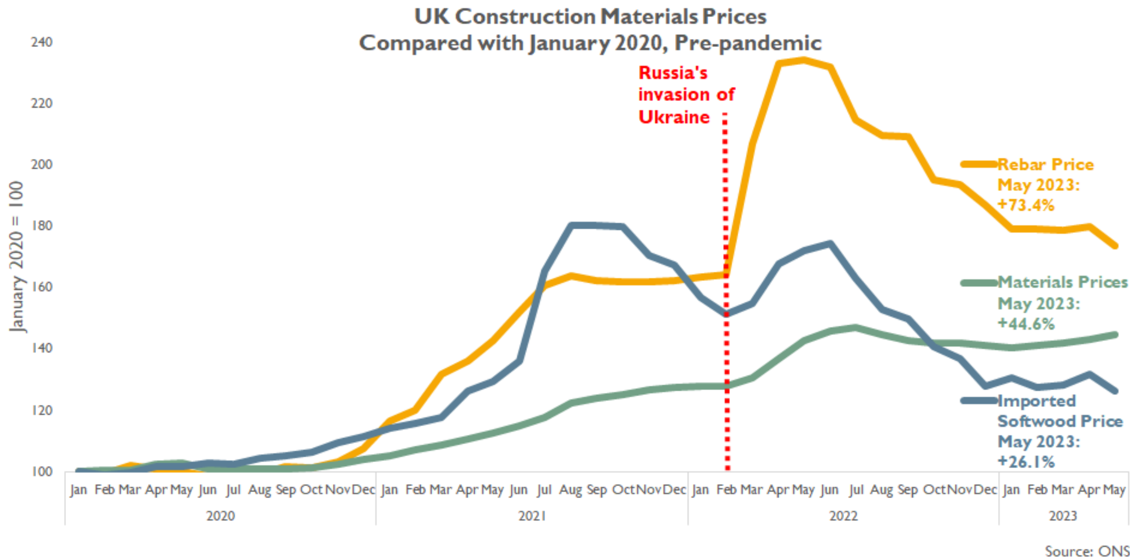
The fastest rates of construction materials price rises in the year to May 2023 were insulation, due to strong demand for energy-efficiency retrofit with homeowner concern over energy prices in the past year, and products such as RMC and bitumen products as energy-intensive manufacturers are still moving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



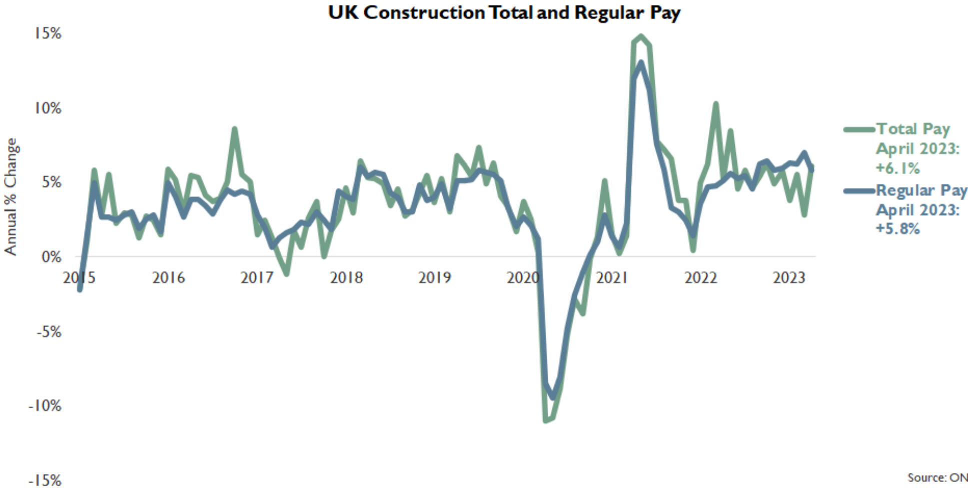
Conversely, the sharpest falls in materials prices in the year to May 2023 were in imported softwood (26.7%), rebar (26.0%), fabricated structural steel (24.2%), imported plywood (21.3%) and particle board (-10.1%) so effectively in steel-related products and timber-related products.



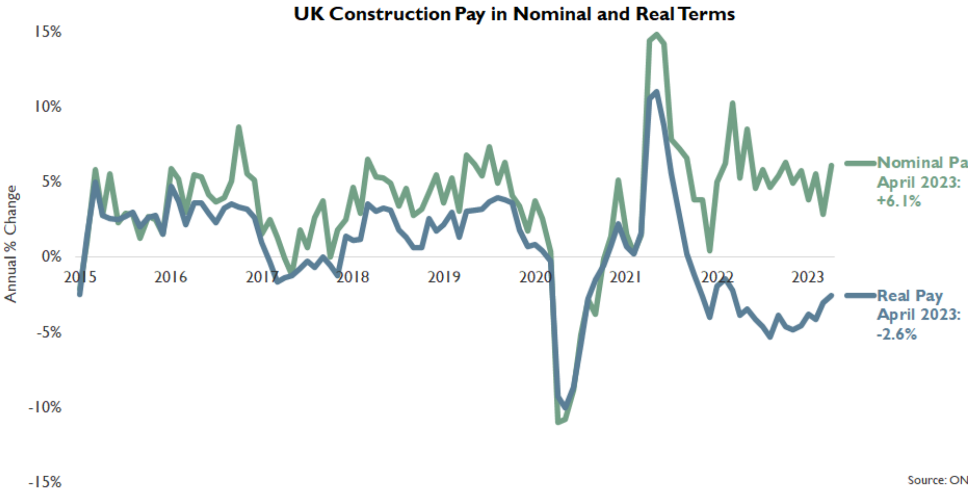
It is worth noting, however, that even with double-digit annual price falls in steel and timber products, they are coming from historic high peaks so, in May 2023, rebar prices were still 73.4% higher than in January 2020, pre-pandemic, and imported softwood prices in May 2023 were still 26.1% higher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



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.

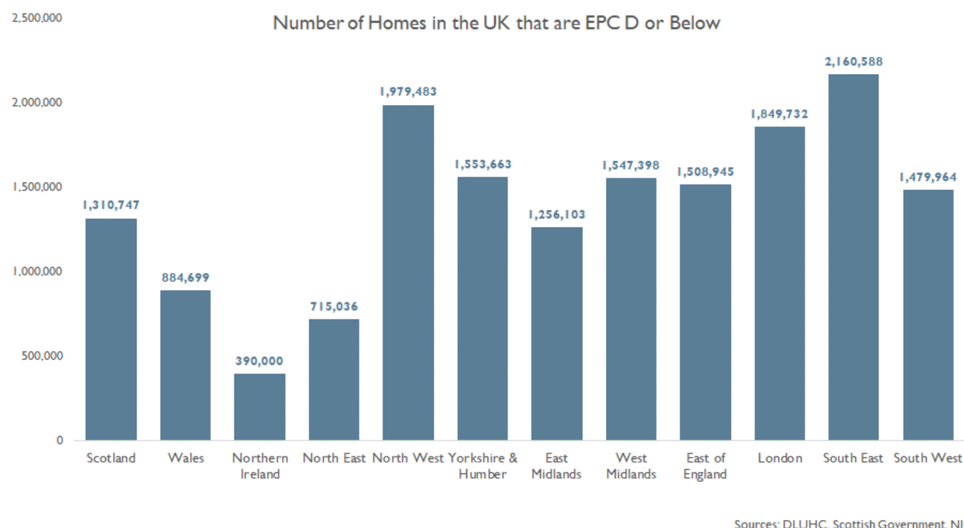


UK Housing Stock by EPC (2021): The latest data on the existing housing stock in England and Wales by EPC, combined with data on the housing stock in Scotland and Northern Ireland, highlights that the total number of homes was 29.8 million homes.

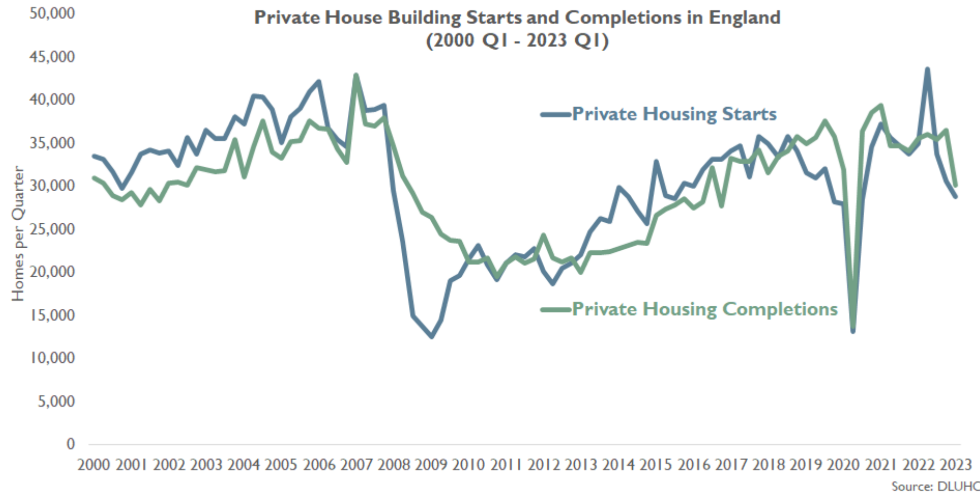
Of this, 16.6 million homes are EPC rated D or below. This is split by region in the chart. To give a reference point for the extent of activity that would need to take place to the meet the EPC rating C or above target that the UK government announced as being sufficient for Net Zero (and note that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

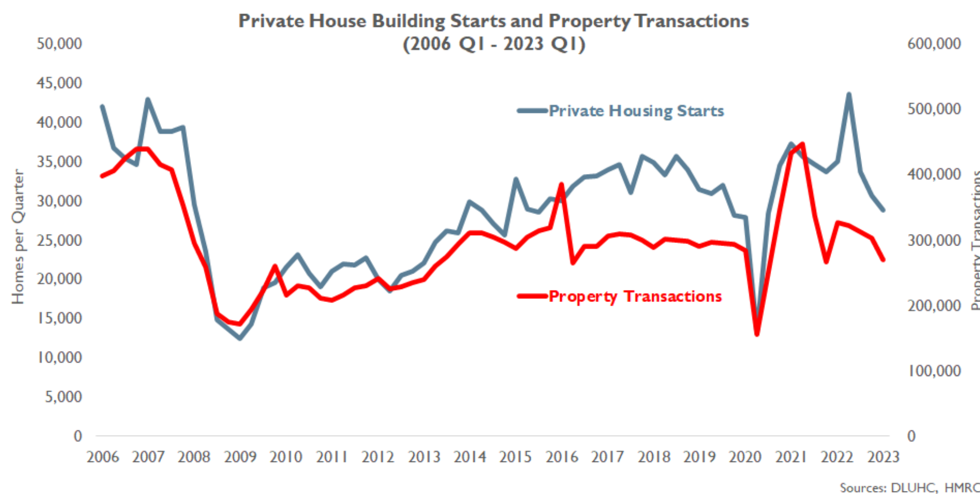
As ever, it is worth highlighting that the extent of retrofit activity that needs to take place on the housing stock alone, requires sustained large investment upfront over the course of many years in skills and capacity for the ability to deliver the retrofit activity, even assuming that the demand,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



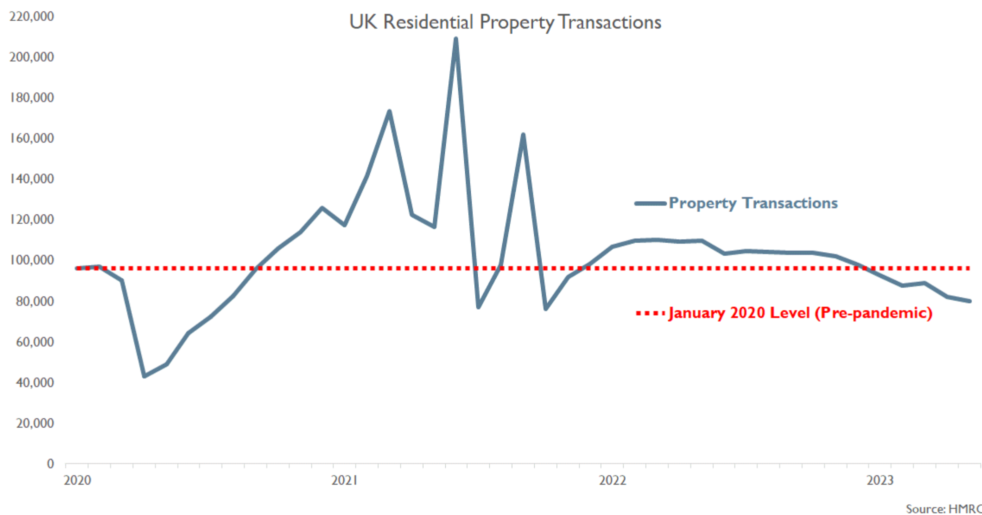
[DLUHC Housing Starts and Completions in England (2023 Q1)](): Private housing starts in England in 2023 Q1 were 6.1% lower than in the previous quarter and 17.8% lower than a year ago according to DLUHC. Private starts in Q1 were also 34.0% lower than the recent peak in 2022 Q2 but note this recent 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.



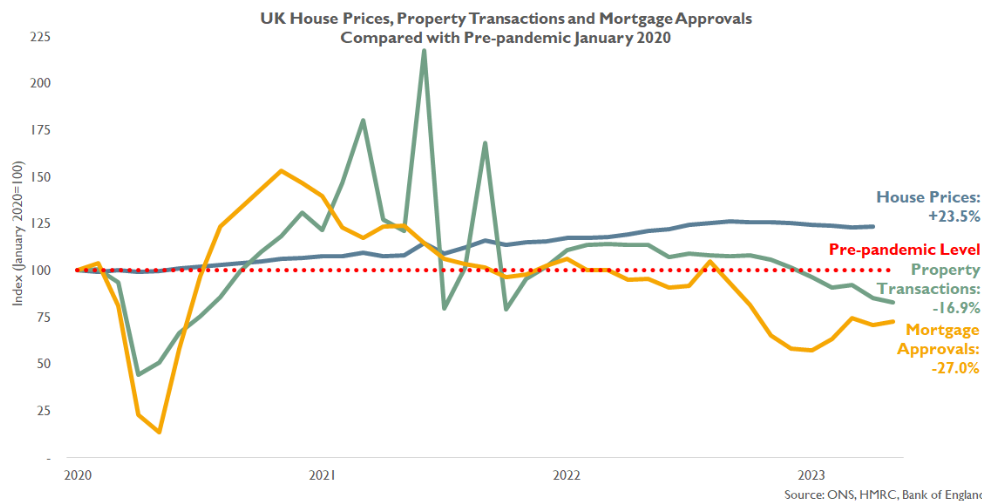
Property transactions in 2023 Q1 were 39.7% lower than at the recent peak (2021 Q2, after the 3rd national lockdown and 'race for space'), which suggests starts may remain subdued. The annual change in starts in 2023 Q2 may appear bad compared with the peak in starts in 2022 Q2, especially as some majors 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.



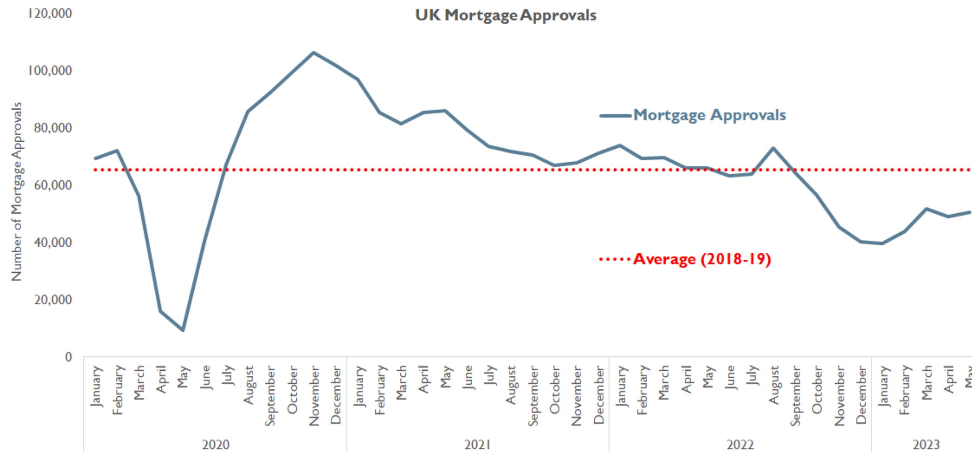
HMRC UK Residential Property Transactions (May 2023): There were 80,020 residential property transactions in the UK in May 2023, which is 2.7% lower than in April and 27.0% lower than a year earlier according to HMRC, as mortgage rates started to rise again and markets' expectations of interest rates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



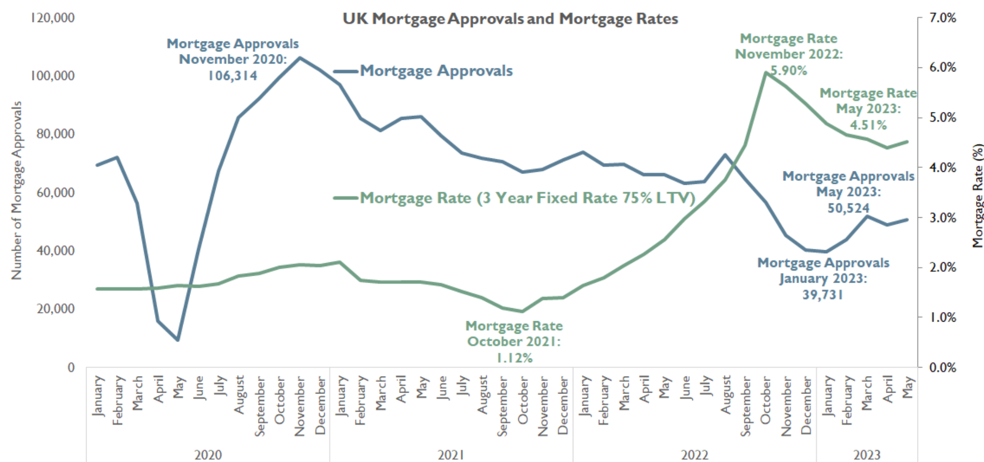
The number of transactions in May 2023 was also 16.9% lower than in January 2020, pre-pandemic, before the 'race for space' and stamp duty holidays and whilst Help to Buy was still in place. The impact of the fall in mortgage approvals since the spike in mortgage rates after the government's Mini Budget 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.



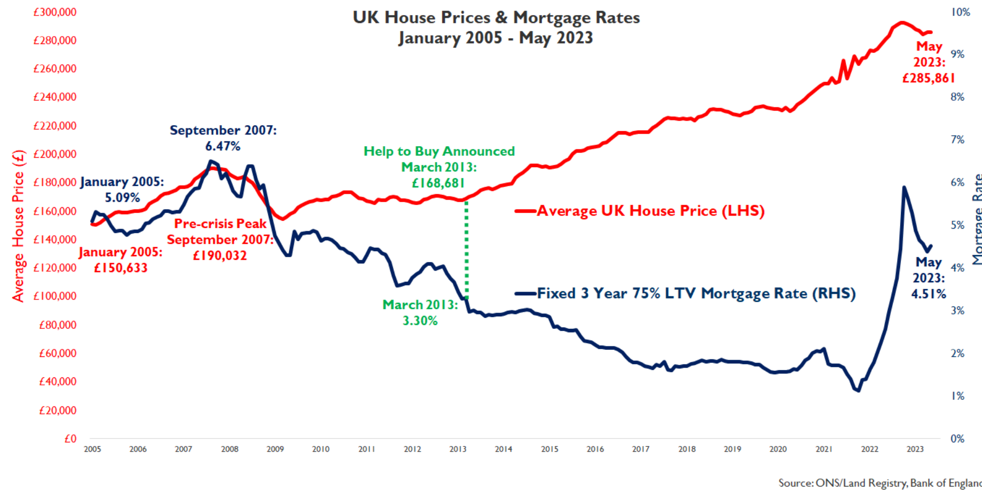
Bank of England UK Mortgage Approvals (May 2023): There were 50,524 mortgage approvals in the UK in May 2023 according to the Bank of England, which is 3.1% higher than in April 2023 and 27.2% higher than the post-Mini Budget debacle nadir in January 2023 but the number of UK mortgage approvals in May 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.



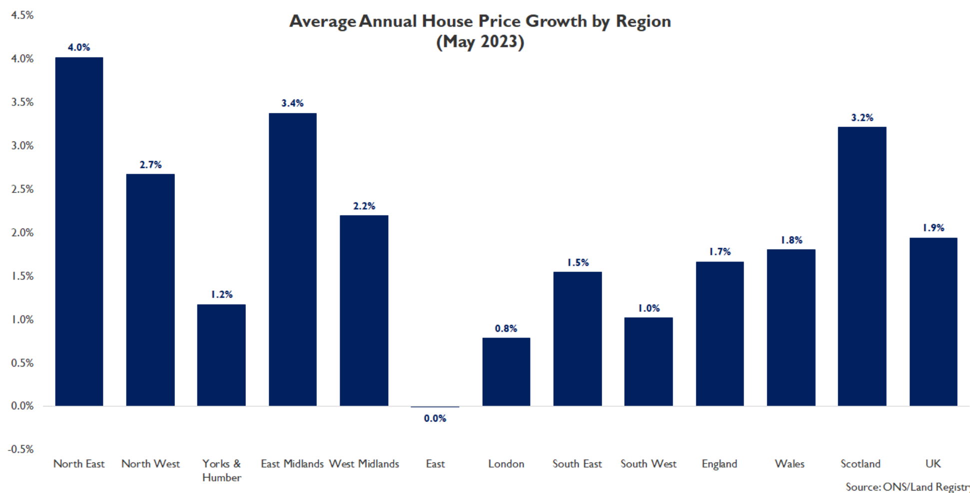
It is worth noting that the rises in mortgage approvals since January (from a low base) were driven by falling mortgage rates and improving housing sentiment (again, from a low base, in 2022 Q4 after the Mini Budget debacle) but mortgage rates started to rise again in May 2023, the Bank of England has 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.



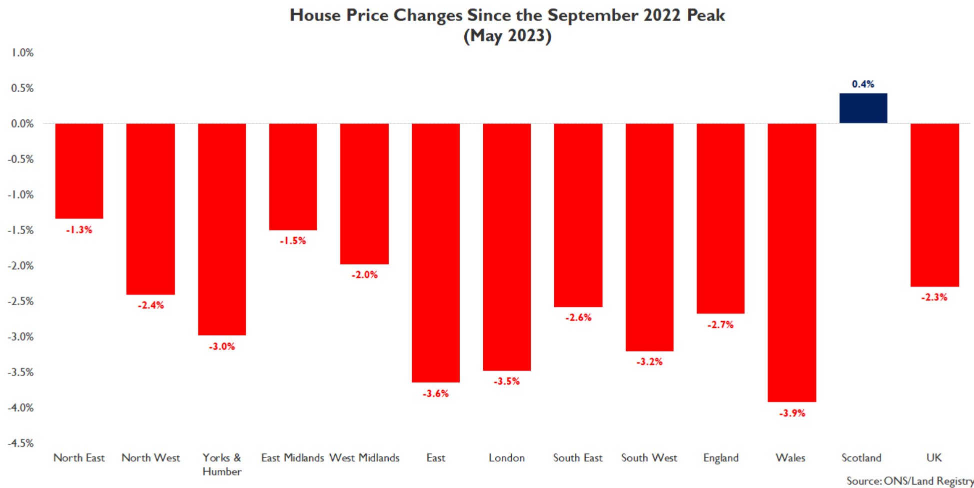
[ONS/Land Registry UK House Price Index (May 2023)]: The average UK house price in May 2023 was £285,861, which is flat (0.0%) compared with April and 1.9% higher than a year ago (down from the 3.2% annual growth in April) according to the ONS/Land Registry. Note, however, that May's UK house prices were before the sharp revision upward in peak interest rates and the recent spikes in mortgage rates so housing demand has fallen considerably since May, when the fixed 3-year 75% LTV mortgage rate was 4.51%.



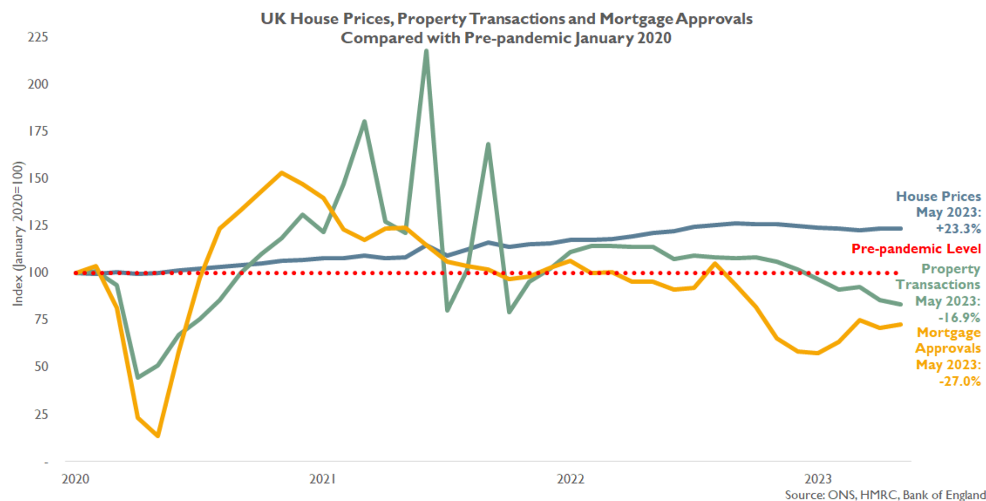
Across the regions and nations, the fastest annual house price growth was in the North East (4.0%), East Midlands (3.4%) and Scotland (3.2%) whilst the slowest house price growth was in East (0.0%) and London (0.8%).



Since the recent peak of UK house prices in September 2022 (immediately prior to the government's Mini Budget debacle and initial spike in mortgage rates), UK house prices have fallen by 2.3%. So far, the largest falls in house prices since the September 2022 peak in Wales (-3.9%), East of England (-3.6%) and London (-3.5%).

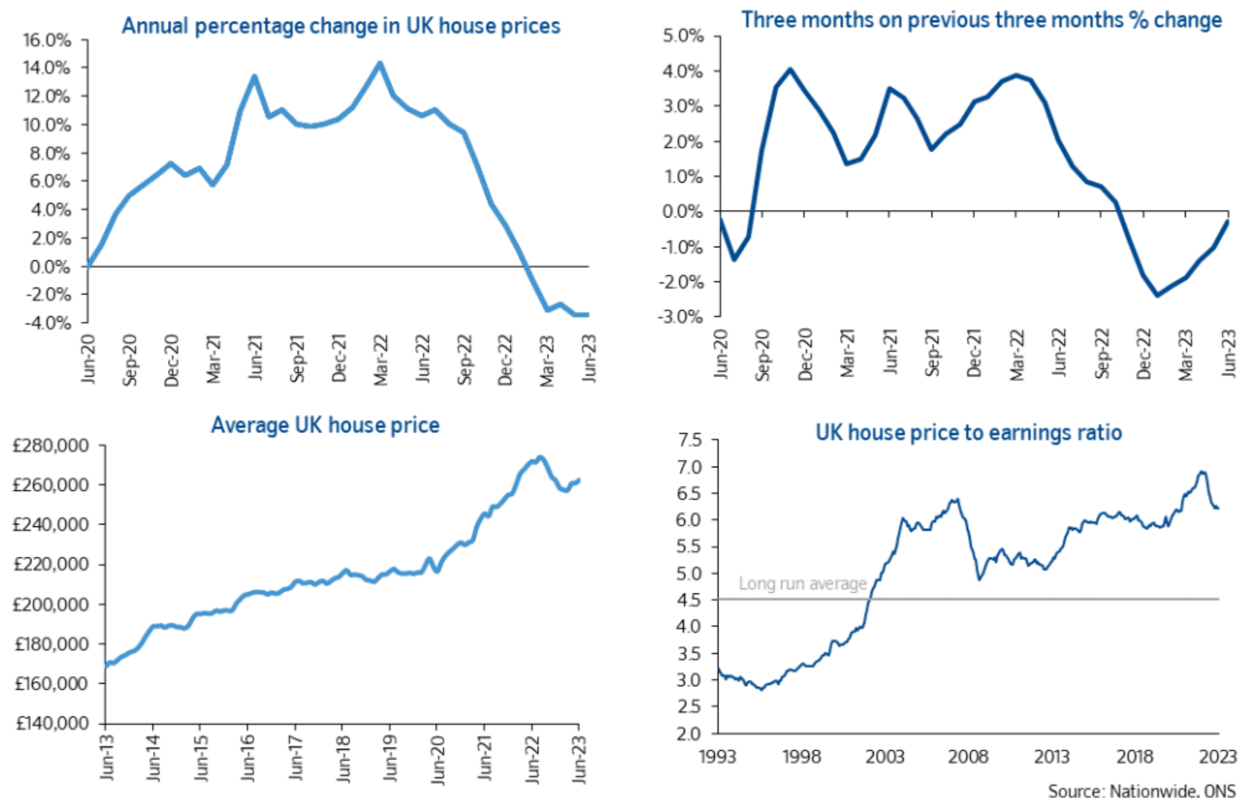


We still haven't seen the impact of the recent sharp rises in mortgage rates since June and the main effects so far of the mortgage rate rises and fall in UK housing demand have been seen in mortgage approvals, which in May 2023 were 27.0% lower than in January 2020, pre-pandemic, whilst property transactions in May were 16.9% lower than in pre-pandemic, as they were sustained slightly more by cash buyers and investors. UK house prices in May 2023 were still 23.3% higher than in January 2020, pre-pandemic, as sharp falls in demand have been partially offset by falls in the supply of homes onto the housing market. The impacts on UK house prices are more likely to be a slow burn issue over time due to the persistence of higher interest rates rather than sudden sharp falls or spikes as with mortgage approvals and transactions unless there is a sharp rise in unemployment and forced sellers, which is not anticipated.



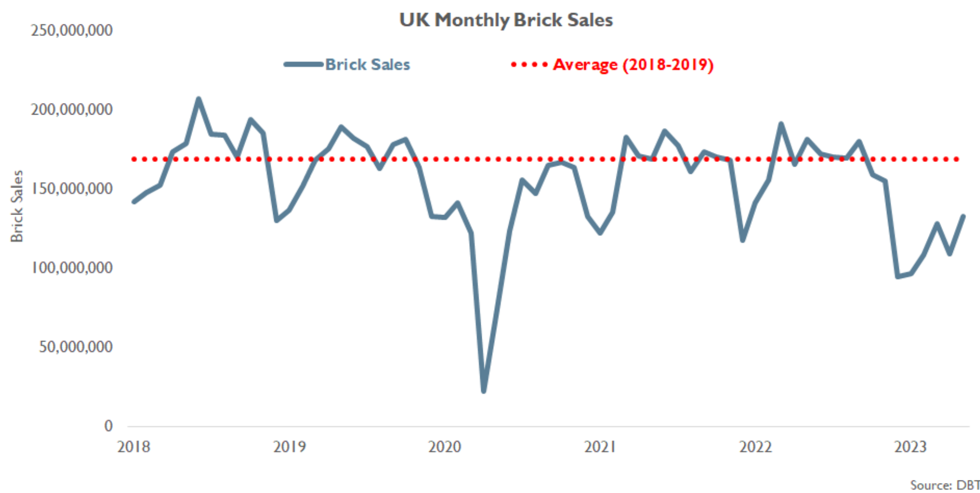
Nationwide UK House Price Index (June 2023): The Nationwide house price index (which is only based on Nationwide's mortgage lending and, consequently, does not take account of cash sales and it tends to be weighted more towards the south of England than the Halifax house price index and the south where 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.



[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.

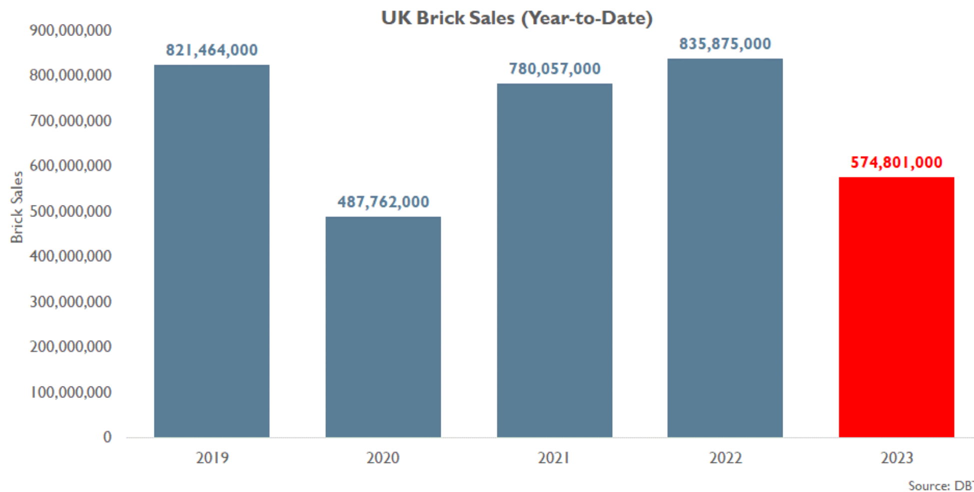
UK brick deliveries in May 2023 were, however, still 27.0% lower than a year ago and 21.4% lower than the average between 2018 and 2019, pre-pandemic.



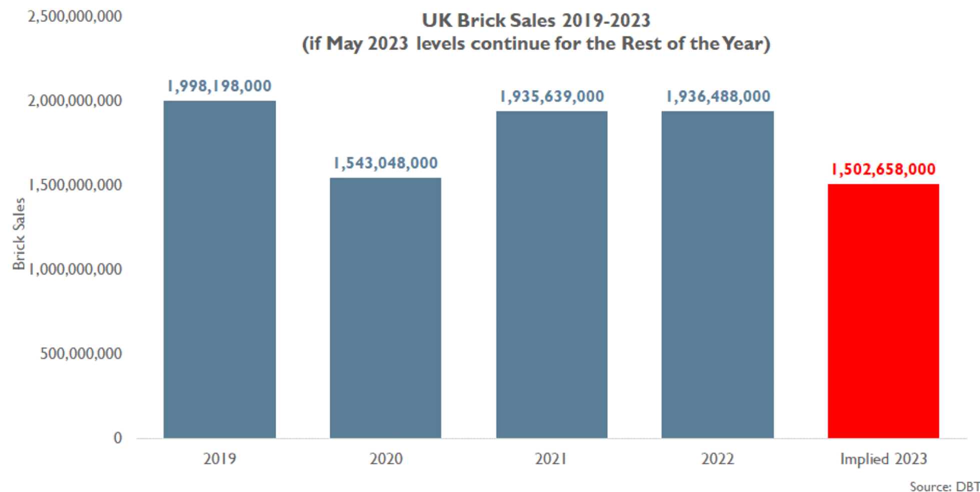
It is worth noting that brick deliveries and starts reflect house builders' confidence to build out later in the year of greater concern is that May's brick deliveries were before June's interest rates increases and before the sharp rise in markets' expectations of interest rates, which they had priced 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.



RICS UK Residential Market Survey (June 2023): The RICS UK Residential Survey points to a renewed deterioration in sales market activity in June 2023 due to the recent escalation in interest rate expectations. Many of the survey's indicators fell deeper into negative territory this month although most metrics in June remained above the lows hit towards the end of last year post-Mini Budget.

The national net balance of new buyer enquiries fell to -45% in June from -20% last month, an eight-month low. Respondents across all parts of the UK reported a negative trend in buyer enquiries compared to May. For newly agreed sales, the net balance fell to -34% this month compared to -8% last month and was the lowest since December 2022.

Looking ahead, near-term sales expectations deteriorated to a net balance of -36% in June, a four-month low, down from -9% last month. On a twelve-month view, a net balance of -31% of participants foresees sales declining compared with the last three months of broadly flat sales expectations for the year ahead.

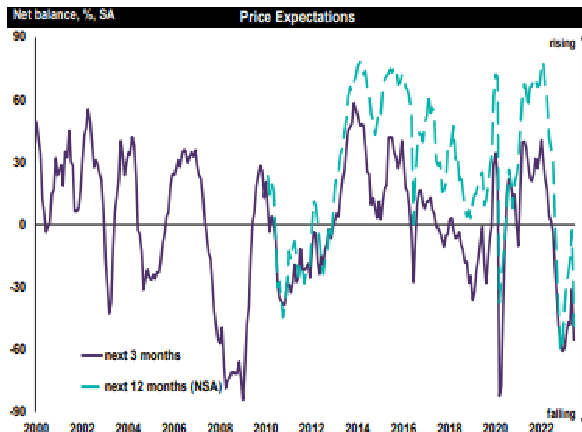
Looking at supply, new sales instructions were broadly flat in June (-1%) compared with +14% last month. Average stock levels on estate agent's books were also broadly unchanged compared with last month (37.4 properties) although this level of inventory is still slightly higher than that reported at the end of last year.

The net balance for UK house prices in June fell to -46%, declining from -30% last month, signalling an acceleration in house prices. All English regions are seeing house prices decline, with East Anglia and the East Midlands exhibiting the sharpest monthly declines in net balance terms (-72% and -69% respectively). By contrast, house prices remain more resilient across Northern Ireland and Scotland, with respondents in both nations citing an upward trend despite the weaker housing market activity.

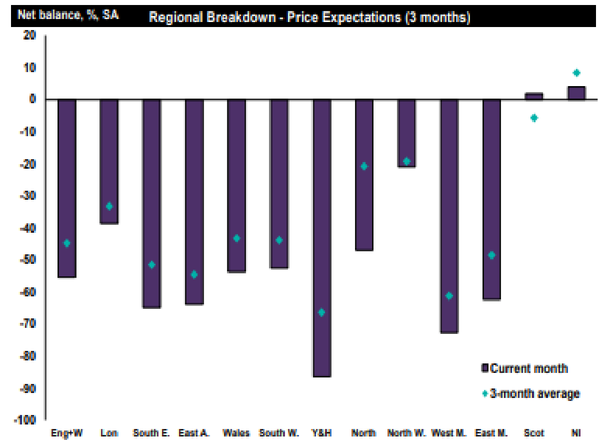
Going forward, national house price expectations were firmly negative at both the three and twelve-month time horizons. The latest net balance for house prices in 12 months' time fell to -49% compared to -3% last month, the weakest price outlook since December 2022. Prices are expected to fall across all parts of the UK in the year ahead, with the exception of Northern Ireland and Scotland.

According to the RICS, of respondents that held a view on the subject, 58% of survey participants note that homes with better energy efficiency credentials held their value in the current market, similar to 61% of respondents highlighting it in the December 2022 survey. 34% of contributors that held a view on the subject also reported greater interest from buyers in homes that are more energy efficient.

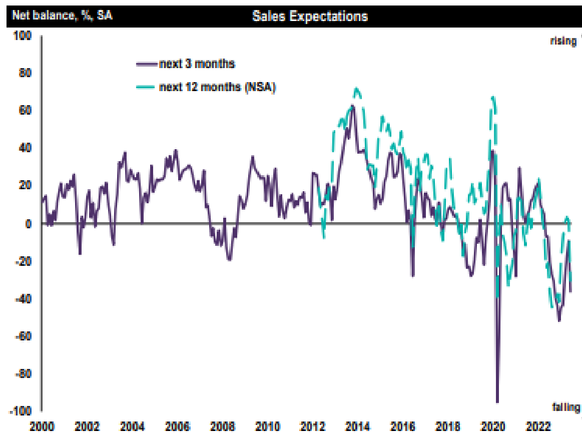
National Price Expectations - Three and twelve month expectations



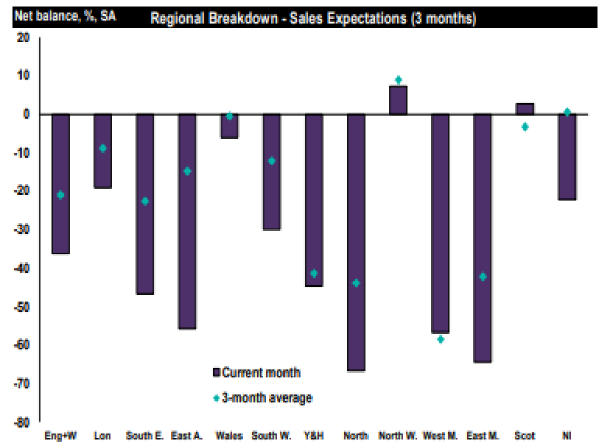
Regional Price Expectations - Next three months



National Sales Expectations - Three and twelve month expectations



Regional Sales Expectations - Next three months



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.

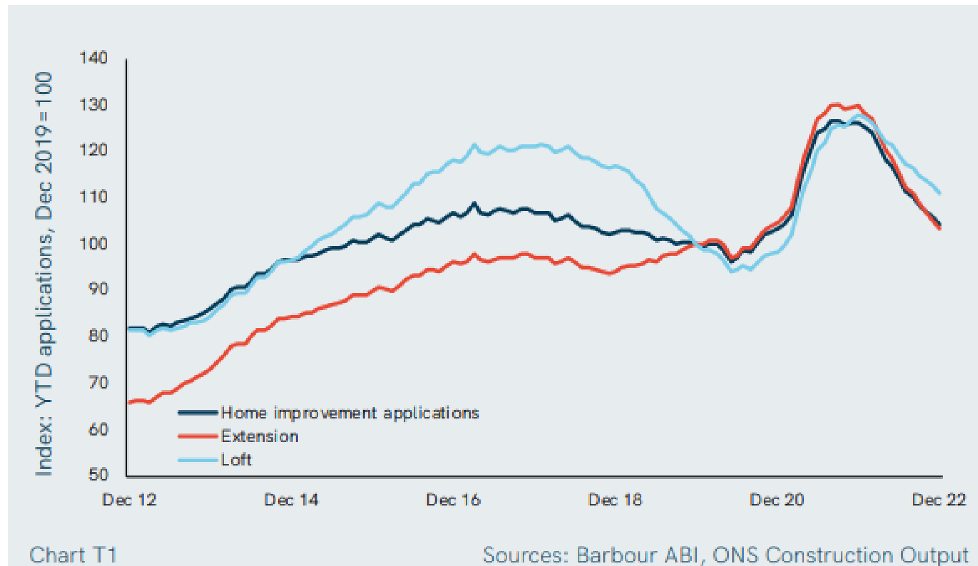


Chart T1 Sources: Barbour ABI, ONS Construction Output

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.

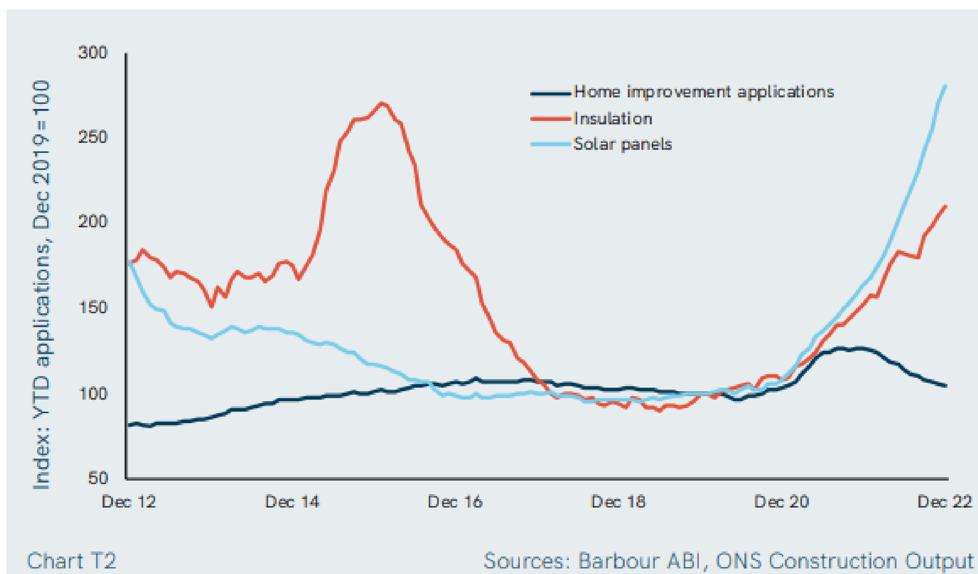


Chart T2 Sources: Barbour ABI, ONS Construction Output

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.

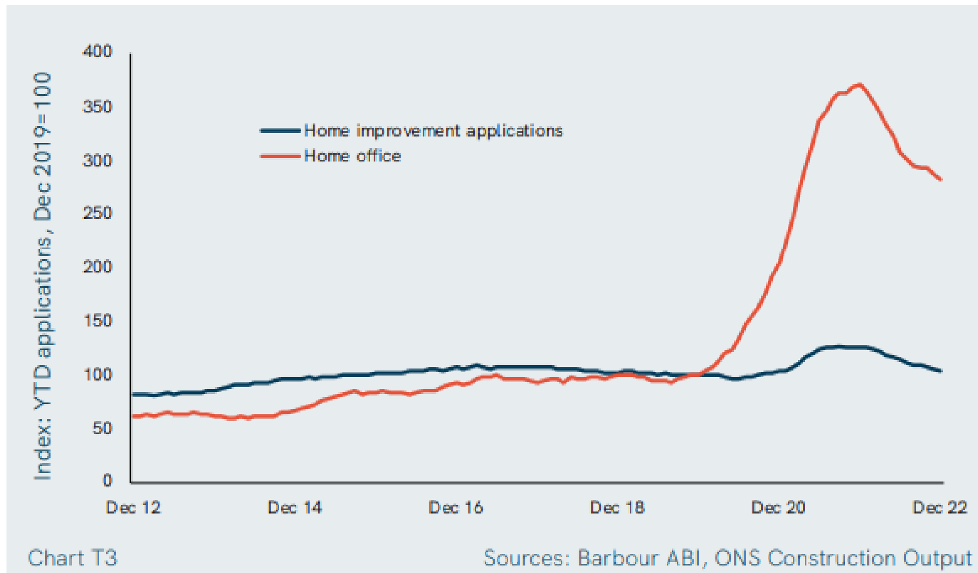


Chart T3 Sources: Barbour ABI, ONS Construction Output

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.

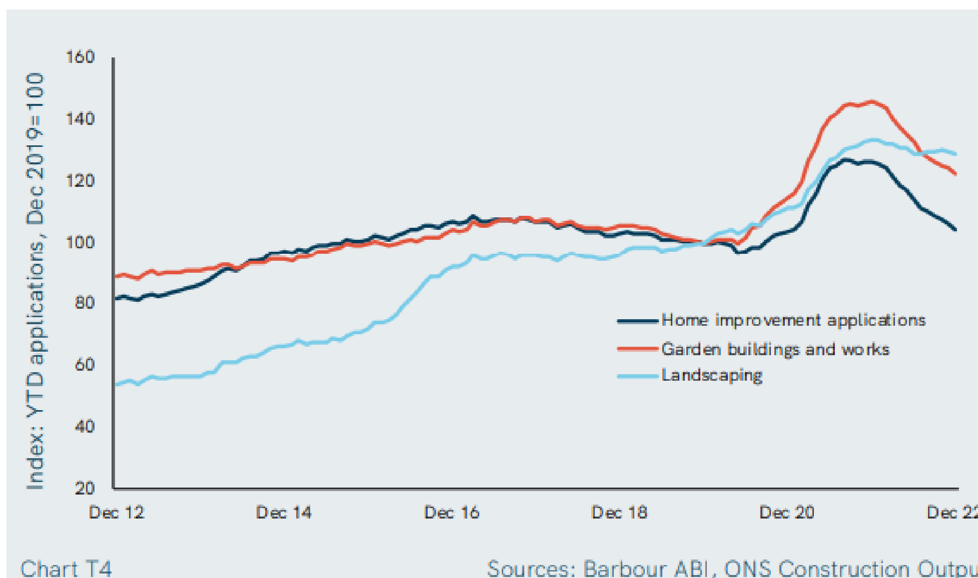


Chart T4 Sources: Barbour ABI, ONS Construction Output

Crest Nicholson Half-year Report (June 2023): Crest Nicholson, which focuses on the South East, reported for the six months ending 30 April 2023 that revenue was £282.7 million compared with £364.3 million a year earlier. 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 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	-

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 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 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.

Barratt Developments Trading Update (July 2023): The largest house builder by homes built, reported for the year ended 30 June 2023 net private reservations per active outlet per week were 0.55 compared with 0.81 a year earlier (including a contribution of 0.10 from increased reservations into the private rental sector, primarily from Citra Living, and to registered providers of social housing compared with 0.03 a year ago). Total home completions were 17,206, 3% lower than 17,908 a year earlier including 828 from JVs compared with 746 a year ago. It stated that its order book for the next financial year had total forward sales (including JVs) at 30 June 2023 of 8,995 homes compared with 13,579 a year ago at a value of £2,223.4 million compared with £3,622.3 million a year earlier. It stated that it had "experienced a significant deterioration in demand during the second quarter and, whilst the position improved during the third quarter, reservations then slowed more than normal seasonal trends from mid-May to the end of June 2023". Since its last trading update covering the period to 23 April 2023, its net private reservation rate has been 0.67 compared with 0.70 a year ago, including a contribution of 0.24 compared with 0.02 a year earlier from reservations to the PRS and RPs. Note that the reported an improvement in the net private reservation rates during between 24 April to 30 June period, which was only 4.3% lower on same period last year, was largely due to the bulk sales including 604 homes to Citra Living (part of Lloyds). Without this, it would have been down nearly 40% if those were excluded.

1. Sales Rate	1 Jan to HY results announcement [1]	HY results announcement to May trading update [2]	May trading update to year-end [3]
FY23	0.49	0.71	0.67
FY22	0.90	0.94	0.70
FY23 vs FY22	(45.6%)	(24.5%)	(4.3%)

Excl. bulks sales (largely Citra), looks like this figure would be 0.43. That's 39% lower than same period last year.

Notes:

(1) Trading period through to 29 January 2023 and 30 January 2022, the cut-offs on current trading for the half year FY23 and FY22 results announcement.

(2) Sequential trading period through to 23 April 2023 and 24 April 2022.

(3) Sequential trading period from 24 April 2023 and 25 April 2022 to 30 June 2023 and 2022 respectively.

It's total average selling price (ASP) for the year was £320,000 compared with £300,200 a year earlier, with the private ASP up 8.0% at £368,000 compared with £340,800 a year earlier and the affordable average selling price was £167,000 compared with £159,400 a year ago. It estimates that the underlying fall in house prices within its order book was 3.5% in the year to 30 June 2023 whilst the private ASP in its forward order book at 30 June 2023 was £342,900 compared with £375,400 a year ago. The 8.7% reduction in the private order book average selling price reflected 4 factors:

- The increased use of sales incentives, notably from late September 2022;
- A lower proportion of London units;
- Increased reservations into the private rental sector, principally Citra Living; and
- Some offset through a greater proportion of larger homes, outside of London, within the order book at 30 June 2023, relative to the position at 30 June 2022.

After the end of Help to Buy and mortgage interest rates rises, first time buyer reservations reduced by 49% compared with a year ago and accounted for over half the decline in the reservation rate. Demand amongst existing homeowners was more resilient. It also reported an increased use of part exchange, with it being used on 11% of private reservations in the year compared with only 4% a year earlier. It stated that holdings of unsold part exchange stock, at 146 homes at the year-end compared with 31 a year ago but remained below those of the two years prior to the pandemic. It experienced total build cost inflation of between 9% and 10% in the year to 30 June 2023 and it expects build cost inflation to slow to be around 5% in the next financial year. In the next financial year, it anticipates total home completions will be in a range of 13,250 to 14,250, which would be a fall of between 17% and 23% including around 650 completions from JVs and around 750 completions for the private rental sector. Barratt Developments also reported that, in addition to the £412 million provisions to cover remediation costs in 2022, it had set aside an additional £180 million after completing its review of reinforced concrete frame buildings and finalising the extent of fire safety and external wall system repairs. The number of projects requiring fire safety and external wall works had risen by 55 to 278 buildings, following the signing of the Government's Self-Remediation Terms and Contract last March contributing an extra £115 million of costs. £60 million was for concrete frame issues after finalising plans following a review of defects at one of its projects in Croydon. A further £5 million was for two other previously unidentified schemes where additional remediation works may eventually be needed.

Vistry Group Trading Update (July 2023): Vistry Group (formerly Bovis Homes and the housebuilding and partnerships divisions of Galliford Try and Countryside Partnerships) reported for the period from 1 January 2023 to 30 June 2023 that its housebuilding business faced challenging market conditions with the higher mortgage rate environment and broader macro-economic challenges, particularly impacting first-time buyers, although open market pricing remained relatively stable, supported by a higher level of incentives. Strong relationships with Housing Associations, Local Authorities and PRS providers plus bulk transactions supported the sales rate. The Group's average weekly sales rate for the period was 0.86 compared with 0.84 a year ago but excluding bulk sales in Housebuilding, the sales rate was 0.67 compared 0.82 a year earlier. Housebuilding delivered 2,847 completions, 22% lower than the 3,219 completions a year ago with revenue of around £810 million compared with £902 million a year earlier. Countryside Partnerships, focused on affordable housing, continued to see good levels of demand for affordable and mixed tenure housing from Housing Associations and Local Authorities, supported by additional grant funding from Homes England. Partnerships delivered 3,203 mixed tenure completions in the period, up 6% on pro forma a year ago. Adjusted revenue for Partnerships is expected to be around £930 million compared with £426 million a year ago.

Forward sales (£m)	**30 June 2023**	30 June 2022
Housebuilding		
- Private	**564**	718
- Private - Vistry share of JVs	**105**	115
- Affordable	**472**	450
- Affordable - Vistry share of JVs	**77**	54
Total Housebuilding	**1,218**	1,337
Partnerships		
- Mixed tenure	**1,462**	342
- Mixed tenure - Vistry share of JVs	**422**	148
Total mixed tenure	**1,884**	490
Total partner delivery	**1,088**	835
Total Partnerships	**2,972**	1,325
Total Group	**4,190**	2,662

Note: 30 June 2022 forward sales restated to include Vistry share of JVs (previously included 100% of JV forward sales)