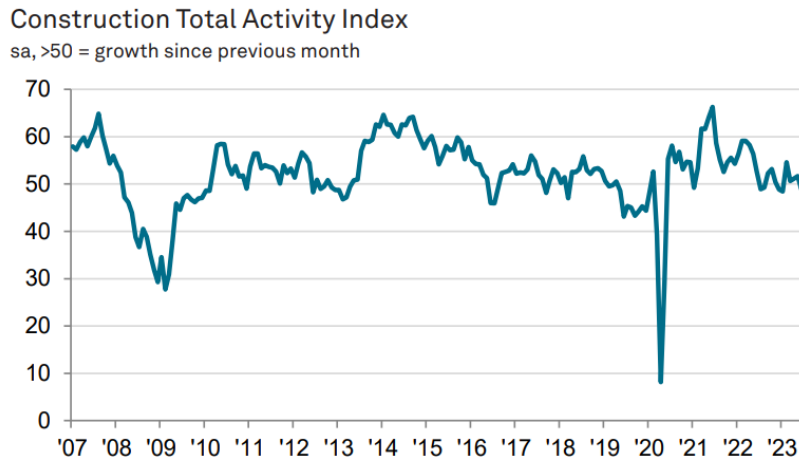


# Weekly Economic and Construction Update

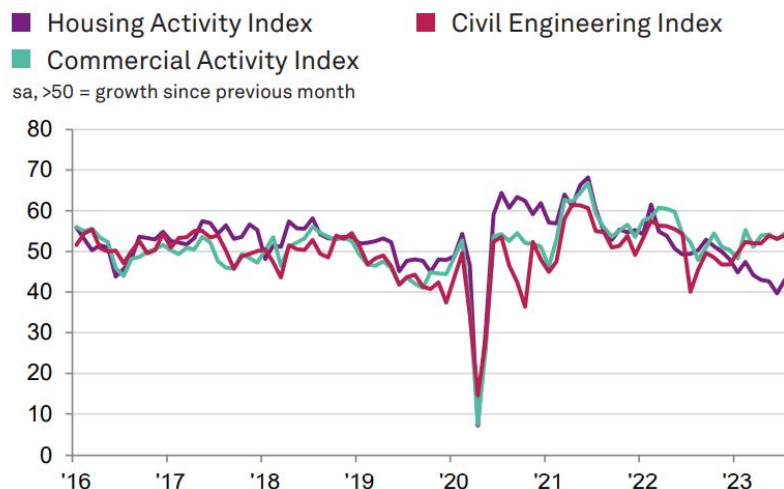
## 1) [S&P Global/CIPS UK Construction PMI \(August 2023\)](#):

The S&P Global/CIPS UK Construction PMI was 50.8 in August, down from 51.7 in July. 50=monthly change so it signalled marginal growth in construction activity in August and slower growth than in July.



Sources: S&P Global, CIPS.  
Data were collected 11-30 August 2023.

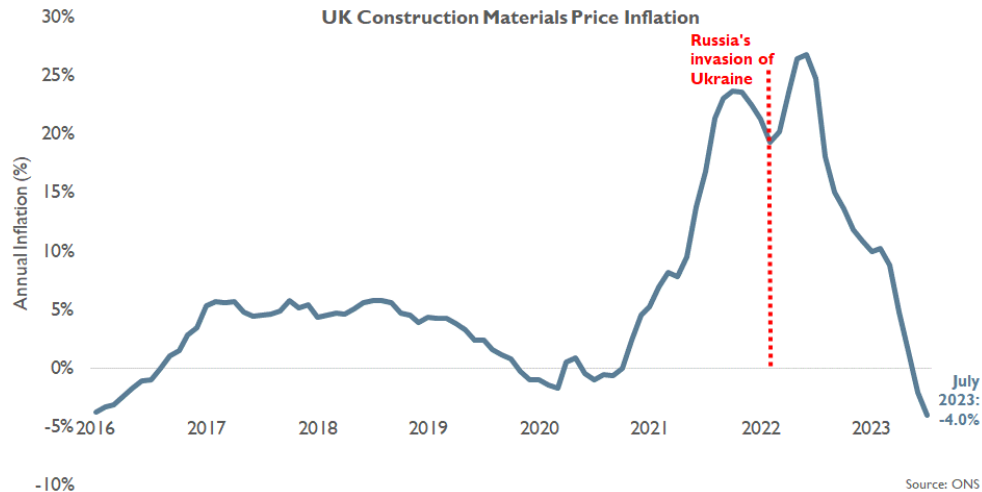
Commercial building continued to expand robustly (54.2) with the rate of growth the same as July's five-month high. Civil engineering (52.4) also rose but the speed was its lowest since April. House building was the weakest sector (40.7), with the index at its lowest since May 2020. Respondents highlighted subdued market conditions and a cutback to new projects. New orders contracted for the 2<sup>nd</sup> time in the 3 months at its steepest rate since May 2020 and firms noted rising interest rates and near-term economic concerns led to more client caution, especially in housing. Employment numbers rose for the seventh month but the rate of growth was only modest. Construction firms were cautious over the outlook for activity in the next 12 months and sentiment was its lowest since January.



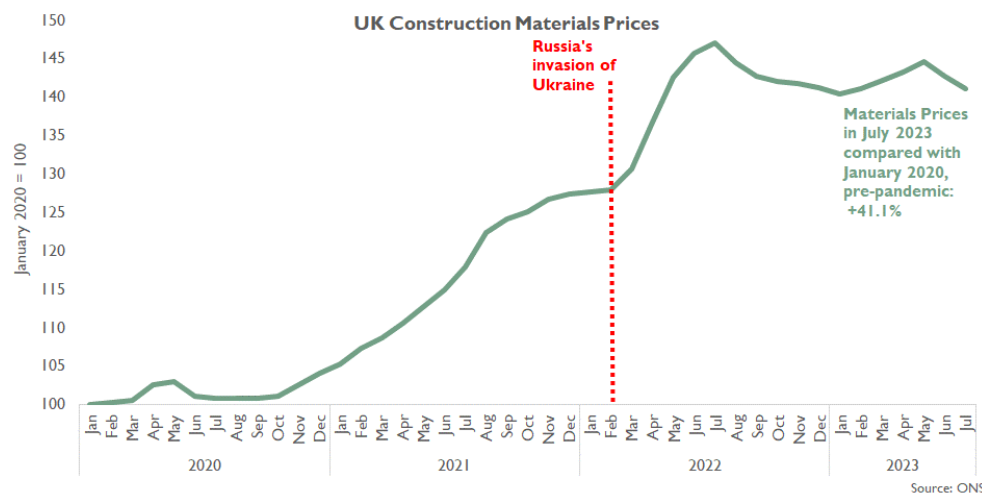
Source: S&P Global PMI.

2) [ONS UK Construction Materials Prices \(July 2023\)](#):

UK construction materials prices in July 2023 were 4.0% lower than a year ago according to the ONS as materials price inflation continues to slow. It is more than a year on from the spike in energy, commodity and materials prices so it is unsurprising that the annual % change in construction materials prices is now falling and at a faster rate than in June (-2.0%) given that they are coming from a high base last Summer (when construction materials inflation peaked at 26.8%).

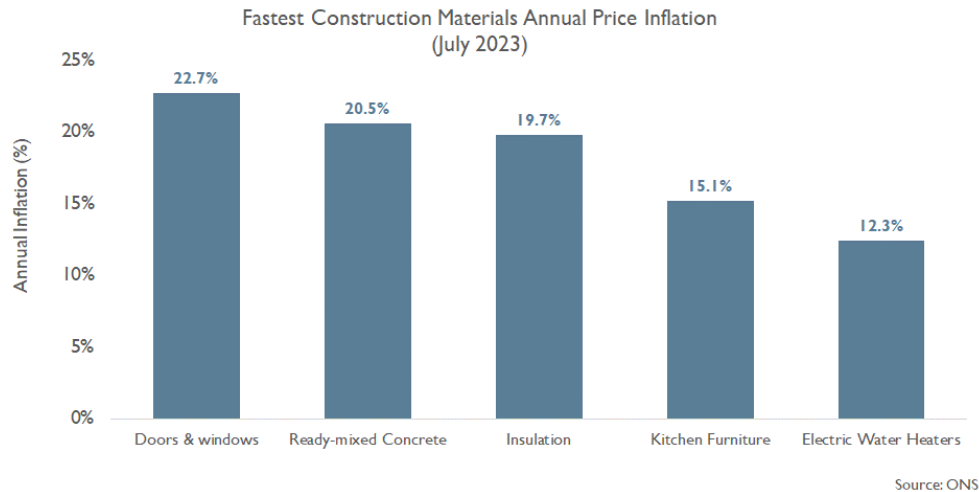


Whilst the construction materials annual inflation rate is now falling, however, prices remain at historically high levels and in July 2023 construction materials prices were 41.1% higher than in January 2020, pre-pandemic, which continues to have cost implications for construction projects, in particular those signed up to or started more than 18 months ago and it has major implications for essential programmes that needed to occur years ago but were delayed due to political short-termism and near-term cost-saving.

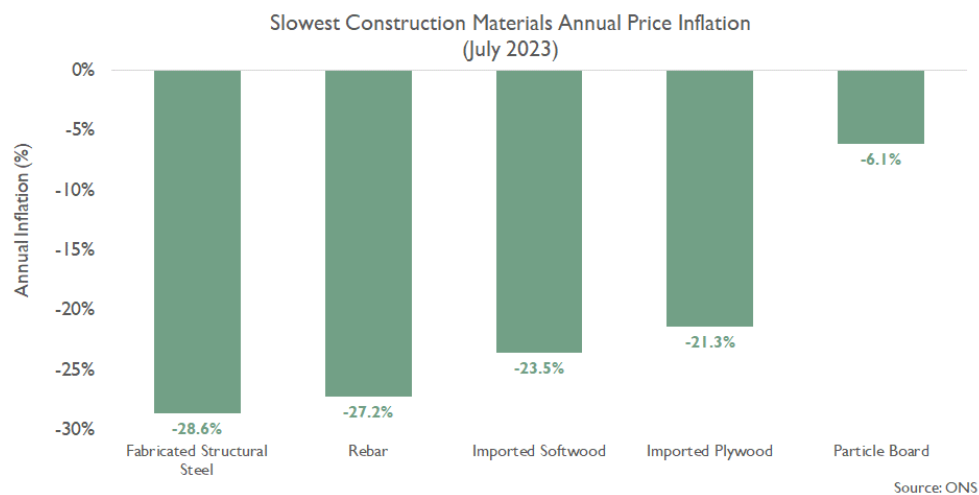


Although construction materials prices fell by 4.0% overall in the year to July, the prices of some materials are still rising at double-digit rates whilst the prices of other materials are falling at double-digit rates so how house builders and contractors find the impacts of the current changes in construction materials prices will depend critically on the product-mixes that they primarily use.

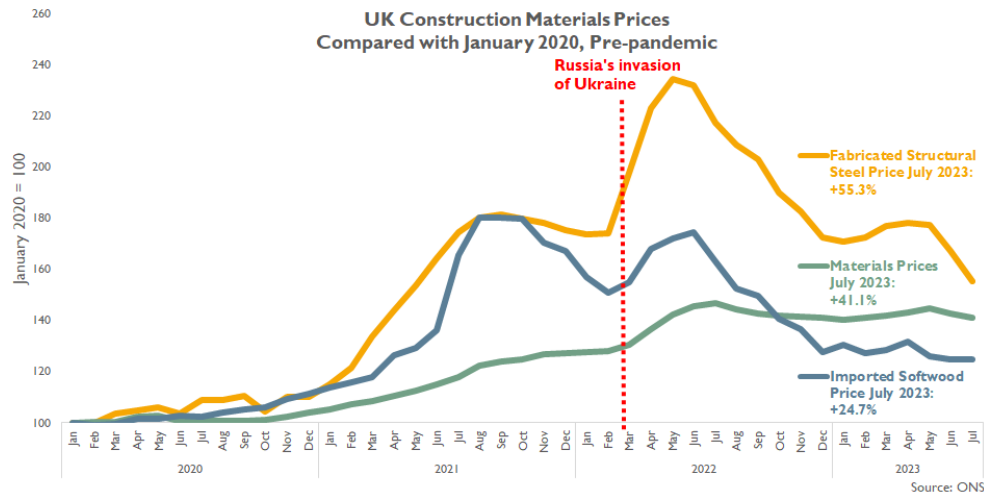
The fastest rates of UK construction materials price rises in the year to July 2023 were in doors & windows, ready-mixed concrete, insulation kitchen furniture and electric water heaters.



Conversely, the sharpest annual falls in construction materials prices in the year to July 2023 were in steel-related products such as fabricated structural steel (-28.6%) and rebar (-27.2%) plus timber-related products such as imported softwood (-23.5%), plywood (-21.3%) and particle board (-6.1%).

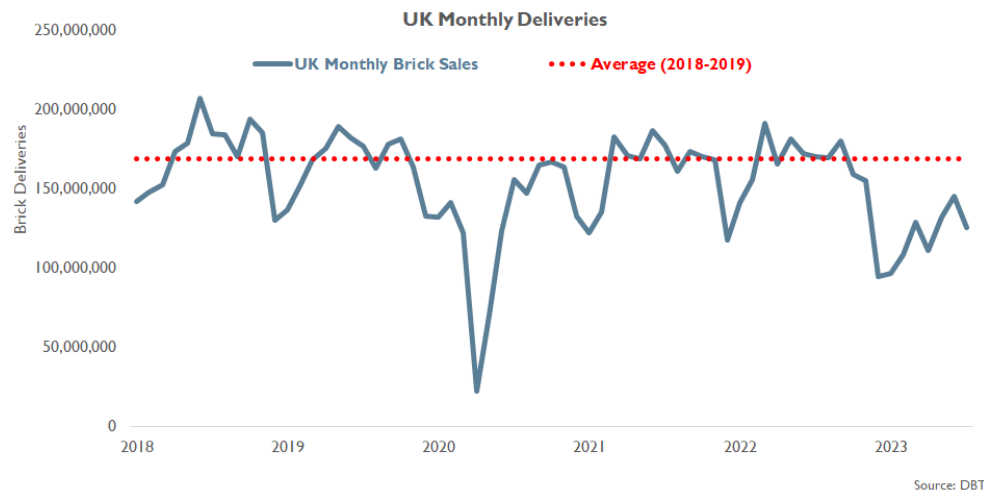


It is important to note, however, that the main reason that steel-related and timber-related product prices are falling so quickly is that their prices peaked higher than other construction materials and, in the case of timber, were due to the supply chain issues in 2021 before the energy and commodity price spikes in 2022. So, even though the prices of steel and timber products are falling at double-digit rates, they still remain at high levels historically (particularly steel) because they are coming from a high peak.

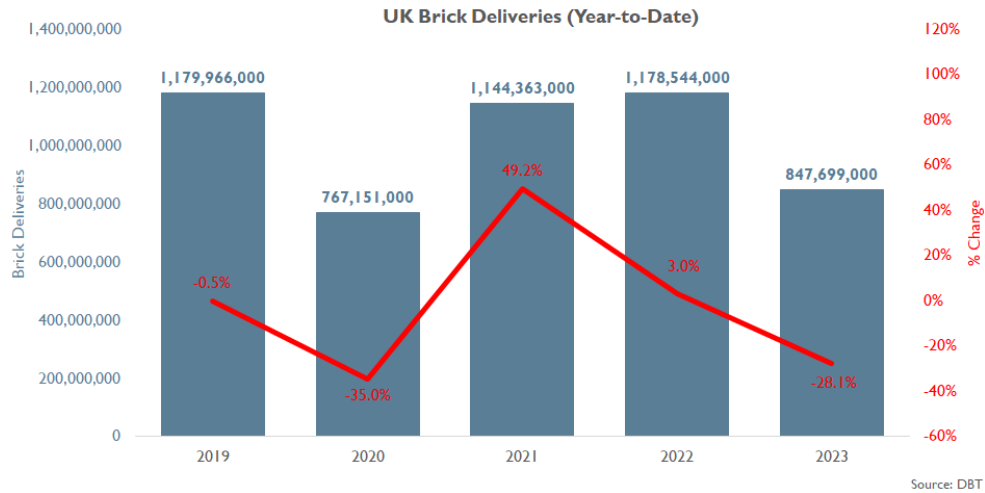


### 3) [DBT UK Brick Deliveries \(July 2023\):](#)

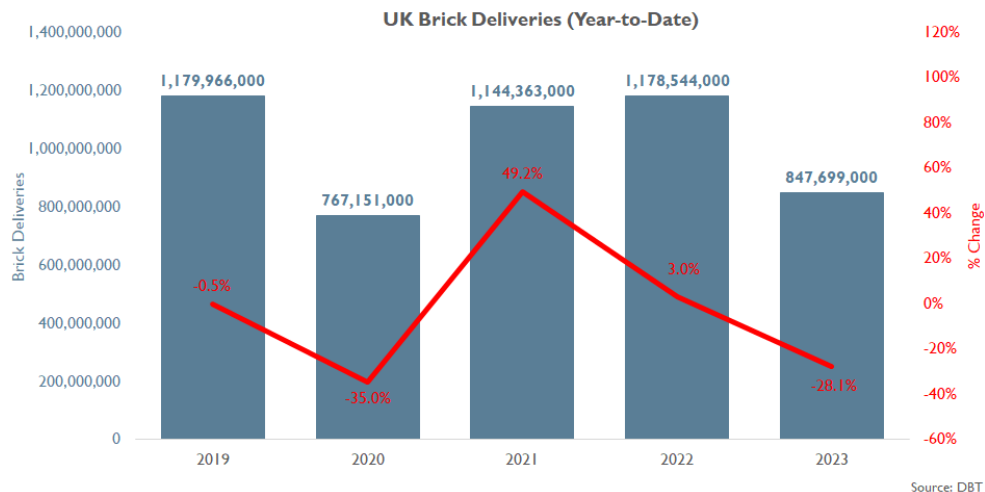
According to the latest data from the Department for Business and Trade, UK brick deliveries (a proxy measure for house building starts in the absence of monthly house building data) in July 2023 were 13.8% lower than in June and 32.1% higher than December's post-Mini Budget low point. Brick deliveries had been recovering at the start of the year in line with home buyer demand as mortgage rates started to fall back from the post-Mini Budget spike in rates. UK brick deliveries in July 2023 were, however, still 26.4% lower than a year ago and 25.8% lower than the average between 2018 and 2019 as well as 29.1% lower than the same month in 2019, pre-pandemic.



July's brick deliveries illustrate the start of the impacts of mortgage rates rising from May on house building, with house builders going on a Summer pause on starts as the CPA highlighted in its last forecasts. August's house building starts are also likely to be subdued as house builders deal with the current uncertainty and risk over interest rates, mortgage rates and housing market demand. On the positive side, the Bank of England now suggests that interest rates may not rise much further beyond 5.25%, potentially peaking at 5.5%, which may boost housing demand at the end of the year and early next year compared with our forecasts, which assumed interest rates peaking at 5.75% (although clearly peak interest rates have been volatile this year as markets and the Bank of England have been reacting strongly to every new core inflation data point). Overall, year-to-date (January-July), UK brick deliveries in 2023 were 28.1% lower than a strong 2022 and were also 28.2% 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 July 2023 levels for the rest of the year (which may not be the case given that some house builders have been on a Summer pause but will have to raise starts to meet year-end completions) then UK brick deliveries in 2023 would be 23.9% lower than in 2022 and 26.2% lower than in 2019, pre-pandemic and pre-'race for space' with the unconstrained version of Help to Buy still in place. Note that the CPA forecast has private starts falling by 25.0% this year and total housing starts falling 23.0%.



4) [Barratt Developments Full-year Results \(September 2023\)](#):

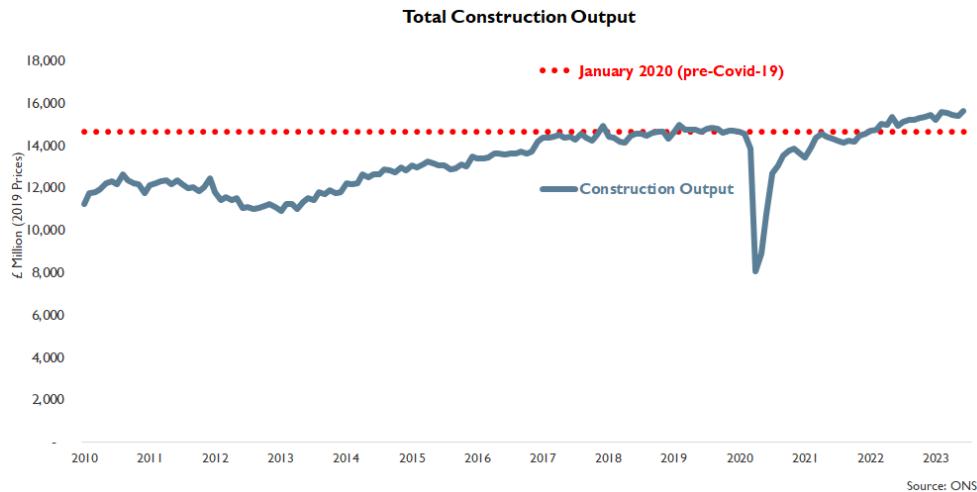
Barratt Developments reported its results to the year ending 30 June 2023 (for which the full presentation is available [here](#)). It had 17,206 total home completions compared with 17,908 a year earlier, a decline of 3.9%, reflecting the market slowdown from the Mini Budget in Autumn 2022. Its adjusted gross profit was £1,130.4 million compared with £1,308.1 million a year ago and its adjusted gross margin was 21.2% compared with 24.8% a year earlier. The lower profitability reflecting the fall in demand, overall house price inflation running below build cost inflation and the operational gearing impact as the market has slowed down. In addition, its ROCE declined to 22.2% compared with 30.0% a year ago. Its additional costs associated with legacy properties of £179.2 million compared with £412.5 million in the last financial year. Of this, £118 million related to future commitments to fire safety and external wall systems with £51.5 million relating to remedial works arising from the review of reinforced concrete frames.

Barratt stated that its focus for the financial year will be driving revenue through targeted use of incentives, sales to the private rental and social housing sectors, whilst continuing to manage build activity and controlling the cost base. Its forward sales position at 27 August 2023 was 49% forward sold for private home completions compared with 62% for the equivalent previous period. The net private reservation rate per outlet per average week from 1 July 2023 to 27 August 2023 was 0.42 compared with 0.60 a year earlier, including 0.02 from the private rental sector and additional sales to registered providers of social housing, down from 0.05 a year ago. It continues to target total home completions of between 13,250 and 14,250 in this financial year, representing a fall of between 17% and 23%.

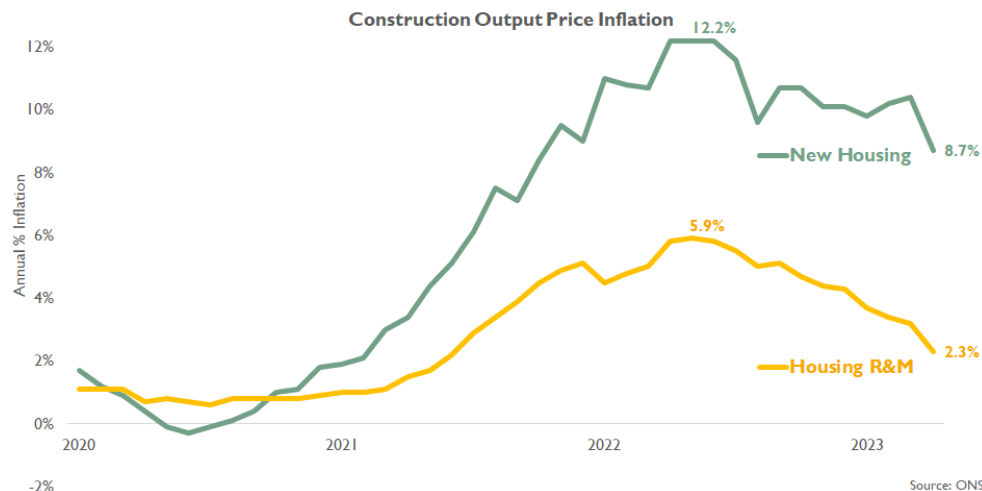
| <b>£m unless otherwise stated<sup>1,2</sup></b>      | <b>Year ended<br/>30 June 2023</b> | <b>Year ended<br/>30 June 2022</b> | <b>Change</b> |
|--|------------------------------------|------------------------------------|---------------|
| Total completions (homes) <sup>3</sup>               | 17,206                             | 17,908                             | (3.9%)        |
| Revenue  | 5,321.4                            | 5,267.9                            | 1.0%          |
| <b>Alternative performance measures:<sup>4</sup></b> |                                    |                                    |               |
| Adjusted gross profit                                | 1,130.4                            | 1,308.1                            | (13.6%)       |
| Adjusted profit before tax                           | 884.3                              | 1,054.8                            | (16.2%)       |
| Adjusted gross margin                                | 21.2%                              | 24.8%                              | (360 bps)     |
| Adjusted operating margin                            | 16.2%                              | 20.0%                              | (380 bps)     |
| Adjusted basic earnings per share (pence)            | 67.3                               | 83.0                               | (18.9%)       |
| <b>Statutory basis:</b>                              |                                    |                                    |               |
| Gross profit   | 974.9                              | 899.9                              | 8.3%          |
| Profit before tax                                    | 705.1                              | 642.3                              | 9.8%          |
| Gross margin   | 18.3%                              | 17.1%                              | 120 bps       |
| Operating margin                                     | 13.3%                              | 12.3%                              | 100 bps       |
| Basic earnings per share (pence)                     | 53.2                               | 50.6                               | 5.1%          |
| ROCE   | 22.2%                              | 30.0%                              | (780 bps)     |
| Net cash   | 1,069.4                            | 1,138.6                            | (69.2)        |
| Total ordinary dividend per share (pence)            | 33.7                               | 36.9                               | (8.7%)        |
| Tangible net asset value per share (pence)           | 467                                | 447                                | 4.5%          |

## EXISTING INFORMATION

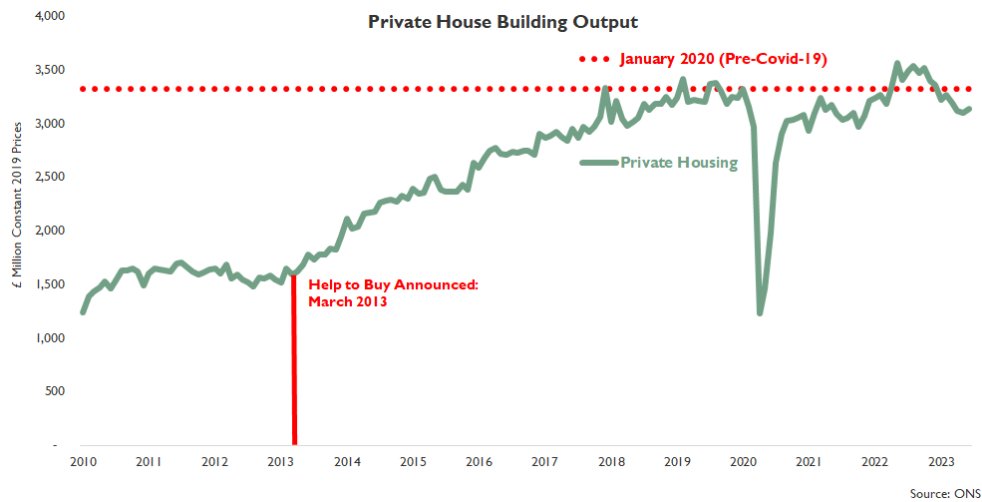
**ONS Construction Output (June 2023):** According to the latest ONS data, construction output volume in June 2023 was 1.6% higher than in May and was a rise in output after three consecutive monthly falls although note that May had an additional Bank Holiday due to the coronation. Construction output in June 2023 remained 4.6% higher than a year ago and was 6.6% higher than in January 2020, pre-pandemic. It is worth highlighting, however, that the CPA has persistently highlighted issues with the ONS overestimating the level of repair and maintenance (both housing and non-housing r&m output, which accounts for 40% of total construction output) since the spikes in energy and commodity prices in 2022 and, as a result, overestimating total construction output.



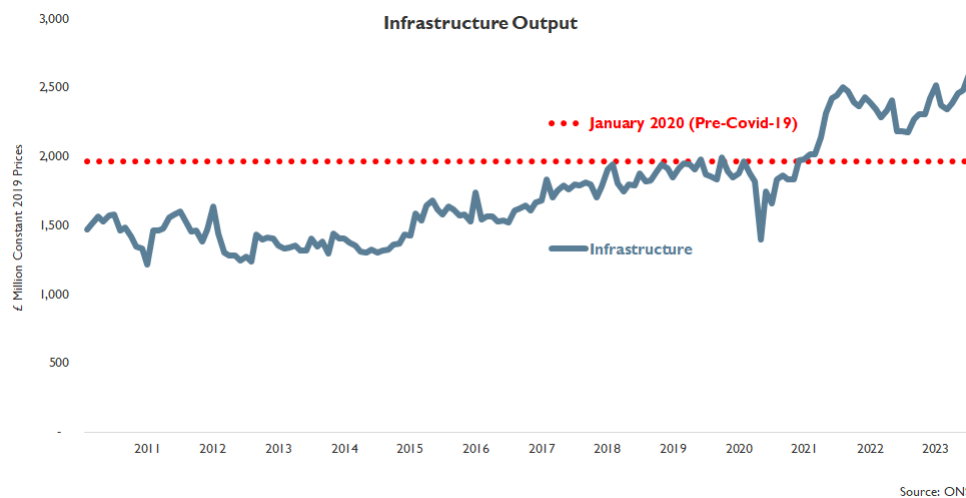
The issue in the ONS r&m volume of output data appears to be occurring as the ONS is underestimating the extent of price inflation in r&m, which it uses to turn its construction output value into volume. To illustrate this, inflation in new housing peaked at 12.2% after the spikes in energy and commodity prices in 2022 according to the ONS but it estimated that inflation in housing r&m peaked at only 5.9% whilst firms in the sector (merchants, SME contractors) report to the CPA that inflation in the sector was more than double the ONS estimate. As a result, the ONS has been consistently underestimating price inflation in r&m since Spring 2022 and overestimating the level of r&m output.



Private housing output in June 2023 was 1.2% higher than in May but 8.1% lower than a year ago as house builders continue to work on completing existing developments but the sharp fall in starts since 2022 Q4 has not fully fed through as yet and further declines in private housing output are expected in the second half of this year, particularly given sharp falls in private housing new orders in 2023 Q2 (see bullet point 2) and the latest trading updates from house builders (see bullet points 5 and 6).



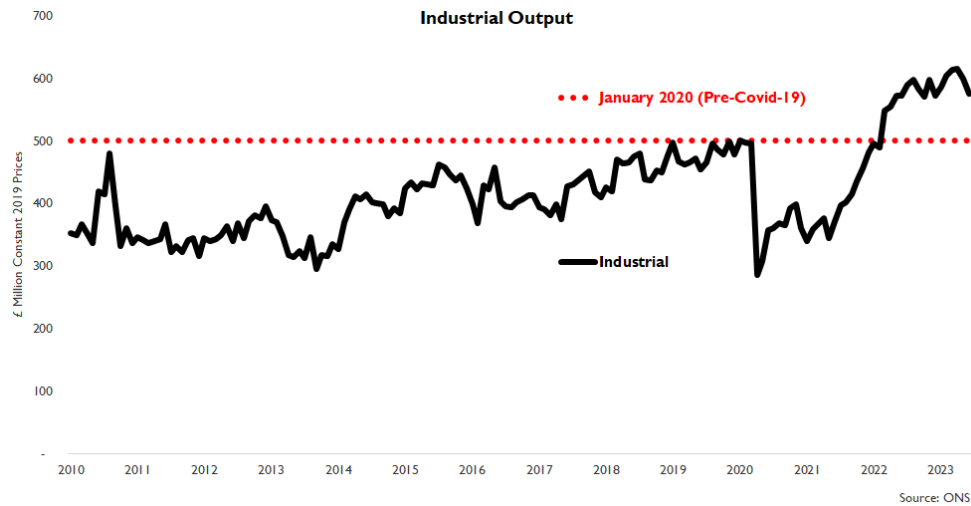
Infrastructure output in June 2023 was 4.6% higher than in May and 19.1% higher than a year ago, mainly due to major projects on the ground already such as HS2 Phase One, Hinkley Point C and Thames Tideway, which continue to provide double-digit growth. This has been enough to offset declines in local authority infrastructure, due to financial constraints, as well as work stopping at Euston station. Government announced delays and cancellations to roads projects in RIS2, which will impact contract awards (see bullet point 2) and activity going forward over the next two years.



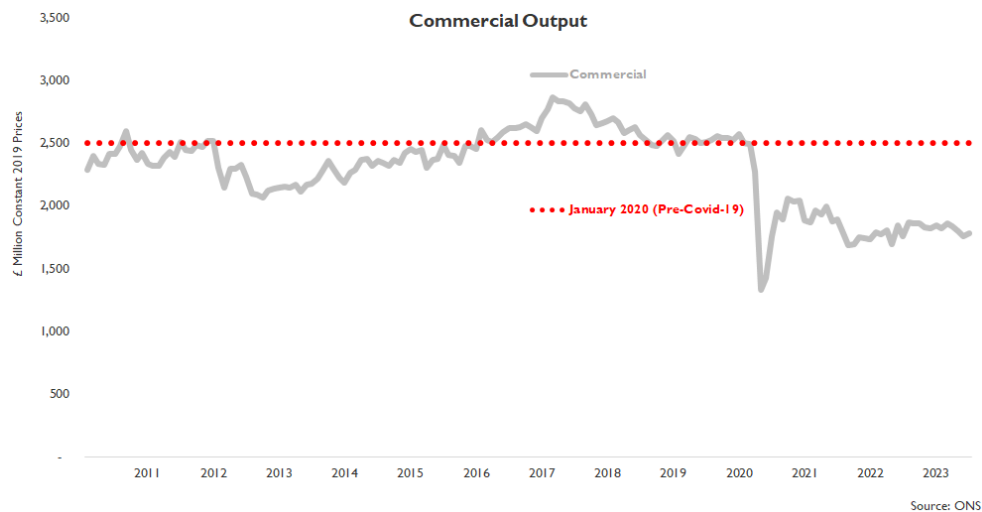
Industrial output reached its highest ever level in March 2023, due to the long-term structural shift towards online shopping boosting warehouses, exacerbated by a spike in online shopping during the



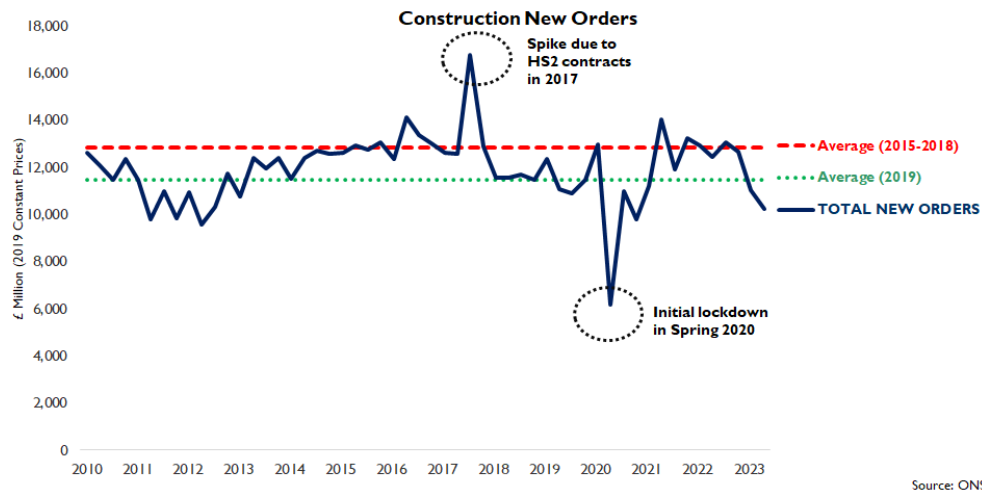
pandemic. Output was also boosted in 2022 by factories construction as many manufacturers faced strong demand and were capacity constrained in 2021 so signed-off investments in Autumn 2021, which fed through to output last year. Output in June 2023 was 4.0% lower than in May and a second consecutive monthly fall although output remained 0.5% higher than a year ago as activity continues to come down from March's historic high levels. Manufacturers didn't sign off investment plans in Autumn 2022 due to uncertainty so, as previous factories finish, there are fewer new projects replacing 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.



Commercial output in June 2023 was 1.1% higher than in May and 1.4% higher than a year ago but it remained 28.8% 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 the excess existing commercial space since the pandemic, especially given sharp increases in construction costs and funding costs due to interest rate rises. However, the strong demand for grade A office space means that refurbishment and fit out of existing commercial space and changing the use of existing commercial space into residential or industrial/logistics remains higher than pre-pandemic.

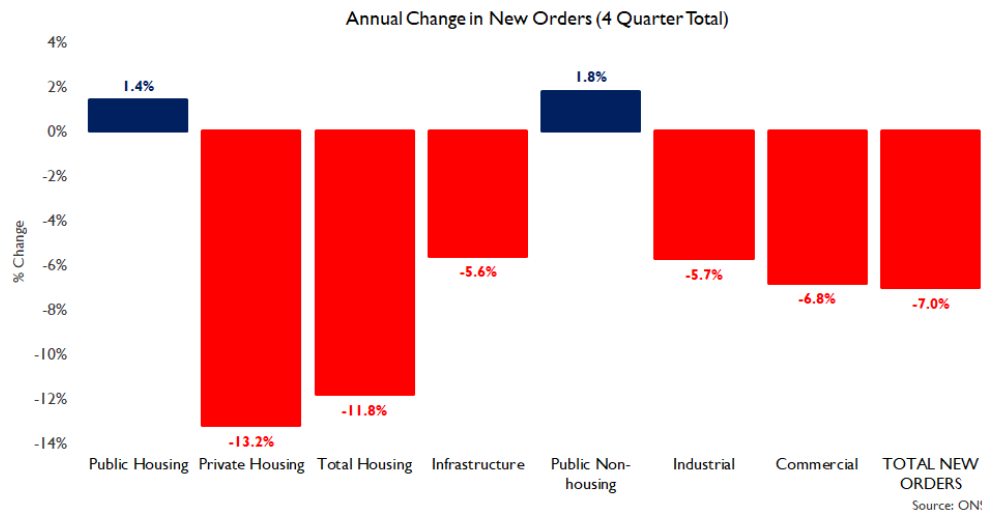


**ONS Construction New Orders (2023 Q2):** The volume of construction new orders, which only cover new construction work, in 2023 Q2 were 7.1% lower than in Q1 and 17.7% lower than a year earlier. Construction new orders have been falling for three consecutive quarters since the Government’s Mini Budget at the end of September 2022 and in 2023 Q2 new orders were 10.6% lower than the average level in 2019 (although note that orders in 2019 were affected by economic and political uncertainty due to the postponed Brexit deadlines and General Election) and 20.2% lower than the average level of orders between 2015 and 2018.



Source: ONS

New orders by sector can be volatile on a quarterly basis and distort the forward looking picture given that different sectors have different lags between order and activity down on the ground but looking at the 4 quarter total to 2023 Q2, orders were 7.0% lower than a year earlier with falls across most sectors but the most pronounced were in private housing, where new orders in the year to Q2 were 13.2% lower than a year earlier whilst commercial and industrial orders were 6.8% and 5.7% lower respectively. The only increases in orders were in public housing (1.4%) and public non-housing (1.8%).

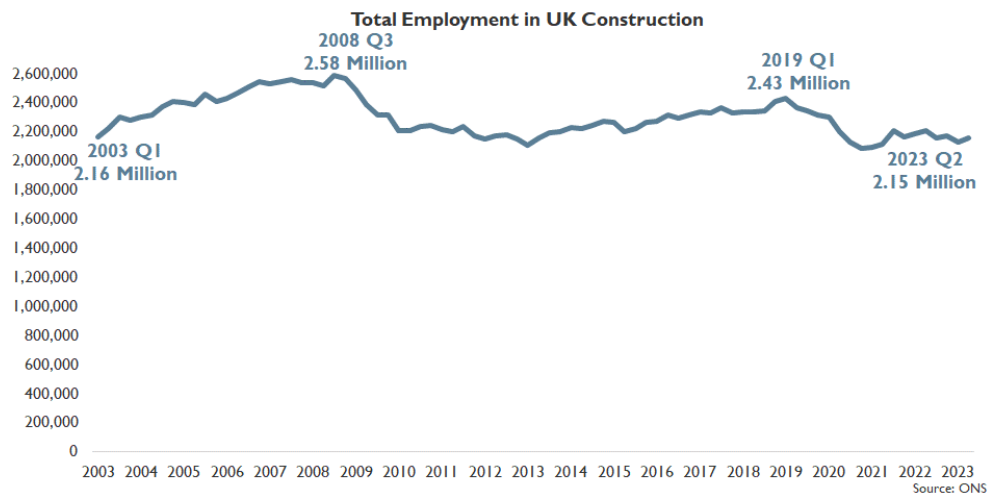


Source: ONS

[ONS UK Construction Employment and Self Employment \(2023 Q2\)](#): Given that overall construction materials price inflation is now falling (albeit with materials prices remaining high), the greatest issue facing UK construction industry medium-term will be the skills shortages and the large number of construction workers that have left the industry.

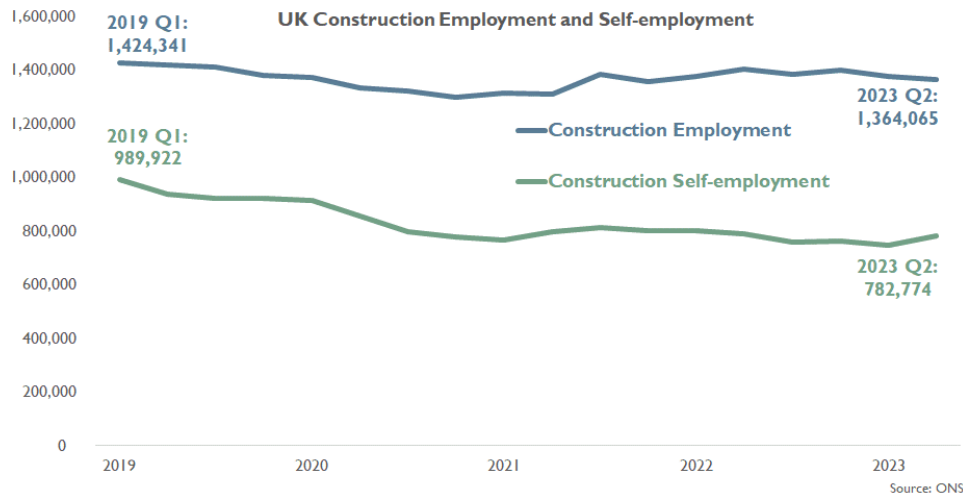
UK construction employment in 2023 Q2 was 1.1% higher than in Q1 but 2.4% lower than a year ago and 11.3% lower (274,000 fewer construction workers) than at the recent peak in 2019 Q1. It is worth noting that UK construction still hasn't seen the full impacts of the 20-25% fall in private house building (the largest construction sector) demand on employment as house builders were focused on completions. As a result, the full effect of the sharp decline in starting new private housing developments will affect activity and employment in the second half of 2023 and 2024 H1.

The drop in UK construction employment since 2019 Q1 also does not include the effect of government's announcements in Spring of delays, pauses and cancellations to roads and rail projects that will also affect employment over the next 12-18 months.

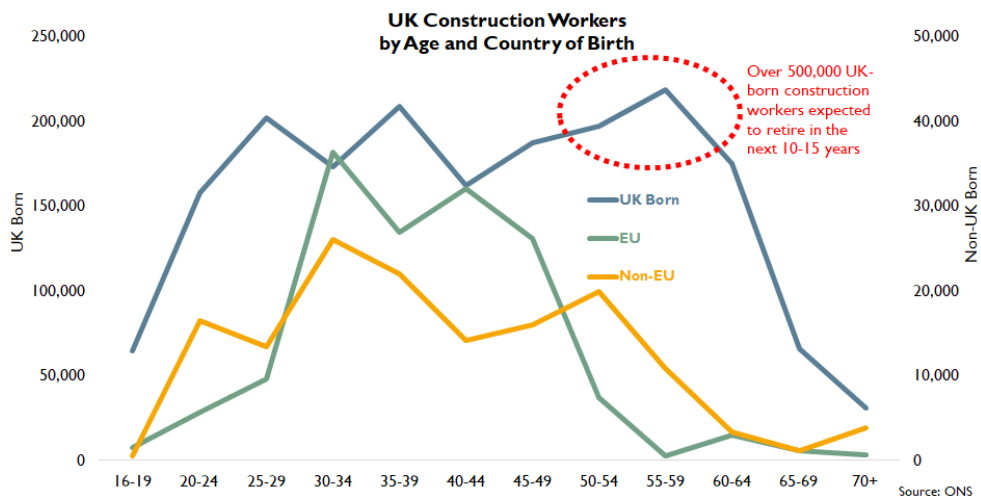


It is worth highlighting that the largest loss in construction employment since the recent peak in 2019 Q1 has been in self-employment, primarily older age-demographic workers in specialist trades.

Self-employment in construction in 2023 Q2 was 0.9% lower than a year ago but 20.9% lower (over 200,000 fewer self-employed UK construction workers) than in 2019 Q1. What this means is that, overall, UK construction lost 274,000 workers between 2019 Q1 and 2023 Q2 whilst apprenticeship starts averaged 31,000 per year in the last 5 years according to CITB and the dropout rate is over 40%.

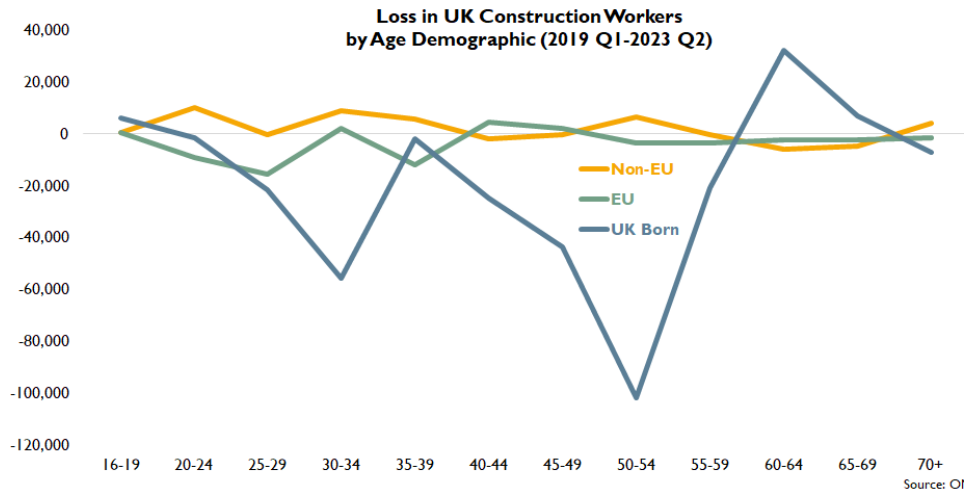


ONS UK Construction Employment by Age-Demographic (2023 Q2): As the CPA has consistently been highlighting, the UK construction workforce has an age-demographic problem but, critically, the age-demographic problem has been rapidly accelerating since 2019 Q1 based on the latest detailed breakdown of the construction employment data from the Office for National Statistics (ONS). UK construction employment in 2023 has a major age-demographic problem in the UK-born workforce, with a spike in employment in the 50-64 age range that means construction will lose over 500,000 workers (over 1/4 of the workforce) in the next 10-15 years. The age-demographic issue has been a persistent problem that many have highlighted.



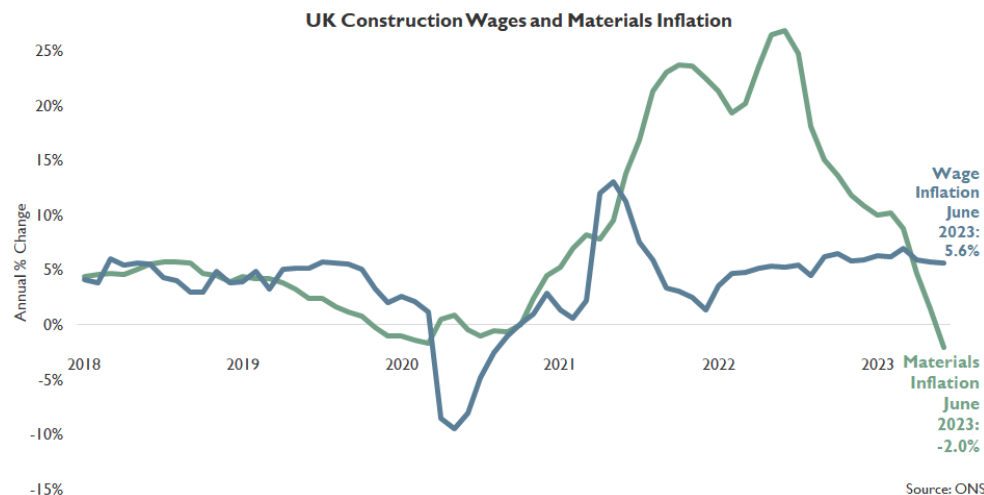
The age-demographic problem has accelerated since 2019 Q1 (the recent peak) and 2023 Q2. There has been a loss of over 250,000 workers in just over 4 years. The UK-born workforce main losses were between 45 and 59 years old. The EU worker losses have been between 20 and 29 years old and 35 and 39 years old, with EU workers going to home countries or other countries where activity remains

strong plus those who return to the EU after projects finish haven't been replaced in the normal churn as employer-sponsored visa requirements make it more difficult, particularly for self-employed workers.



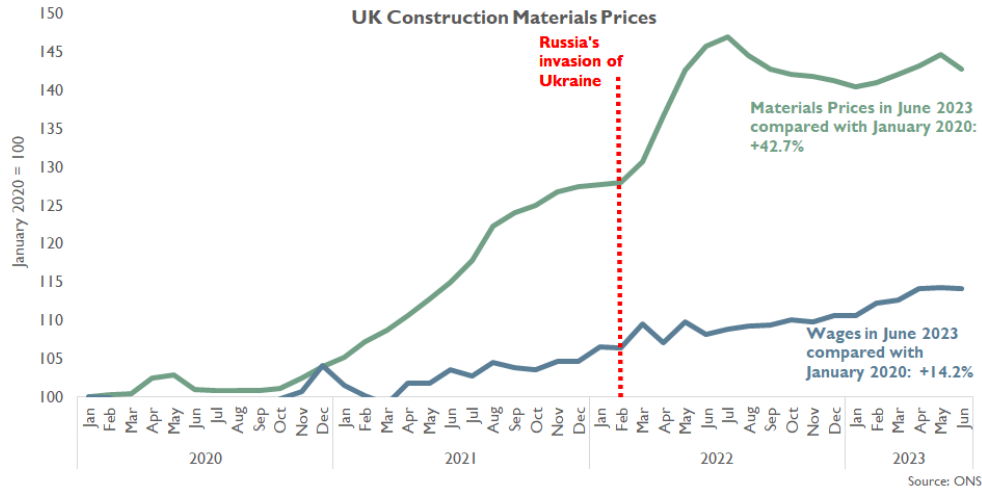
Given the loss of construction workers and as construction apprenticeship starts averaged 31,000 per year in the last 5 years but with a dropout rate over 40%, new entrants will not address the issue. And, without a skilled construction workforce then 300,000+ homes per year, Levelling Up, transition to Net Zero and £600 billion infrastructure pipelines will not happen.

[ONS UK Construction Wage Inflation \(June 2023\)](#): UK construction regular pay in 2023 Q2 was 5.6% higher than a year earlier and is rising faster than construction materials, which were 2.0% lower 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.

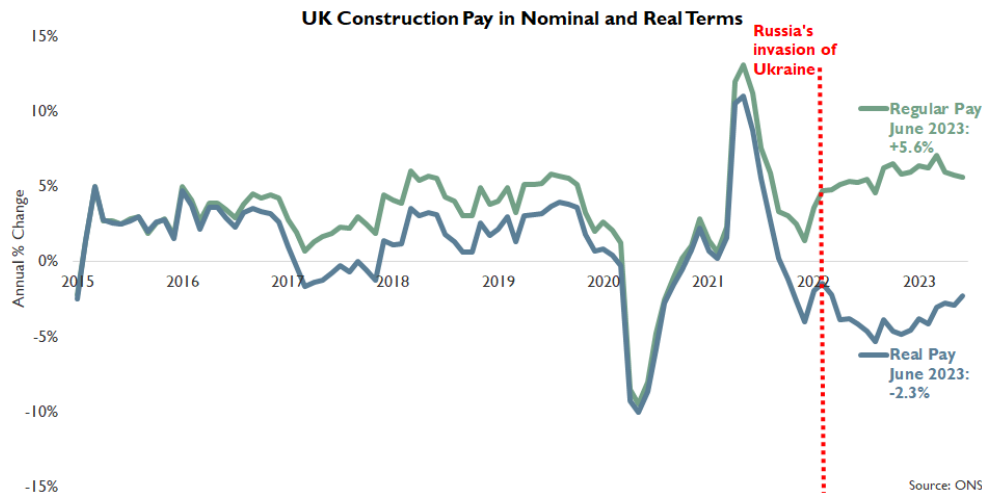


Despite the sharp slowdown in UK construction materials inflation, -2.0% in June 2023, materials prices are still the key problem for contractors and in June 2023 they were still 42.7% higher than in January 2020, pre-pandemic, with the sharp rises occurring in 2021 due to the supply chain difficulties and then in Summer 2022 after the spikes in input energy and commodity prices after Russia's invasion of

Ukraine. Until recently, construction wages have not been rising at the same rate and in June 2023, wages were only 14.2% 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.

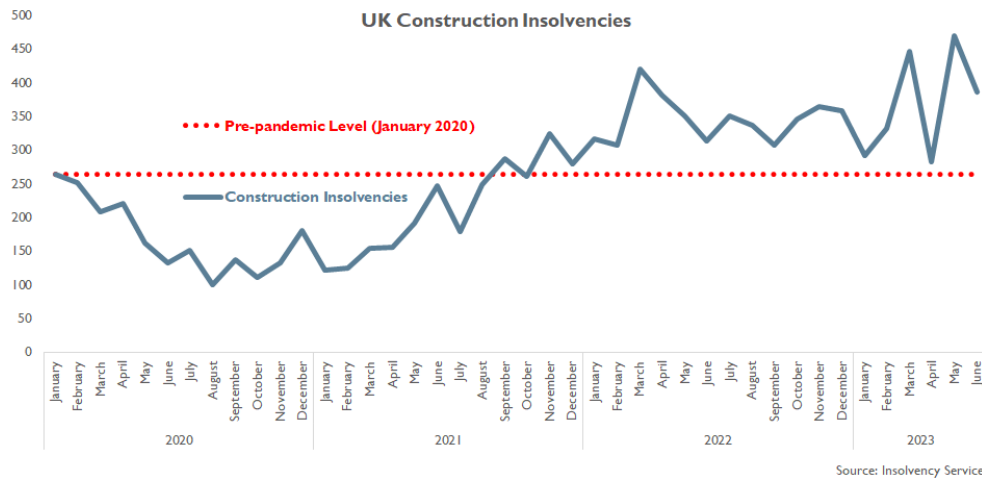


Despite the 5.6% rise in nominal wages in the year to June, they continue to fall in real terms (as CPI inflation in June was 7.9%). Construction wages have been falling in real terms for 21 consecutive months (note that falls in real wages started in October 2021, before the spikes in energy and commodity prices). This means that rising wages are hitting contractors, particularly smaller specialist sub-contractors on fixed price contracts signed-up to before recent materials and wage inflation, but it also means many workers are also unhappy, having suffered falling real wages for almost two years.

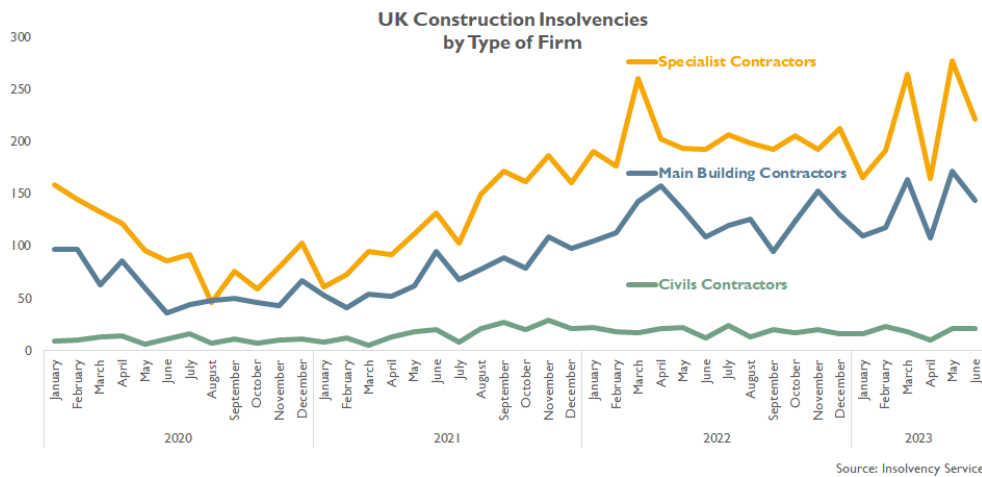


[Insolvency Service UK Construction Insolvencies \(June 2023\):](#)

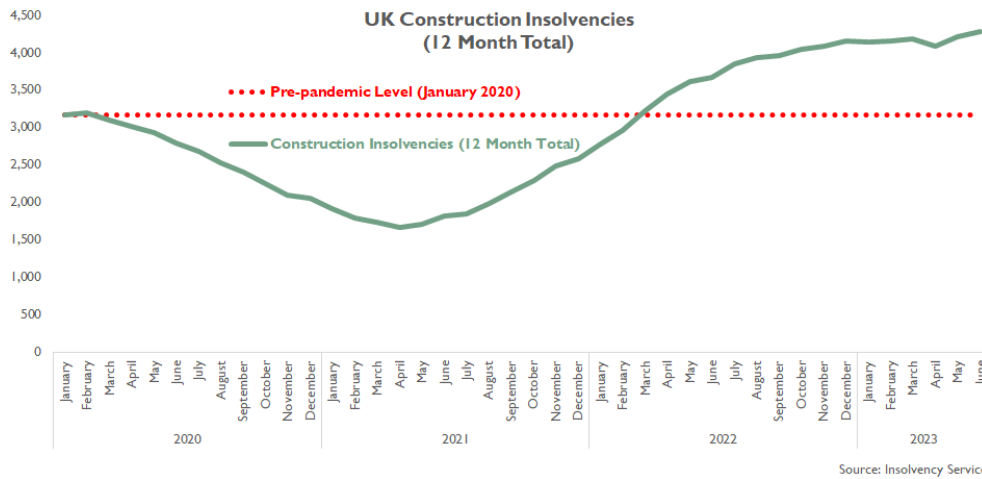
387 UK construction firms went out of business in June 2023, which is 23.2% higher than a year ago and 46.0% higher than in January 2020, pre-pandemic, according to the Government's Insolvency Service. We are seeing the sharp downturns in the two largest construction sectors, private housing and private housing rm&i, affect firms although we still haven't seen the full impacts as yet.



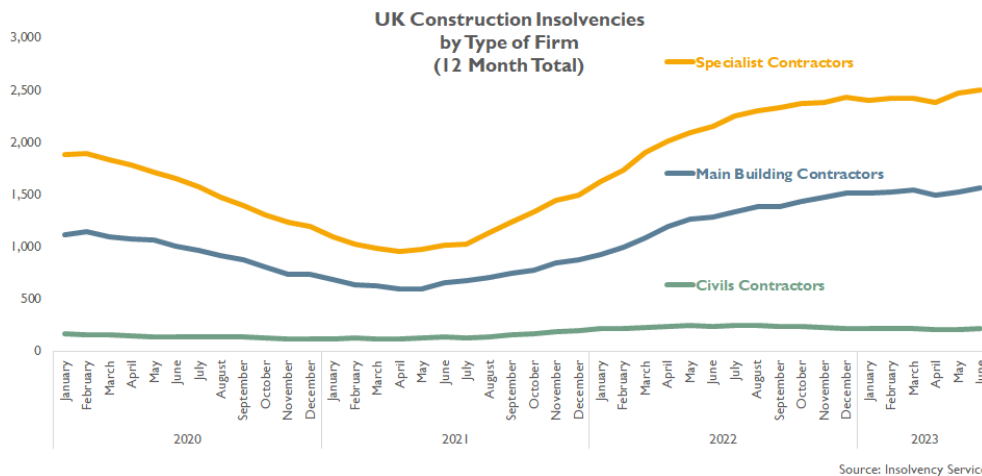
The largest impacts were on the smaller, specialist sub-contractors and 59% (222) of the construction firms that went under in June were specialist contractors. As well as the recent sharp downturns in private housing and private housing rm&i demand, specialist contractors have had to deal with an array of supply side issues such as materials cost rises, IR35, reverse charge VAT, skills shortages, planning delays and cost issues, which have hit financial viability. It is worth noting that whilst specialist contractors have been the worst hit, main building contractors still accounted for 36% (144) of construction insolvencies in June so they are increasingly not immune to the issues.



Clearly insolvencies are volatile on a monthly basis so it is worth highlighting that 4,282 UK construction firms went out of business in the year to June 2023, which is 16.5% higher than a year ago, 35.1% higher than in the year to January 2020, pre-pandemic, and construction insolvencies in the year to June 2023 were at their highest level since the financial crisis yet again, surpassing last month's highest since the financial crisis figure.



The lack of concern outside of the construction industry (government, national media) in the construction insolvencies being at their highest level since the financial crisis is startling, particularly given near-term prospects for the three largest construction sectors; private housing, private housing rm&i and infrastructure. Private house building is likely to fall further in the second half of the year. Private housing rm&i activity may also fall further as the fall in planning applications for improvements projects at the end of last year feeds through. 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.





[RICS UK Construction Monitor \(2023 Q2\)](#): The RICS UK Construction Monitor reported that overall activity in 2023 Q2 was marginally lower with a net balance of -1% reporting a decrease in activity compared with +3% in the previous quarter. The does, however, mask significantly divergent trends at a sector level. Infrastructure remained the strongest growing area of the industry with a net balance reading of +17%. Other public works is also showing a positive trend, contrasting with private housing (-12%), which is back to where it was at the end of last year and around its lowest levels since the financial crisis.

Comments from respondents highlight the impact that the worsening macro climate is having on the industry, with interest rate rises taking their toll. Credit conditions deteriorated over the past three months with a net balance of -42% of respondents, similar to 2022 Q4. An increasing number of contributors anticipate the picture continuing to worsen over the course of the next three- and twelve-month periods. There was a particularly large jump in the proportion of respondents taking this perspective at the longer time horizon (from a net balance of -6% to -33%). 'Financial constraints' is now the top issue on factors limiting activity with 64% of survey respondents reporting this as a challenge.

Shortages of labour may have eased somewhat from recent highs but still remain significant with around three-fifths of respondents continuing to draw attention to the problem. More than 50% highlight difficulties in recruiting quantity surveyors while a not dissimilar number report problems with bricklayers and carpenters. A net balance of +22% of respondents anticipate trying to raise employment over the course of the next year in order to fulfil development ambitions, slightly down from +27% in 2023 Q1. A net balance of +25% of respondents are planning to increase spending on training programmes, broadly similar to results over the past year. Plans to invest in fixed assets are modest at this stage with a net balance of +10%.

The response to the question on new business enquiries remained very modestly positive over the past quarter and for workloads expectation over the next twelve months infrastructure is viewed as the most positive with a net balance of +27% projecting an increase in activity, only slightly lower than +31% in Q1. For commercial workloads, expectations remain positive with a net balance of +12%. Private residential prospects, however, are relatively downcast but even here, the net balance was broadly flat although note that RICS report that this indicator is designed to capture ongoing work rather than new starts.

The survey aims to capture the views of respondents on the outlook for profits in construction in two ways. Firstly, in net balance terms and, secondly, in projected estimates for tender prices and construction costs. The net balance for profits remains negative at -13%, similar to the -11% in 2023 Q1 but higher than the -26% reported in 2022 Q4. Tender prices were seen rising by around 5.5% over the next year in aggregate but this continues to be outstripped by the projected rise in construction costs, estimated to be in excess of 6%.

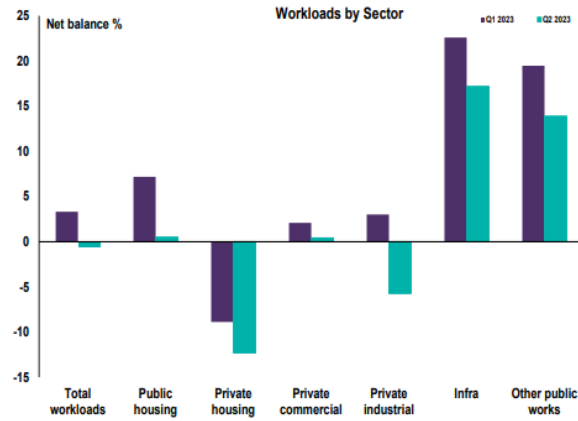
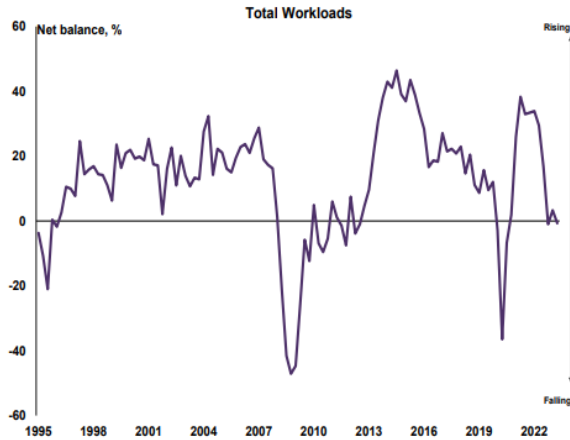
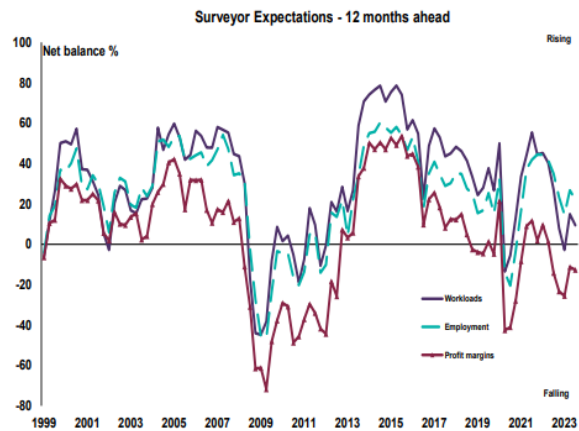


Chart 3



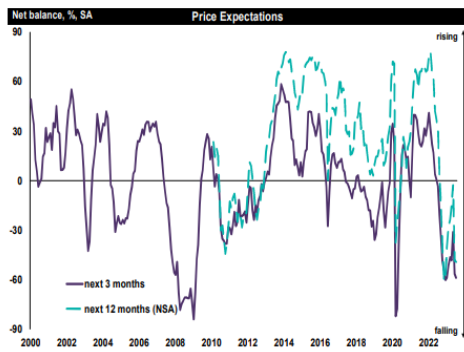
Chart 4



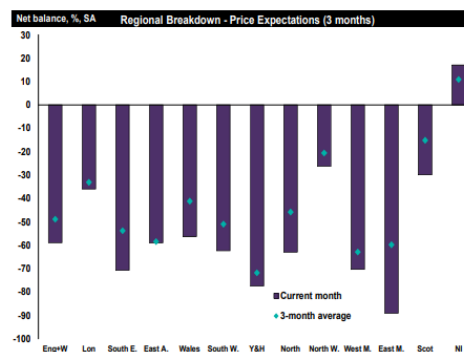
[RICS UK Residential Market Survey \(July 2023\)](#): The RICS UK Residential Survey for July reported that new buyer enquiries series continued to signal a sharp downturn in buyer demand following the latest rise in mortgage interest rates with a net balance of -45% in July, similar to last month's -46%. At a regional/country level, all parts of the UK displayed a negative return for new buyer enquiries over the month. A net balance of -44% of respondents noted a decline in agreed sales during July, down from -36% previously, and represents the weakest reading for sales since the early stages of the pandemic. The disaggregated data shows sales volumes falling across the UK. Looking ahead, near-term sales expectations have turned increasingly subdued, posting a net balance of -45% in July, substantially weaker than the net balances of -38% and -11% in June and May respectively. Furthermore, on a twelve-month view, a net balance of -25% of survey participants envisage sales volumes declining although this is less than the -31% last month. The new instructions balance fell to -13% in July from -3% in June, indicative of a renewed deterioration in the supply of homes onto the market as expected. Contributors also continue to report that the number of market appraisals undertaken over the month was lower than a year ago with a net balance -37%. The latest net balance for the headline house price metric slipped to -53%, down from a reading of -48% last month. Having moderated slightly between February and July, when the net balance moved from -45% to -31%, this has now fallen deeper into negative territory in each of the last two month. Within this, the latest readings are particularly pessimistic across Yorkshire & the Humber, the East Midlands and the South East. Conversely, Northern Ireland was the only part of the

UK to post a positive net balance for the house price gauge and even this slowed from +34% last month to +16% in the latest survey. Looking ahead, national price expectations remain negative at both the three and twelve-month time horizons. For the year ahead, a net balance of -49% of contributors anticipated a further fall in house prices. While the latest reading is identical to last month's, it highlights a major shift downward from the -3% returned in May when sentiment was recovering from the post-Mini Budget slump and before the recent interest rate rises.

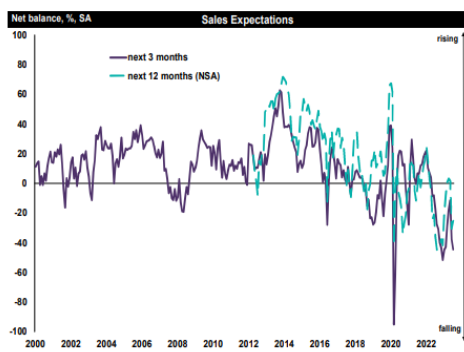
National Price Expectations - Three and twelve month expectations



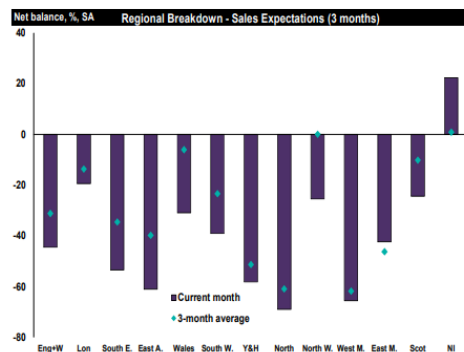
Regional Price Expectations - Next three months



National Sales Expectations - Three and twelve month expectations

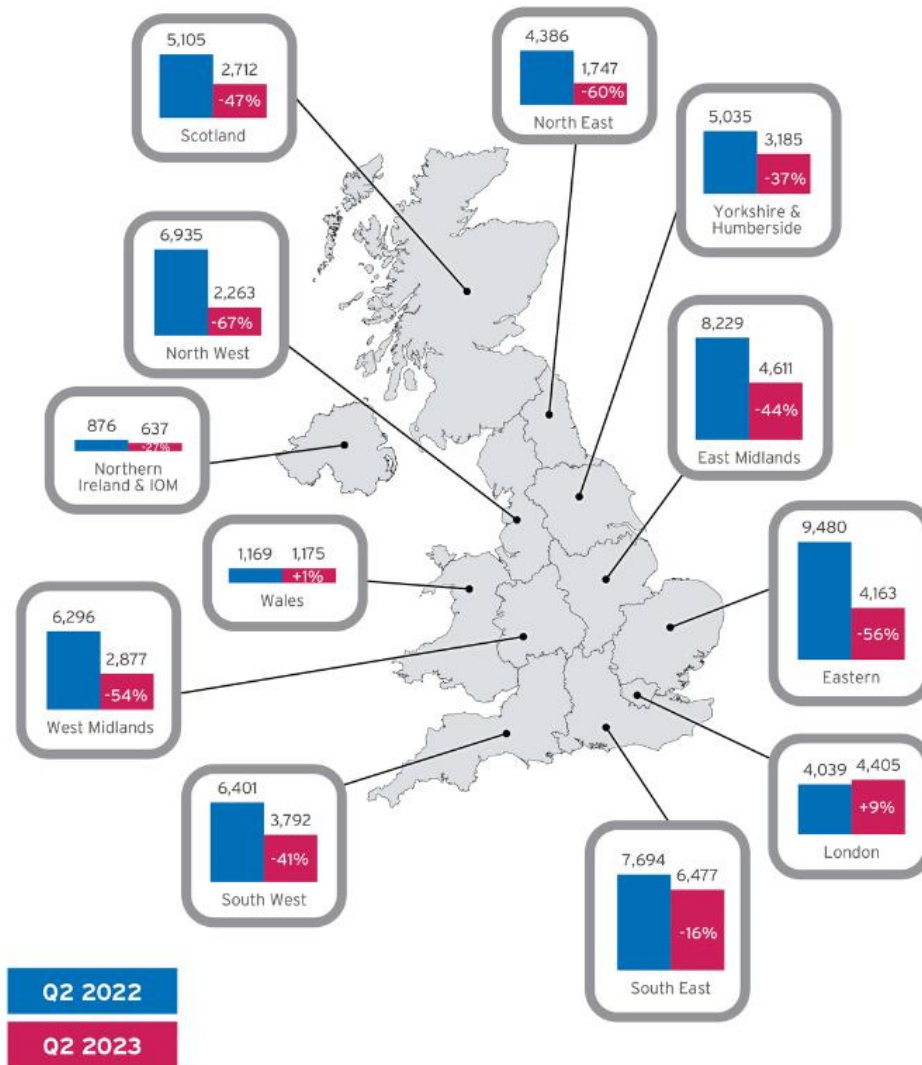


Regional Sales Expectations - Next three months

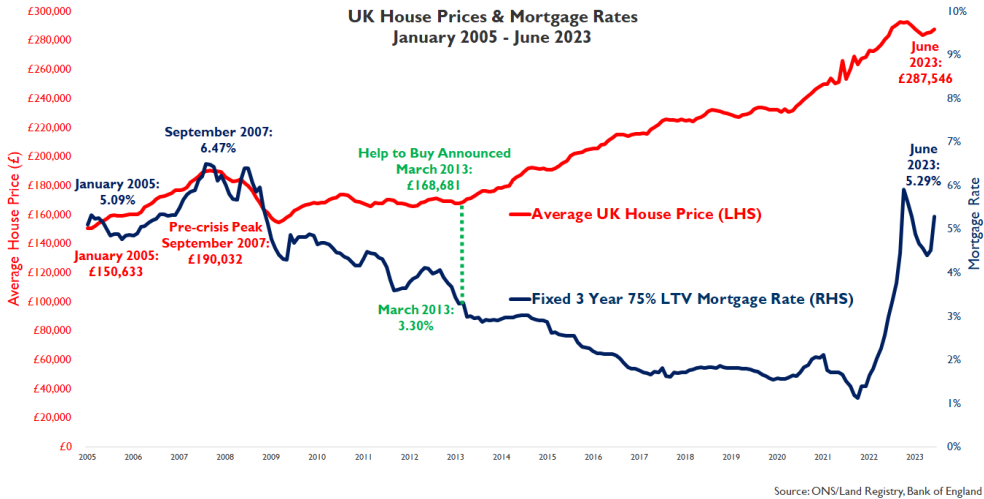


**NHBC New Home Registrations (2023 Q2):** UK new house building registrations (which are generally in line with house building starts) in 2023 Q2 fell 42% compared with a year ago according to the NHBC. However, Q2 a year ago was very high base, almost double the long-term average, as house builders got ahead of the new building regulations. House builders were very keen to get ahead of the new and updated 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 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.

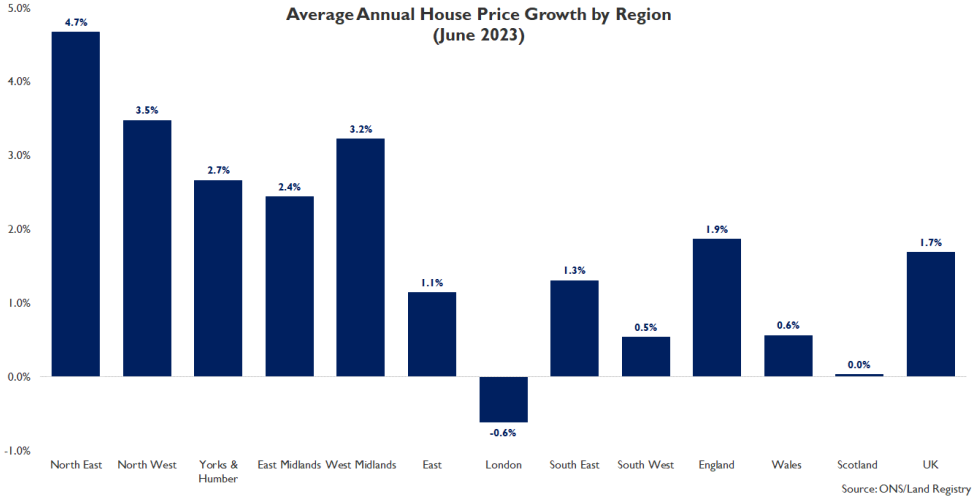
Regional registrations Q2 2023 vs Q2 2022



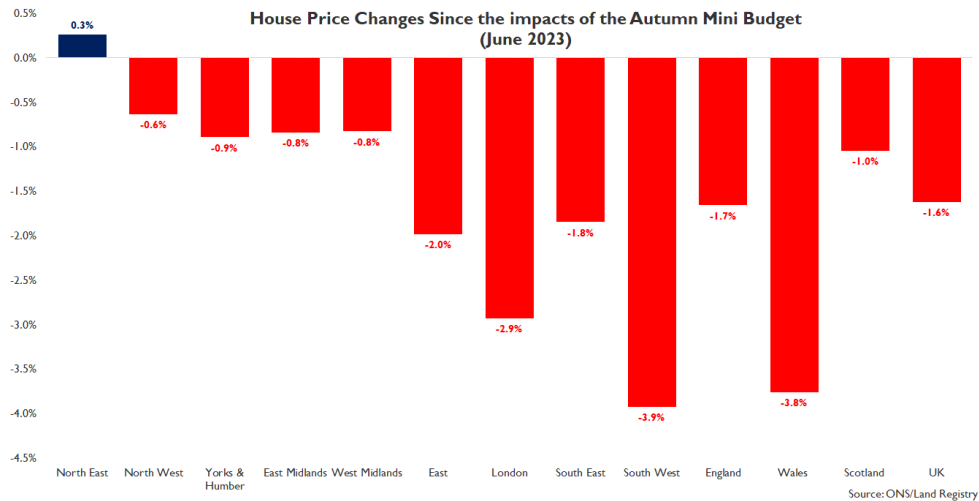
[ONS/Land Registry UK House Price Index \(June 2023\)](#): The average UK house price in June 2023 was £287,546, 0.7% higher than in May and 1.7% higher than a year ago (down from the 1.8% annual growth in May and 6.4% a year ago) according to the ONS/Land Registry. Note, however, that the lower level of transactions and skew towards cash purchasers, in the light of interest rate rises, may have skewed house price indices. In addition, note that UK house prices in June were based on mortgage applications and approvals before the sharp revision upward in peak interest rates and the recent spikes in mortgage rates so housing demand has fallen considerably since April, when the fixed 3-year 75% LTV mortgage rate was 4.39%.



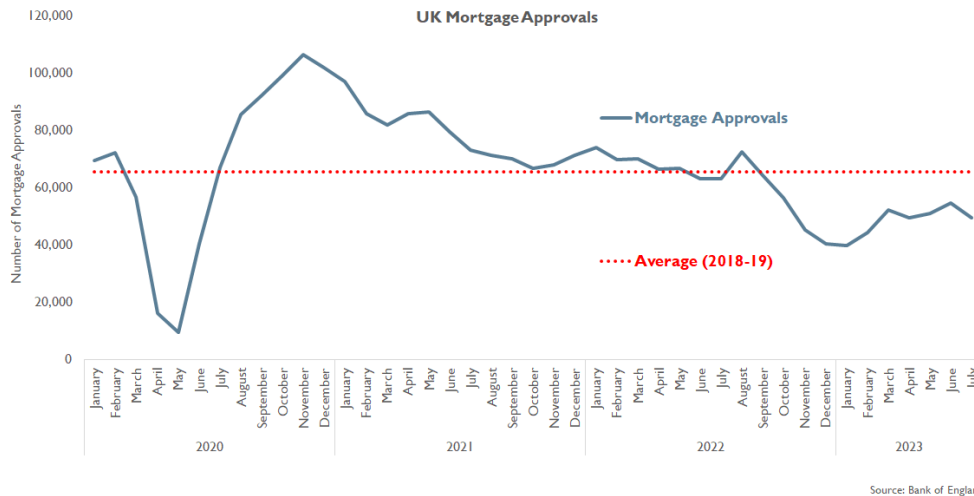
Across the regions and nations, the fastest annual house price growth was in the North East (4.7%) and West Midlands (3.2%) whilst the slowest house price growth was in Scotland (0.0%) and London (-0.6%).



Since the recent peak of UK house prices in November 2022 (following the government's Mini Budget but before the impacts of the initial spike in mortgage rates), UK house prices have fallen by 1.6%. So far, the largest falls in house prices since the 2022 peak were in London (-2.9%), Wales (-3.8%) and South West (-3.9%).

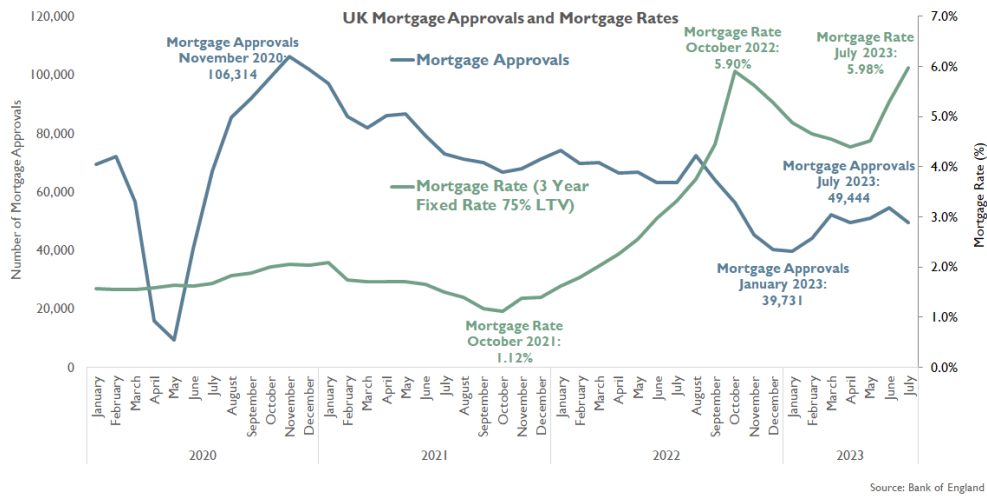


[Bank of England UK Mortgage Approvals \(July 2023\)](#): There were 49,444 mortgage approvals in the UK in July according to the Bank of England, which is 9.5% lower than in June, 21.7% lower than a year ago and 24.4% lower than the 2018 to 2019 average, pre-pandemic (pre-'race for space' and rate rises etc.).

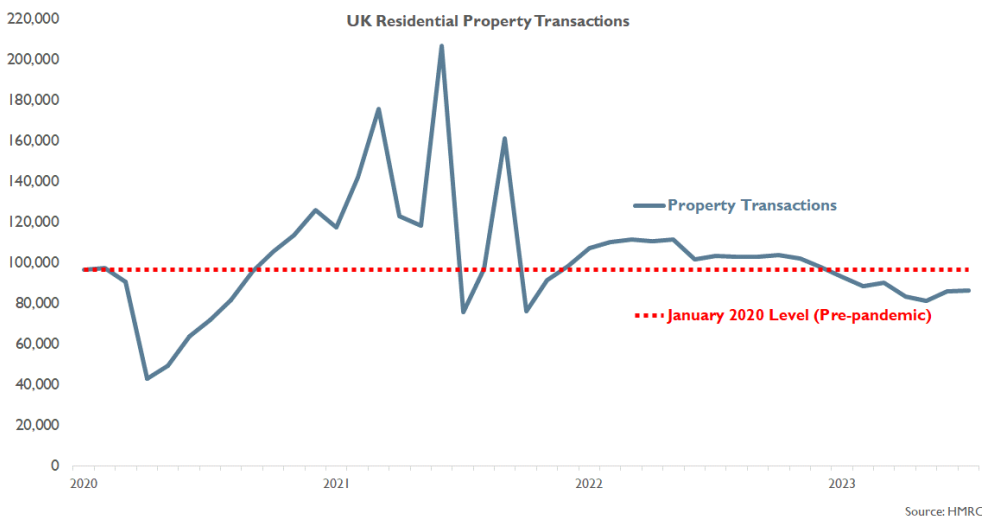


UK mortgage approvals had been on a general upward trend since January 2023 but from a low base (after the collapse in demand in 2022 Q4 following Mini Budget debacle and spike in mortgage rates) as mortgage rates fell from the October 2022 peak. However, they have started to fall once again as mortgage rates have risen once again in line with increases in the Bank of England's base rate and increases in the expectation of peak interest rates. UK mortgage approvals still haven't seen the full impact of the rise in UK mortgage rates since May but it is worth noting that the CPA's forecasts are based on the Bank of England raising interest rates to 5.75% in 2023 Q4 before it falls from 2024 Q2 as inflation becomes less of an issue. However, the Bank of England has been suggesting this week that interest rate rises beyond the current 5.25% may be limited given that there are rising concerns over

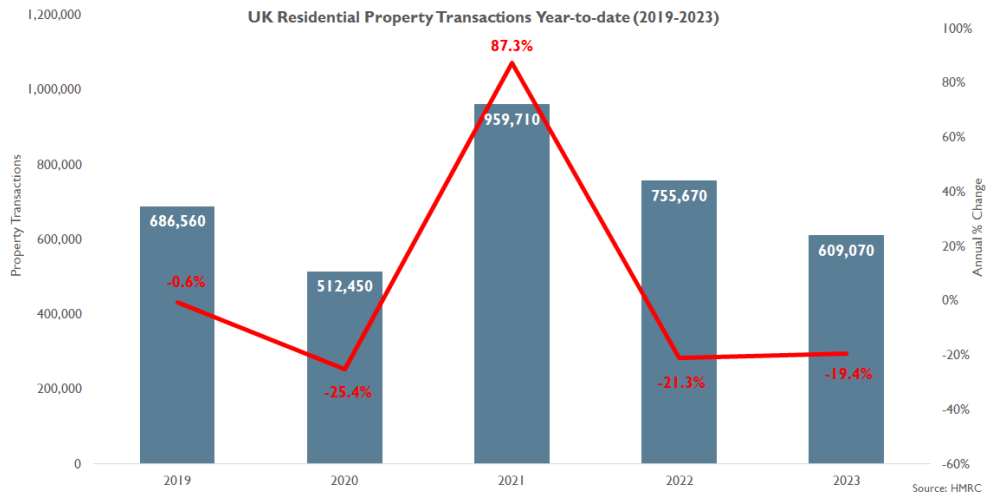
the UK GDP slowing and the economy slipping into recession towards the end of the year or early in 2024.



[HMRC UK Residential Property Transactions \(July 2023\)](#): There were 86,510 property transactions in the UK in July 2023, which is 0.8% higher than in June but 16.3% 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 July compared with June were largely based on mortgages applied for and approved months earlier, prior to the most recent mortgage rate rises. As a result, based on mortgage approvals in June and July, property transactions are likely to fall further in the third quarter of the year.



Year-to-date (January to June), there were 609,070 residential property transactions in the UK in 2023, which is 19.4% lower than in 2022 and 11.3% lower than in 2019, pre-pandemic.



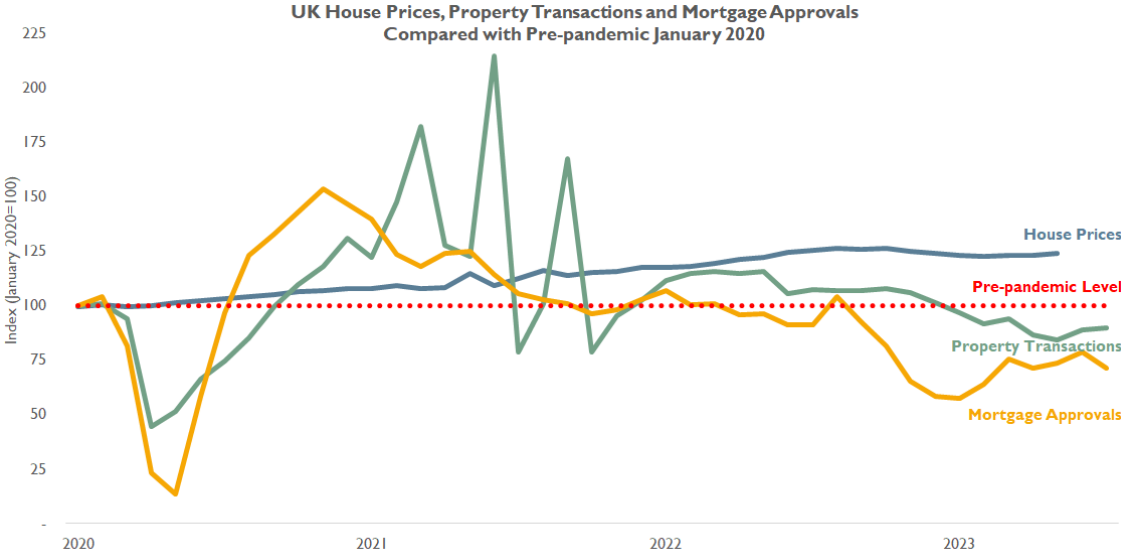
It is worth highlighting again that the largest impacts of the fall in demand in the housing market since the government's Mini-Budget and consequent spike in mortgage rates as well as the most recent sharp rise in mortgage rates will be on mortgage approvals.

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).

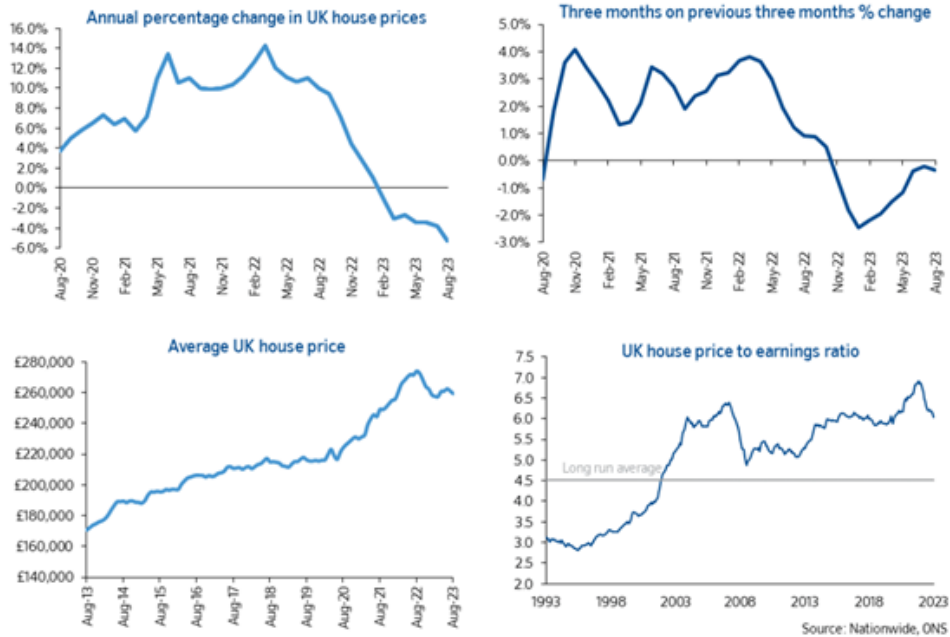
Mortgage rate rises are having a slightly less negative impact on property transactions than on mortgage approvals as cash buyers and investors are accounting for a higher proportion of transactions and partially offsetting falls in mortgage-related demand.

UK house prices will fall less than approvals and 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 recession.

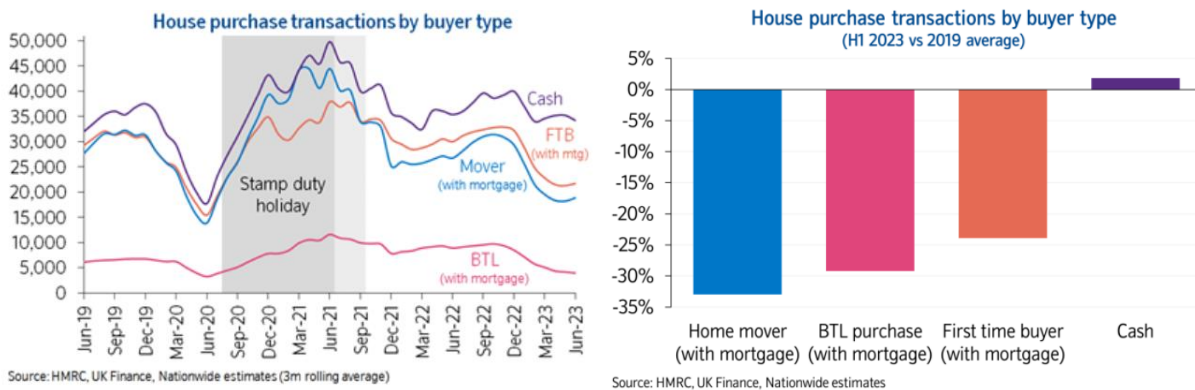




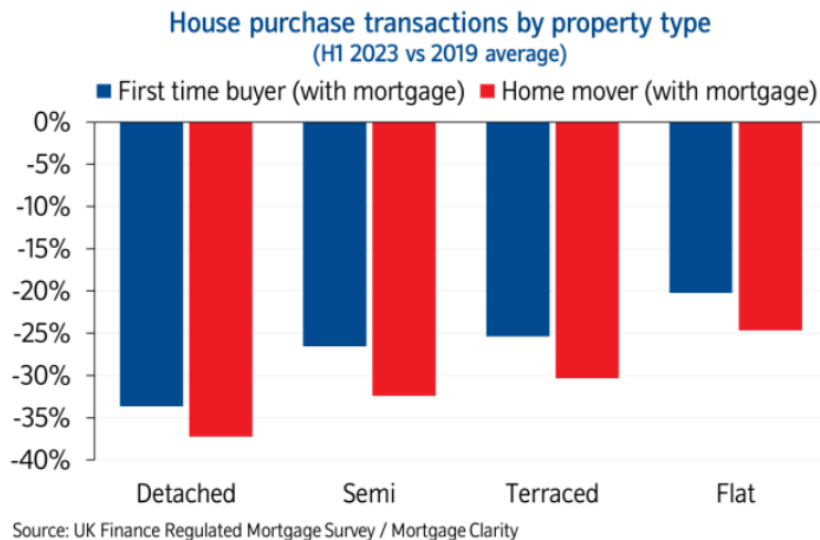
**Nationwide UK House Price Index (August 2023):** Nationwide stated that annual house price growth fell from -3.8% in July to -5.3% in August, the weakest rate since July 2009. Prices fell by 0.8% over the month, after taking account of seasonal effects. It stated that the softening in house prices is not surprising, given the extent of the rise in borrowing costs in recent months, which has resulted in mortgage approvals in recent months around 20% below the 2019 average and mortgage application data suggests the weakness has been maintained more recently.



It also stated, however, that a relatively soft landing for house prices is still achievable, providing broader economic conditions evolve in line with most other forecasters' expectations. In particular, unemployment is expected to remain low and the vast majority of existing borrowers should be able to weather the impact of higher borrowing costs, given the high proportion on fixed rates, and where affordability testing should ensure that those needing to refinance can afford the higher payments. Nationwide reported that in the first half of 2023, the number of completed housing transactions was nearly 20% below 2019 levels and 40% lower than in the first half of 2021 (during the 'race for space'). Detail on transactions highlights that cash purchases have been relatively resilient whilst purchases involving a mortgage have unsurprisingly slowed considerably more sharply.



In addition to the fall in demand for owner-occupiers buying with a mortgage, there has also been a modest shift in the type of properties being purchased. While transactions are lower than pre-pandemic levels across all property types, the biggest decline has been in detached houses. There are signs that buyers are looking towards smaller, less expensive properties, with flats seeing a smaller decline. This may, in part, reflect the ending of the Help to Buy scheme, which helped those with a smaller deposit purchase a newly built home. Flats have also remained relatively more affordable; average prices have risen by only 13% since the onset of the pandemic, compared with 23% for detached properties.



[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 |
|--------------------------------------|--------------|--------------|
| <b>Housebuilding</b>                 |              |              |
| - Private                            | 564          | 718          |
| - Private - Vistry share of JVs      | 105          | 115          |
| - Affordable                         | 472          | 450          |
| - Affordable - Vistry share of JVs   | 77           | 54           |
| <b>Total Housebuilding</b>           | <b>1,218</b> | <b>1,337</b> |
| <b>Partnerships</b>                  |              |              |
| - Mixed tenure                       | 1,462        | 342          |
| - Mixed tenure - Vistry share of JVs | 422          | 148          |
| <b>Total mixed tenure</b>            | <b>1,884</b> | <b>490</b>   |
| Total partner delivery               | 1,088        | 835          |
| <b>Total Partnerships</b>            | <b>2,972</b> | <b>1,325</b> |
| <b>Total Group</b>                   | <b>4,190</b> | <b>2,662</b> |

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

[Persimmon Half-year Results \(August 2023\)](#): Persimmon reported for the six months ended 30 June 2023 that it had 4,249 new home completions in HI compared with 6,652 a year ago, reflecting the lower forward order book coming into the year following the market challenges after last Autumn's 'mini-Budget'. Overall, it highlighted that it is closely matching build rates to sales with build rates in the period running at around 26% lower year-on-year.

Persimmon's private average selling price was £288,327, which was 8% year on year, partially reflecting a greater proportion of larger homes sold. Overall, the group average selling price was £256,445 up 4% year on year.

Its sales rate was 0.59 compared with 0.91 a year earlier with average incentive levels of 3.2% in the period on the Group's private sales compared with 1.5% a year ago. Investor deals accounted for 0.03 of the sales rate in the period.

Looking forward, its current forward sales position (including 5 weeks post-period end) was £1.6 billion, 30% lower year on year compared with £2.2 billion a year ago. Its forward private sales were £875.9 million, up 83% compared to 1 January 2023 of £478.5 million. Its forward private average selling prices were up 0.9% compared to 1 January 2023.

Prevailing build cost inflation was around 5 and it expects it to moderate further in the months ahead. It stated that its 'cost discipline' is focused in 4 areas of 'smart' savings:

- 1) reviewing value engineering across the Group to share lessons and opportunities for efficiency. This involves a plot-by-plot, site-by-site review to identify areas for cost savings or value enhancement including whether there is more opportunity to use its own brick and tile products more widely.
- 2) It is identifying opportunities to secure savings in specifications that are less important to customers and it believes that this review could identify savings of up to £1,800 per plot.
- 3) It is reviewing sub-contractor pricing on a more frequent basis to identify opportunities to secure increased savings and it is actively retendering sites to identify savings. It stated that “just as we absorbed many price increases from sub-contractors in recent years, so we need to share the cost pressures in this new challenging environment”. While there are variations across trades, groundworker, bricklayer and dry liner costs are coming down for example. National infrastructure projects like HS2 continue to create pressures in the broader sector according to Persimmon but overall inflationary pressure is reducing and it stated that it is working proactively and in a detailed manner to capture it.
- 4) It is keeping overheads under constant review. A recruitment freeze has seen headcount reduce by nearly 300. Further reviews are on-going and it is targeting £25 million annualised savings.

#### Financial highlights

|   | H1 2023  | H1 2022  |
|---|----------|----------|
| New home completions  | 4,249    | 6,652    |
| New home average selling price  | £256,445 | £245,597 |
| Total Group revenue <sup>1</sup>  | £1.19bn  | £1.69bn  |
| Underlying new housing gross margin <sup>2</sup>                            | 21.5%    | 31.0%    |
| Underlying operating profit <sup>3</sup>                                    | £152.2m  | £440.7m  |
| Underlying operating margin <sup>4</sup>                                    | 14.0%    | 27.0%    |
| Profit before tax   | £151.0m  | £439.7m  |
| Earnings per share  | 34.4p    | 106.5p   |
| Interim dividend per share  | 20p      | -        |
| Cash at 30 June   | £0.36bn  | £0.78bn  |
| Land holdings at 30 June - plots owned and under control                    | 84,751   | 89,052   |
| Underlying 12 month rolling return on average capital employed <sup>5</sup> | 21.1%    | 30.9%    |

[Bellway Trading Update \(August 2023\)](#): Bellway reported that it had a period of very challenging trading in the fourth quarter of 2022, when sales rates were impacted by sharp increases in borrowing costs

and whilst in early 2023, mortgage rates began to moderate, it was encouraged by the levels of demand during the spring selling season, more recently, however, reservations in June and July 2023 were impacted by borrowing costs which rose to levels similar to those last autumn. Its overall reservation rate for the year ended 31 July 2023 was 28.4% lower than the prior year at an average of 156 per week compared with 218 in 2022, and the Group has continued with its programme of accelerating the construction of social homes to help mitigate weaker private demand. The average private weekly reservation rate reduced by 35.9% to 109 compared with 170 a year earlier. Its overall cancellation rate for the full year has trended upwards and averaged 18% compared with 13% a year ago.

There was a reduction in the value of its forward order book, which had a value of £1,193.5 million compared with £2,114.3 million a year ago and comprised 4,411 homes compared with 7,223 homes a year earlier. Bellway revenue was around £3.4 billion compared with £3,520.6 million a year ago, a 3% reduction on the prior year. Completions reduced by only 2.3% to 10,945 compared with 11,198 a year earlier. The overall average selling price decreased by over 1% to £310,000 compared with £314,399 a year ago, primarily driven by a lower proportion of private completions, which reduced to 75% of the total compared with 82% a year earlier. In the year ending 31 July 2024, the proportion of its social completions will remain elevated and together with the ongoing disciplined use of incentives, it expects a further moderation in the average selling price.

Its underlying operating margin for the 2023 financial year is expected to be around 16% compared with 18.5%, and the reduction reflects the effect of build cost and overhead inflation, together with extended site durations and the increased use of sales incentives during a more challenging trading period. Since early 2023, build cost inflation has softened slightly from the high single digits reported in the first half of the financial year. Reducing demand for construction materials has also supported an improvement in product availability across the Group. It continues to expect overall cost pressures to moderate in the months ahead.