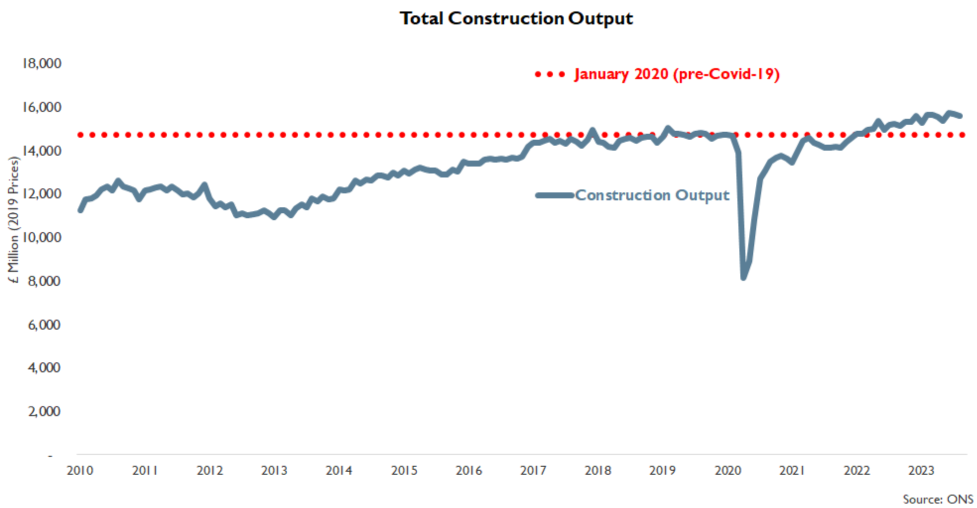
(Updated – 13 October 2023)

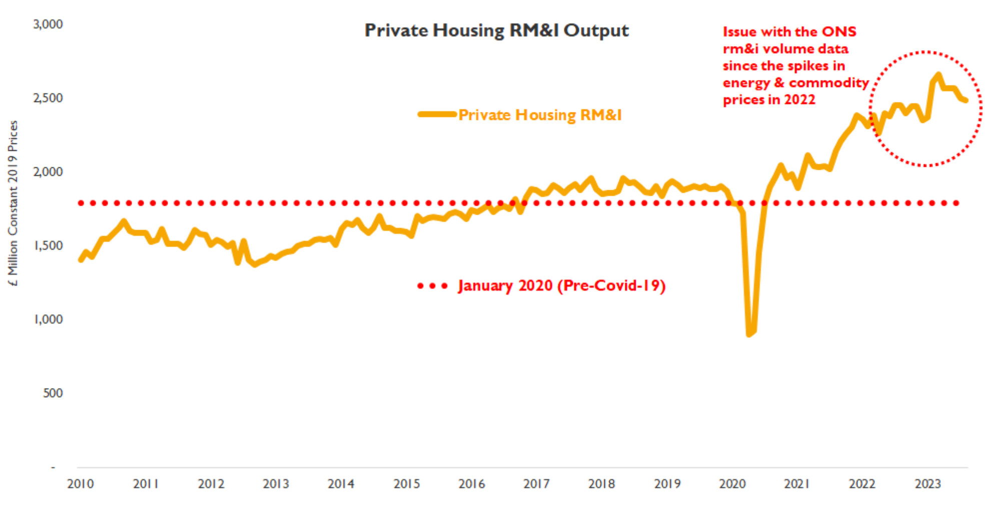
Weekly Economic and Construction Update

1) ONS Construction Output (August 2023):

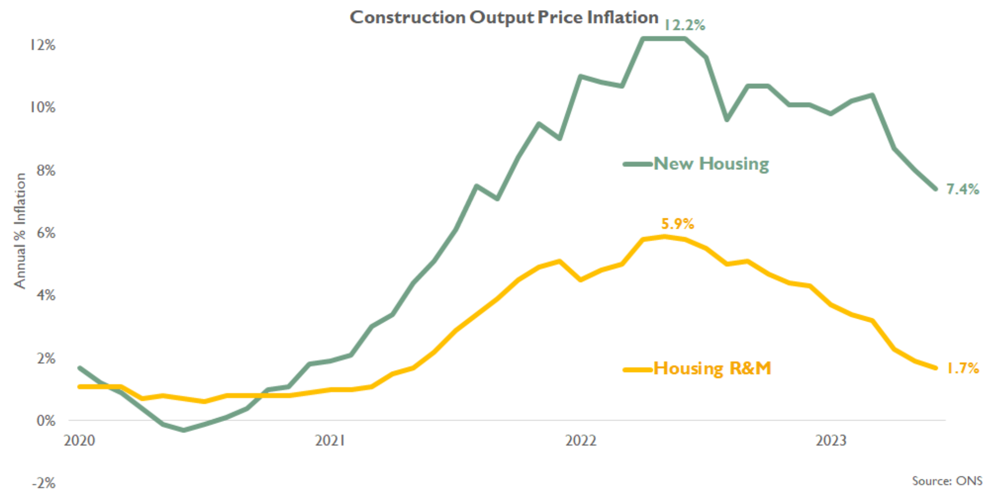
Construction output in August 2023 was 0.5% lower than in July but still 2.3% higher than a year earlier according to the Office for National Statistics and it is worth noting that the recent S&P Global/CIPS UK Construction PMI data pointed towards another fall in construction activity in September.



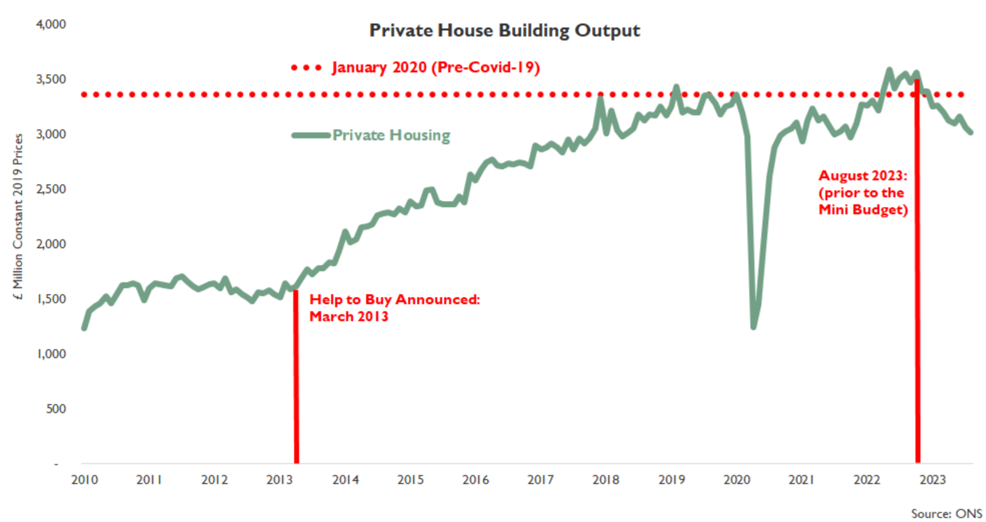
It is worth noting that the ONS construction output data continues to be inflated by issues in the repair and maintenance data, which particularly affected private housing repair, maintenance and improvement (rm&i) and the CPA has been highlighting for over one year and which the ONS has not addressed. According to the ONS, private housing rm&i output in August was 0.6% lower than in July but it estimated that it remained 38.9% higher than in January 2020, pre-pandemic. This is not in line with firms operating in the sector (SME contractors, builders merchants and product manufacturers). As construction inflation slows, this is likely to become less of an issue in terms of the monthly change, as highlighted by recent output falls, but it will still leave the output level at an artificially high level.



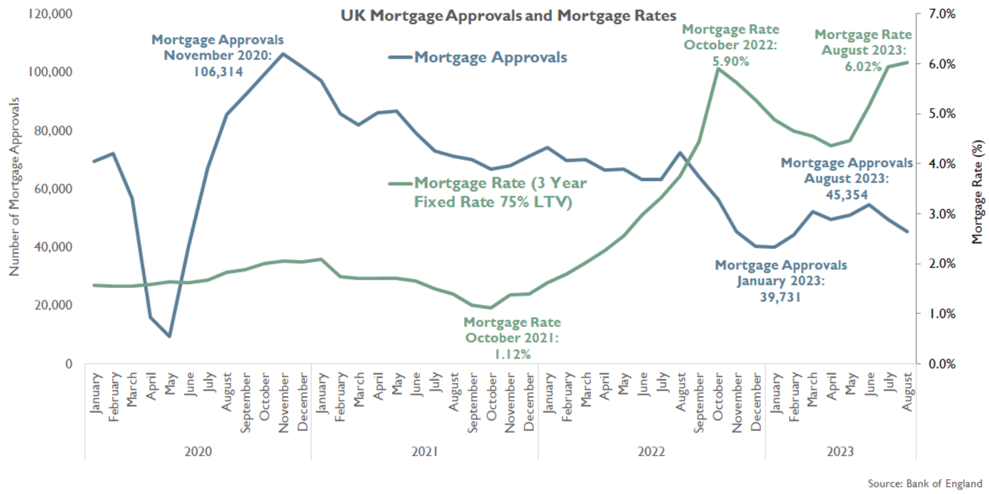
The issue in the ONS r&m volume of output data appears to occur as the ONS is underestimating price inflation in r&m, which it uses to deflate construction output value and turn it into volume of output. As it is underestimating price inflation, it is overestimating volume of activity. To illustrate this, inflation in new housing peaked at 12.2% after the spikes in energy and commodity prices in 2022 according to the ONS (when construction materials price inflation peaked at 26.8%). The ONS, however, estimated that inflation in housing r&m peaked at only 5.9% whilst firms in the sector (SME contractors, merchants and manufacturers) stated 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.



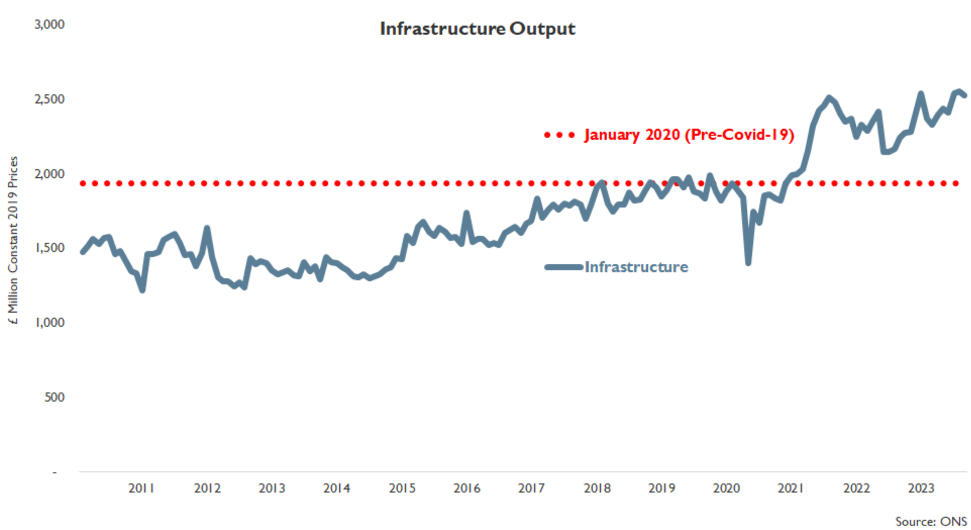
Private house building output in August 2023 was 1.4% lower than in July, 15.0% lower than a year ago and 15.9% lower than in August 2023 (the month before the government's Mini Budget) as we see the sharp fall in house builders retrench to meet the lower level of homebuyer demand after the sharp rise in mortgage rates and without government policy to help (to buy) so pre-sales prior to the Mini Budget have all fed through house builder completions already and reservations or forward sales over the Summer were between 28% and 32% lower than a year ago for some major house builders.



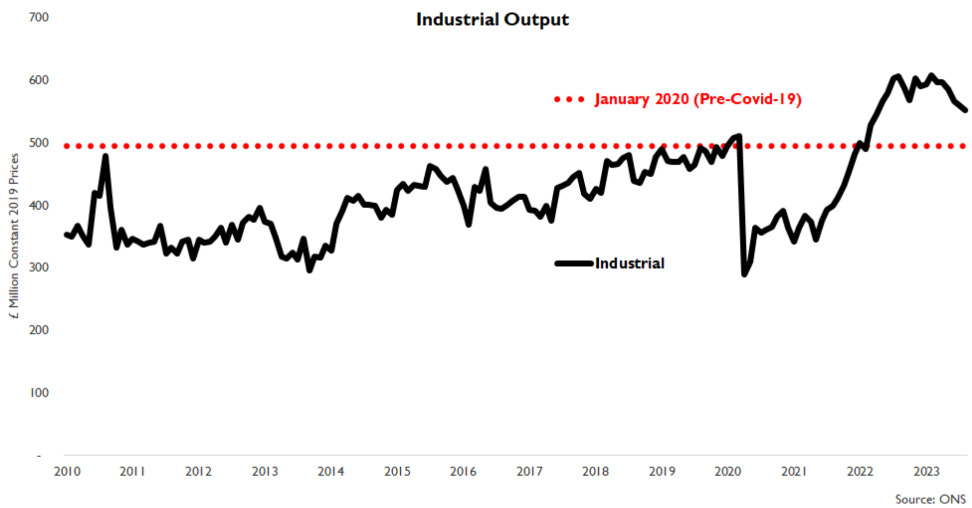
This points to further sharp falls in private house building in September, the rest of 2023 and also the first half of 2024, even if government were to announce help for house builders in the Autumn Statement in November and even if mortgage rates fall slightly with interest rates likely to peak lower than expected, given that most of the damage to the private house building sector in 2023 H2 and 2024 H1 has already been done and some house builders and sub-contractors shedding jobs and some product manufacturers that feed into housing starts cutting capacity.



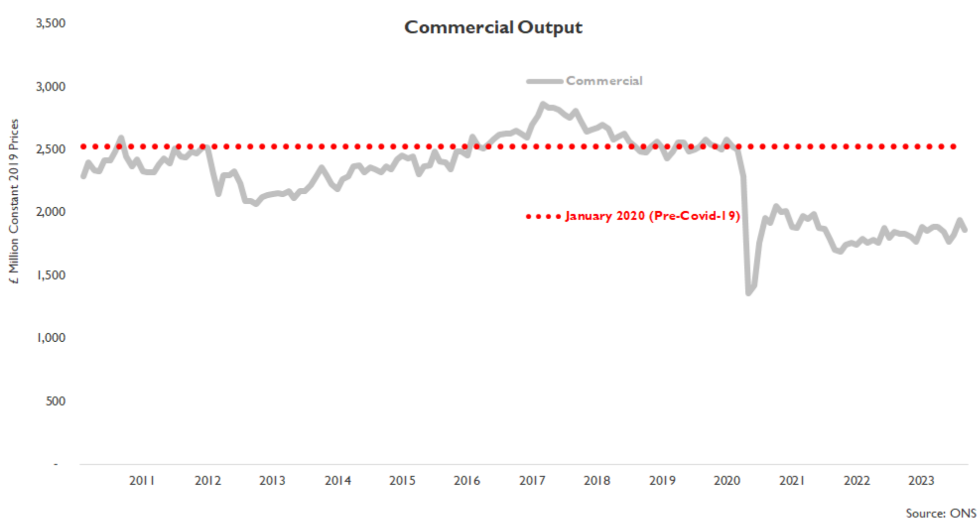
Infrastructure output in August 2023 was 0.9% lower than in July but still 13.0% higher than a year ago and 30.4% higher than in January 2020, pre-pandemic, despite government pausing, delaying and cancelling projects, primarily due to major infrastructure projects on the ground such as HS2 Phase One plus regional infrastructure projects. This highlights that the UK can do both national high-speed rail and regional roads and rail infrastructure simultaneously and that it is not either one or the other as government has recently been suggesting with HS2 between Birmingham and Manchester or regional roads and rail projects in the North. Furthermore, despite government announcements focusing more on roads rather than rail, roads construction continues to fall due to local authority financial constraints as social and health care costs continue to rise and National Highways pushing projects back from RIS2 into RIS3.



Industrial output in August was 1.6% lower than in July and 9.1% lower than a year ago but still 11.1% higher than in January 2020. The falls are from historic highs in February 2023 after spikes in warehouses, due to the long-term structural shift towards online shopping, exacerbated by a short-term upturn in online shopping in the pandemic. Plus, industrial activity was boosted by factories construction as capacity constrained manufacturers faced strong demand in 2021 so signed-off new investments in Autumn 2021, which led to activity in 2022 and early 2023. However, investment in warehouses peaked last year so as projects finish there are fewer to replace them. Factories construction is now falling as manufacturers in Autumn 2022 could not justify new investment in capacity, or where they could justify it they couldn't sign it off, due to the political and economic uncertainty after the Mini Budget.



Commercial output in August was 4.2% lower than in July and 1.9% higher than a year ago but it remains 26.1% lower than in January 2020. This may appear strange to firms working in the buoyant areas of the refurbishment and fit-out of existing commercial offices and retail space plus the change in use of existing commercial developments into residential or industrial/logistics but this buoyancy has been offset since the pandemic by the lack of new, large commercial towers and developments that require high, upfront investment for a long-term rate of return, especially given the excess of existing commercial space with the risk of 'stranded assets' higher financing costs for international investors in new, large commercial towers and developments given interest rate rises plus higher construction costs that all continue to make new, large commercial towers and developments less financially viable.

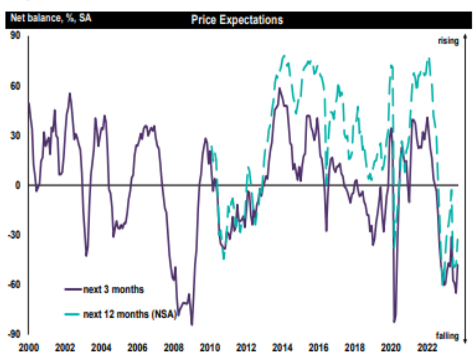


2) [RICS UK Residential Market Survey (September 2023)](#):

The RICS UK Residential Survey for September 2023 continues to report a challenging housing market, with stretched mortgage affordability hitting buyer demand still the dominant factor. The net balance for new buyer enquiries was -39% in September, less negative than -46% in last month's survey. The September results for agreed sales remained negative with a net balance of -37%, slightly less than -46% and -45% in August and July respectively. For the next three months, respondents continued to envisage a decline in sales volumes but the net balance was -24% compared with -36% a month earlier. Looking further ahead, twelve-month sales expectations had a net balance of +3%, higher than the -5% a month ago, which signals a more stable trend in sales volumes over the year ahead.

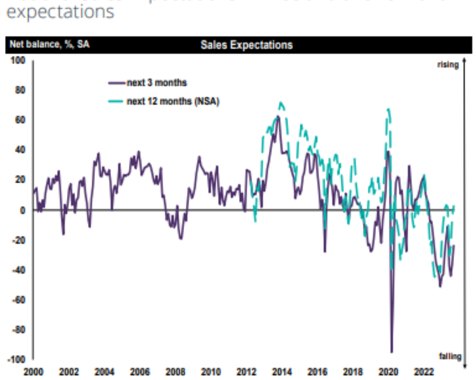
Respondents notes that the volume of new listings coming onto the sales market was in decline with a net balance of -17% in September and have now fallen in each of the last three months. With feedback continuing to suggest that the number of market appraisals undertaken of late is below that of last year, any near-term changes in supply available across the market seems unlikely. House prices continued downward. The September net balance of -69% was similar to last month (-68%). Almost all parts of the UK saw house prices fall, the downward pressure most significant across the West Midlands and the South East (-94% and -91% respectively). Going forward, near-term expectations pointed to a further fall in prices over the next three months but the net balance of -48% was less negative than the -65% last month. Over the next twelve-months, a net balance of -33% in September expected prices to fall further although this was less pessimistic than -50% between June and August.

National Price Expectations - Three and twelve month expectations

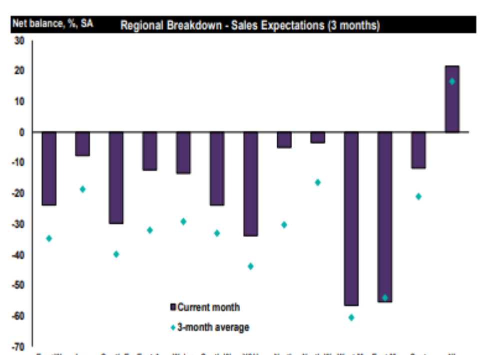


Regional Price Expectations - Next three months

National Sales Expectations - Three and twelve month expectations



Regional Sales Expectations - Next three months



3) Travis Perkins Trading Update (2023 Q3):

Travis Perkins reported that in the three months to 30 September 2023 its revenue declined by 1.8% with like-for-like sales also down 1.8%. It stated that whilst Q3 trading started as expected in Merchanting, September saw a notable deterioration in market activity and sentiment. Q3 revenue was 3.4% lower year-on-year, a modest improvement on the first half but the drivers of revenue have shifted markedly. Pricing declined by 3.1%, resulting primarily from strong deflationary pressures on commodity products which have significantly impacted on gross profit and margins, including the impact of selling through existing stocks at lower market prices. Merchant businesses reported that volume performance improved to flat year-on-year in the quarter. Toolstation UK revenue growth was 7% in the third quarter whilst Toolstation Europe saw revenue growth of 9%.

TP expects that commodity deflation will continue and the exit rate from the third quarter indicated further challenging conditions for the balance of the year. It stated that it now expects adjusted operating profit in the range of £175 million to £195 million for the full year. TP highlighted that market conditions remain challenging with continued weakness across new build housing and domestic RMI. Deflation on commodity products has also been greater than it had anticipated. It also stated that by maintain volumes in a difficult market, it has impacted on trading margins.

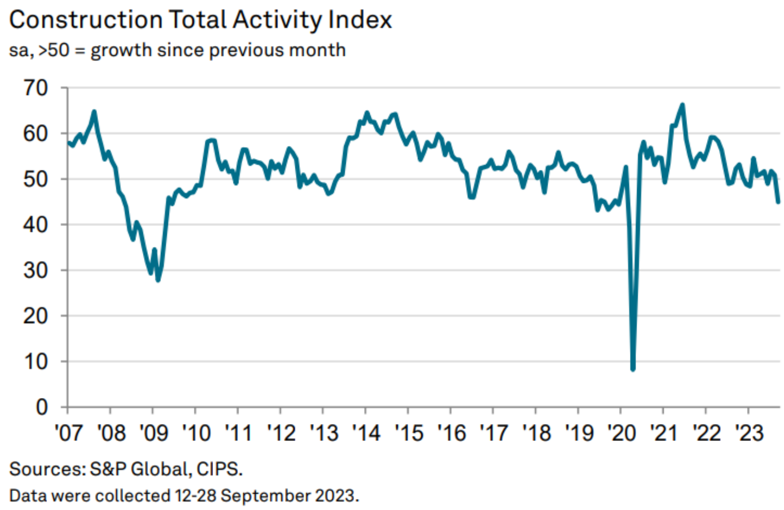
Q3 2023	**Merchanting**	**Toolstation**	**Group**
Volume	(0.3)%	2.5%	0.0%
Price and mix	(3.1)%	4.8%	(1.8)%
Total revenue growth*	**(3.4)%**	**7.3%**	**(1.8)%**
Like-for-like revenue growth	**(2.9)%**	**4.4%**	**(1.8)%**

YTD 2023	**Merchanting**	**Toolstation**	**Group**
Volume*	(6.4)%	2.6%	(5.3)%
Price and mix	2.4%	6.0%	3.1%
Total revenue growth*	**(4.0)%**	**8.6%**	**(2.2)%**
Like-for-like revenue growth	**(4.1)%**	**5.0%**	**(2.7)%**

* *Trading day adjusted*

EXISTING INFORMATION

S&P Global/CIPS UK Construction Purchasing Managers' Index (September 2023): The S&P Global/CIPS UK Construction PMI was 45.0 in September 2023, significantly lower than the 50.8 in August and below the 50.0 = no monthly change level for the first time since June and activity in September fell at its fastest pace since May 2020, during the initial pandemic lockdown.

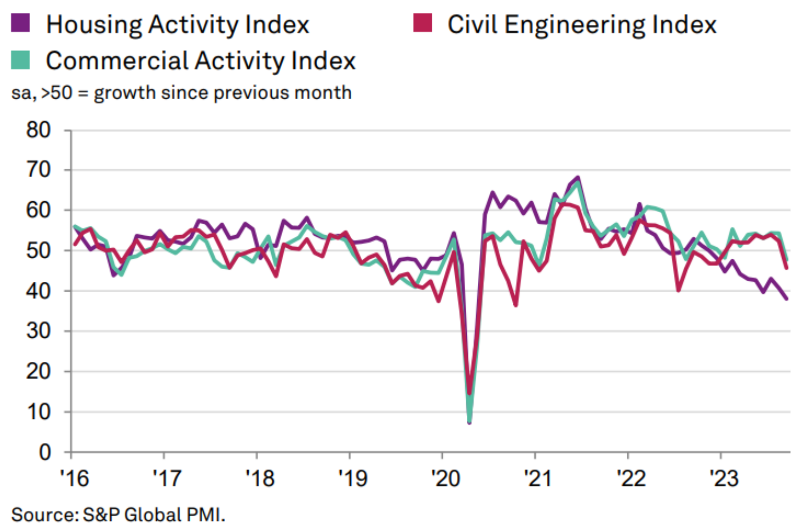


All three sectors covered by the PMI recorded declines, with residential work (38.1) unsurprisingly the worst performing sector during September and its fall was the steepest since April 2009, excluding during the initial national lockdown when construction activity was not permitted to take place. Survey respondents reported on cutbacks to house building projects due to rising borrowing costs and weak demand conditions.

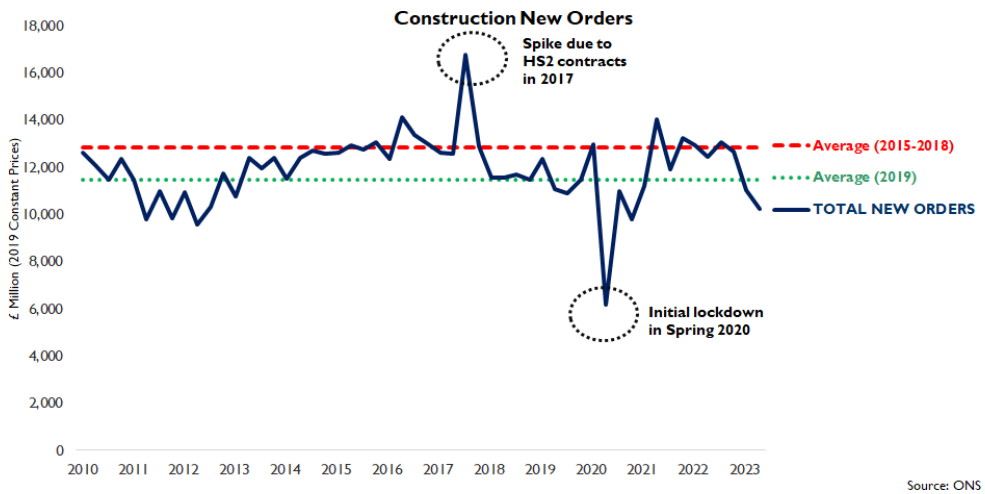
Civil engineering activity (45.7) and commercial building (47.7) both declined in September with commercial activity notably falling after solid growth throughout the Summer. Some firms noted that concerns about the economic outlook had dampened client demand and led to a lack of new work to replace completed projects.

New business for construction companies in September declined for the third time in four months and the rate of decline was its steepest since May 2020. Construction companies typically cited poor demand and a fall in new orders from lower workloads in residential building. Lower client demand meant that construction firms slowed their rate of job creation during the latest survey period and sub-contractor usage decreased for the first time since January. A lack of new projects resulted in the steepest rise in sub-contractor availability for over 14 years.

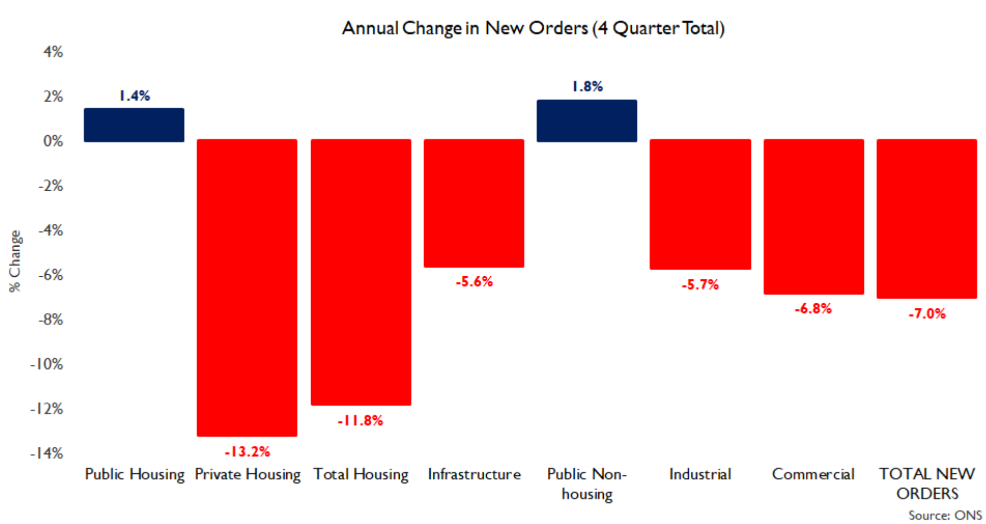
Cost burdens were broadly unchanged in September, contrasting with strong input price inflation on average in the first half of 2023. Respondents noted higher fuel bills and some rises in raw material prices, but this was offset by lower shipping costs and greater price competition among suppliers. The number of construction firms predicting a rise in output over the year ahead (41%) continued to exceed those forecasting a decline (17%). This was linked to long-term business expansion plans and hopes of a turnaround in customer demand. However, the degree of confidence was at its lowest since December 2022 due to concerns about higher borrowing costs and a weaker housing market.



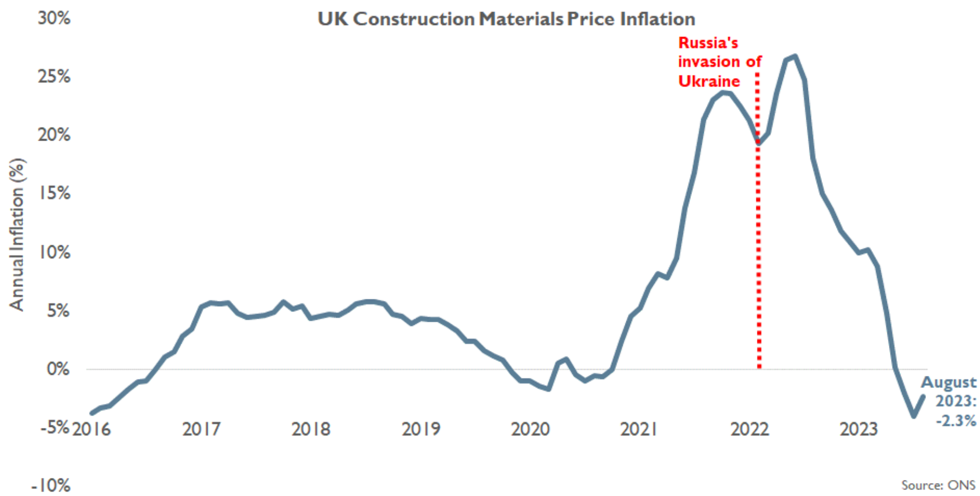
[ONS Construction New Orders (2023 Q2)](): The volume of construction new orders, which only cover new construction work, in 2023 Q2 were 7.1% lower than in Q1 and 17.7% lower than a year earlier. Construction new orders have been falling for three consecutive quarters since the Government's Mini Budget 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.



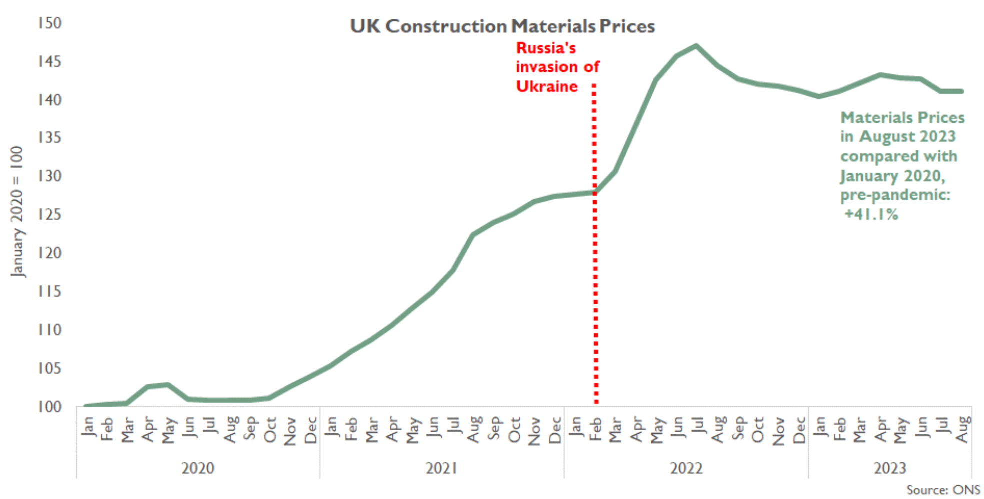
New orders by sector can be volatile on a quarterly basis and distort the forward looking picture given that different sectors have different lags between order and activity down on the ground but looking at the 4 quarter total to 2023 Q2, orders were 7.0% lower than a year earlier with falls across 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%).



[ONS UK Construction Materials Prices (August 2023)](): UK construction materials price inflation in August 2023 was -2.3% compared with -4.0% as the rise in oil prices in August led to an upturn in input costs and slowed the rate of deflation, according to the ONS. Even still, construction materials prices continue to fall on an annual basis over a year on from the spike in energy, commodity and materials prices after Russia's invasion of Ukraine when construction materials inflation peaked at 26.8% in Summer 2022.

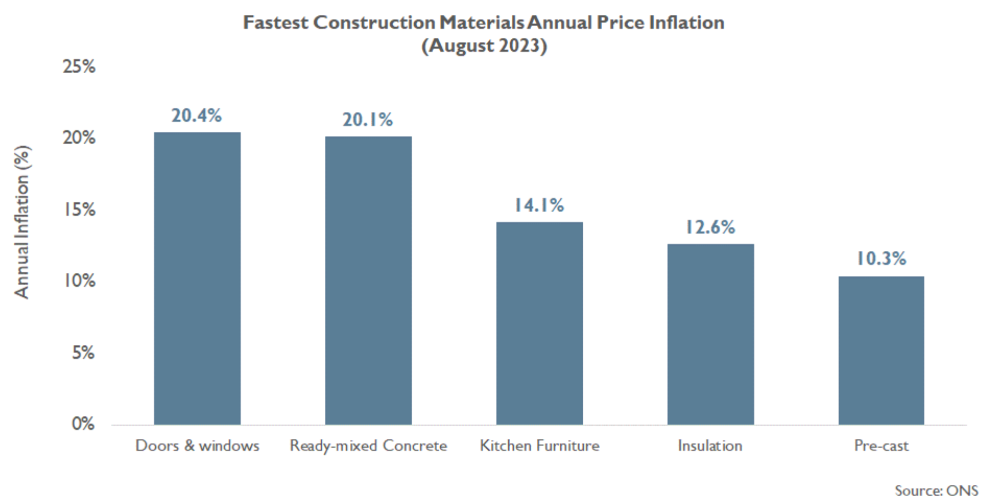


Whilst the construction materials inflation rate continues to fall on an annual basis, prices remain at historically high levels and in August 2023 construction materials prices were 41.1% higher than in January 2020, pre-pandemic. This continues to have cost implications for construction projects, in particular smaller sub-contractors that signed up to, or started projects, more than 18 months ago on fixed-price contracts.

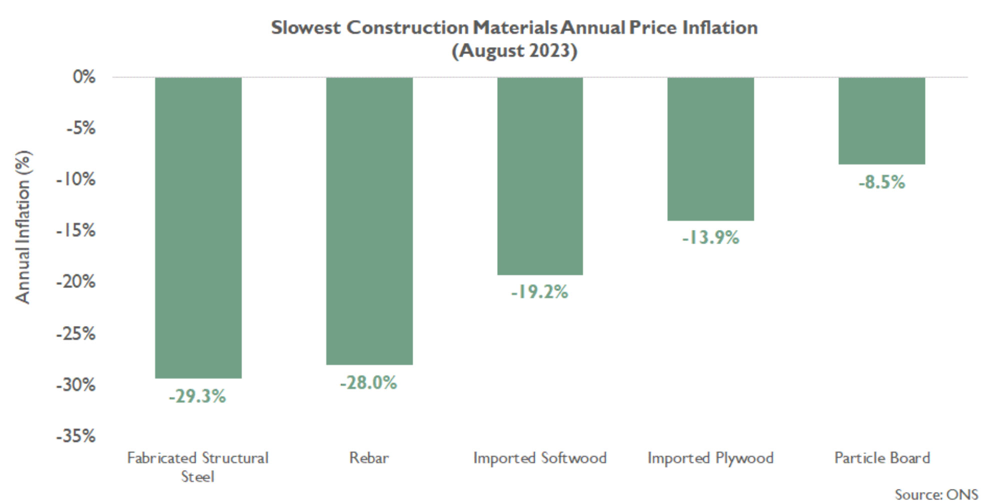


Although construction materials prices fell by 2.3% overall in the year to August, the prices of some materials are still rising at double-digit rates whilst the prices of other materials are falling at double-digit rates so how house builders and contractors find the impacts of the current changes in construction materials prices will depend critically on the product-mixes that they primarily use.

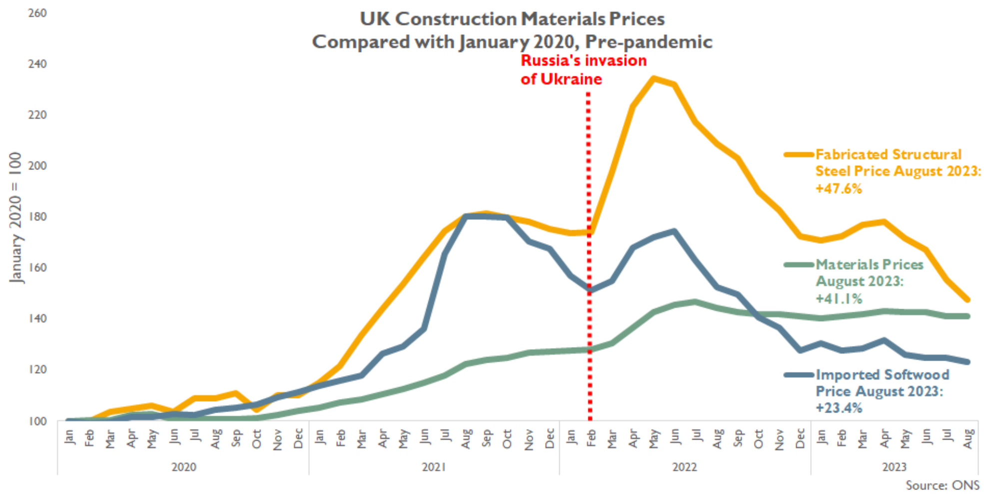
The fastest rates of UK construction materials price in the year to August2023 were in doors and windows, ready-mixed concrete, kitchen furniture, insulation and Pre-cast.



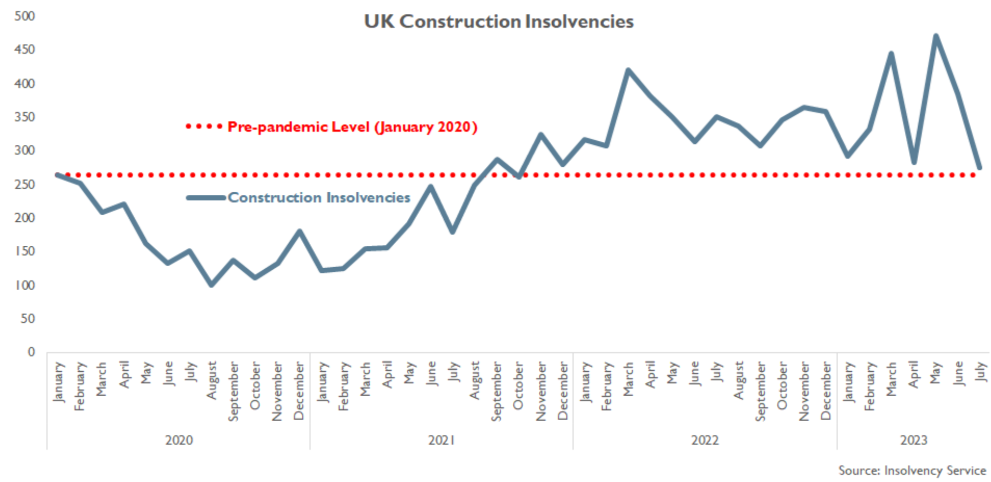
Conversely, the sharpest annual price deflation in construction materials in August 2023, with double-digit price falls, were in steel-related products such as fabricated structural steel and rebar plus timber-related products such as imported softwood, plywood and particle board.



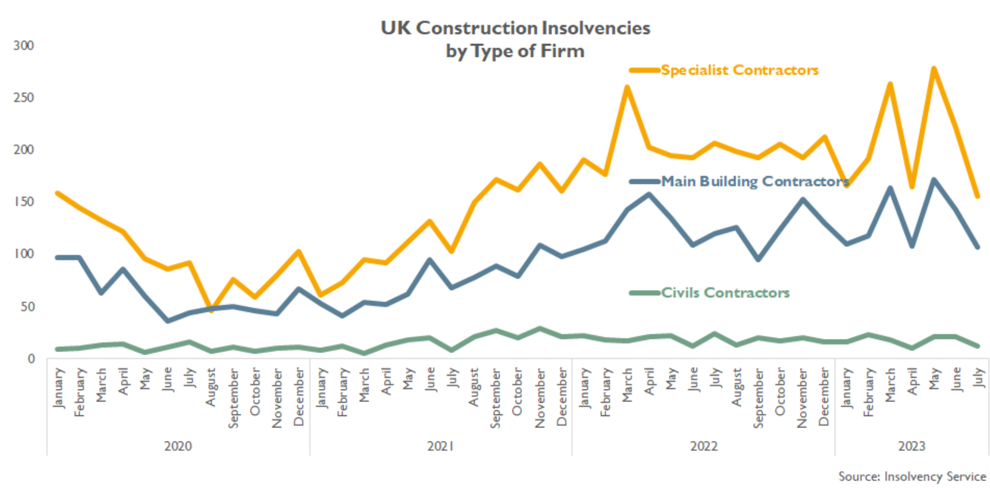
It is important to note, however, that the main reason that steel-related and timber-related product prices are falling so quickly is that their prices peaked higher than other construction materials and, in the case of timber, were due to the supply chain issues in 2021 before the energy and commodity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


UK Construction Materials Prices
Compared with January 2020, Pre-pandemic
Russia's invasion of Ukraine
Fabricated Structural Steel Price August 2023: +47.6%
Materials Prices August 2023: +41.1%
Imported Softwood Price August 2023: +23.4%
January 2020 = 100
260
240
220
200
180
160
140
120
100
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2020
2021
2022
2023
Source: ONS

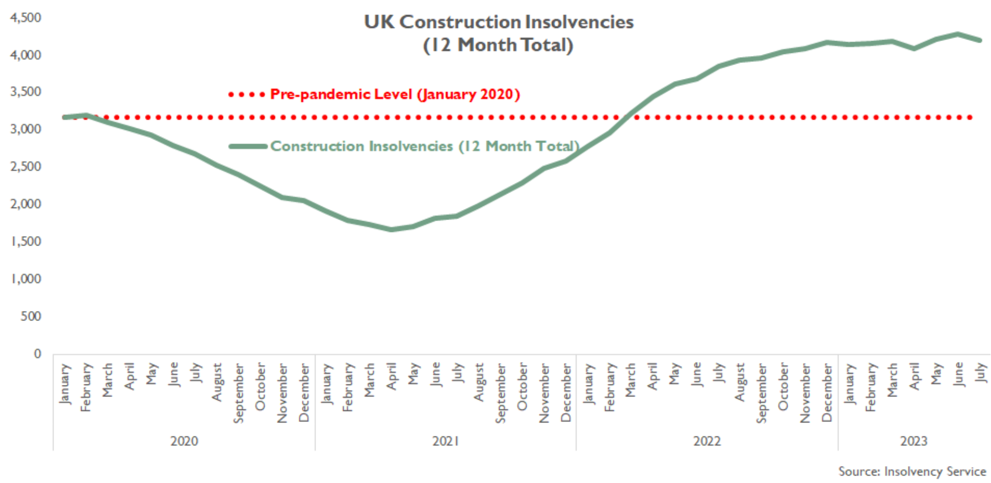
Insolvency Service UK Construction Insolvencies (July 2023): 275 construction firms in the UK went out of business in July 2023, which is 21.7% lower than a year ago but still 3.8% higher than in January 2020, pre-pandemic, according to the Government's Insolvency Service. On a monthly basis, the number of insolvencies is volatile but it has now been higher than the pre-pandemic level for 21 consecutive months. It is worth noting that we haven't seen the full impact of the most recent falls in house building or delays to infrastructure on contractor insolvencies yet.



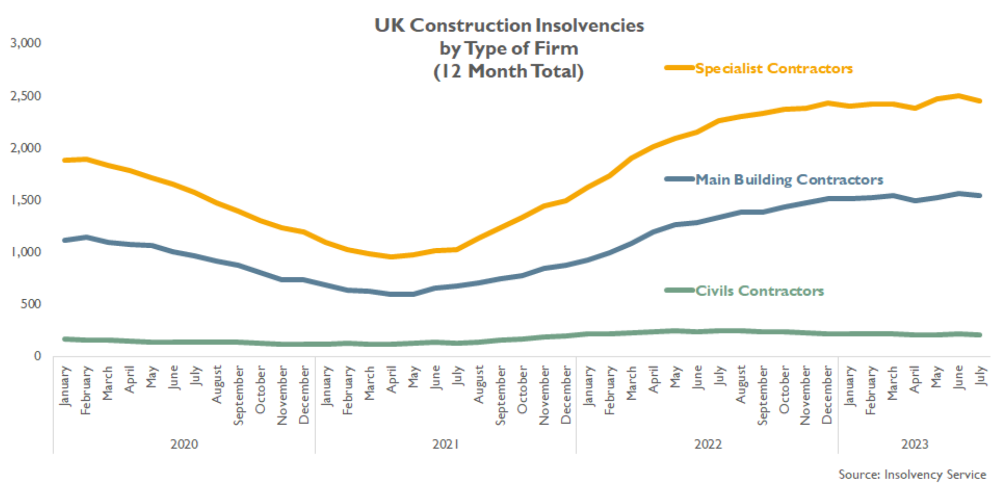
The largest impacts of the insolvencies remain on smaller, specialist sub-contractors and 59% (156) of the construction firms that went under in July were specialist contractors. As the CPA has previously highlighted, in addition to the recent sharp downturns in private housing and private housing rm&i 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% (107) of construction insolvencies in July so they are not immune to the issues.



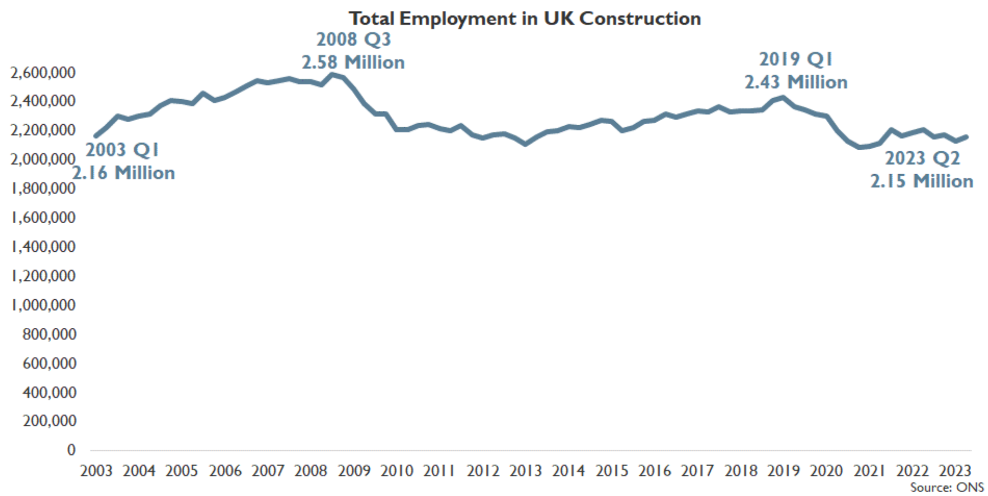
As insolvencies are volatile on a monthly basis, it is worth highlighting that 4,205 UK construction firms went out of business in the year to July 2023, which is 9.2% higher than a year ago, 32.6% higher than in the year to January 2020, pre-pandemic, and construction insolvencies in the year to July 2023 were at their third highest level since the financial crisis and it was only higher in the previous two months.



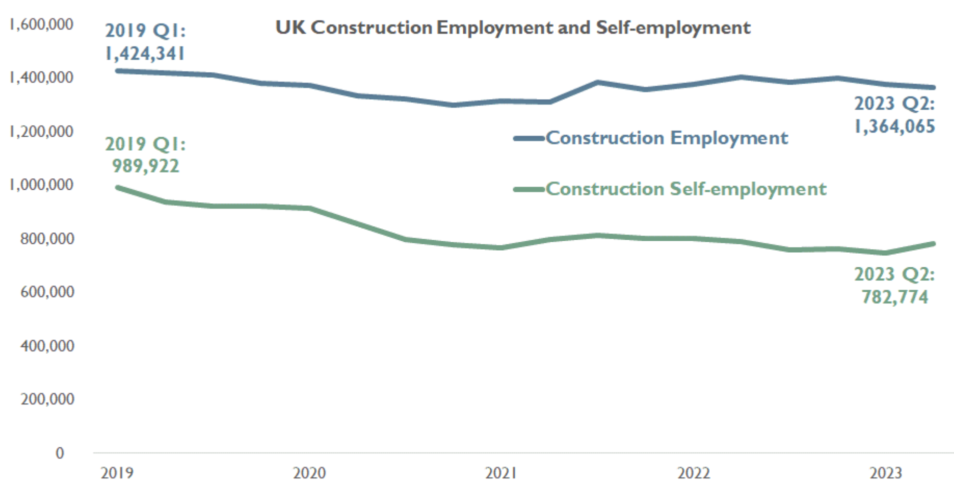
The greatest concern is whether there will be further rises in insolvencies towards the end of this year and early next year given that house building is likely to fall further in the second half of this year, some areas of private housing rm&i remain subdued and government's announcements of delays to roads and rail projects likely to feed through, as well as persistent delays on schools and hospital programmes.



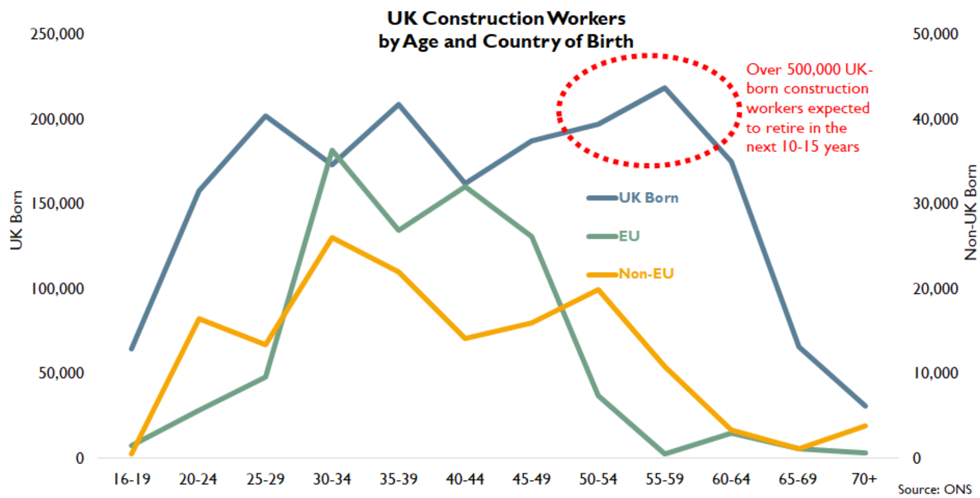
ONS UK Construction Employment and Self Employment (2023 Q2): Given that overall construction materials price inflation is now falling (albeit with materials prices remaining high), the greatest issue facing UK construction industry medium-term will be the skills shortages and the large number of construction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



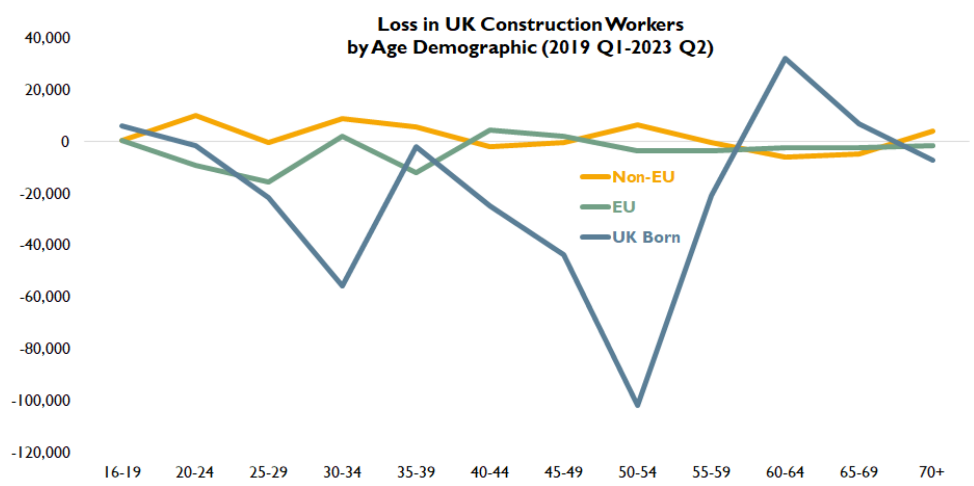
It is worth highlighting that the largest loss in construction employment since the recent peak in 2019 Q1 has been in self-employment, primarily older age-demographic workers in specialist trades. Self-employment in construction in 2023 Q2 was 0.9% lower than a year ago but 20.9% lower (over 200,000 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 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.



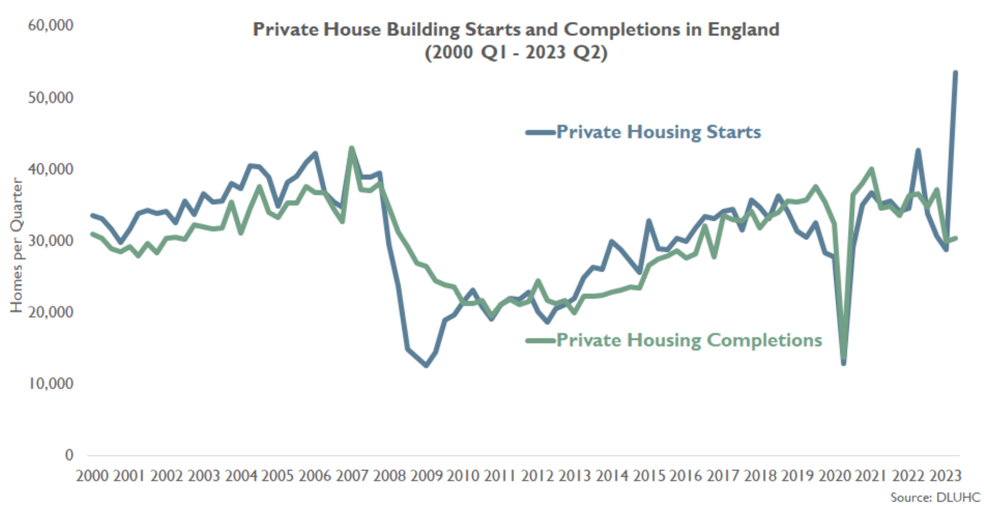
Given the loss of construction workers and as construction apprenticeship starts averaged 31,000 per year in the last 5 years but with a dropout rate over 40%, new entrants will not address the issue. And, without a skilled construction workforce then 300,000+ homes per year, Levelling Up, transition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

[DLUHC Housing Starts and Completions in England (2023 Q2)](): There were 53,530 housing building starts in England in 2023 Q2, which is 86.5% higher than in Q1 and 25.6% higher than a year ago according to DLUHC as major house builders did the minimum necessary to register a start so that they could get ahead of the end of the one-year grace period for the uprated building regulations (Parts F, L, O and S) that add significant cost to building a new home. However, this is an issue we have highlighted in previous CPA forecast publications.

These starts are merely what we refer to as 'technical starts' as they do not reflect the level of house building or even what house builders intend to build going forward near-term. Consequently, product manufacturers feeding into early parts of house building would not have seen sales increase in line with starts given that house builders were solely doing the minimum necessary to register properties as a start.

Private housing completions in 2023 Q2 were 1.2% higher than in Q1 (as many house builders were finishing properties for their year-end this Summer based on pre-sales last year) but they were 17.1% lower than a year earlier. It is worth noting, however, that the full impact of the sharp fall in new housing demand since the Mini Budget last Autumn is only likely to be seen in private housing completions in the second half of this 2023 and first half of 2024.

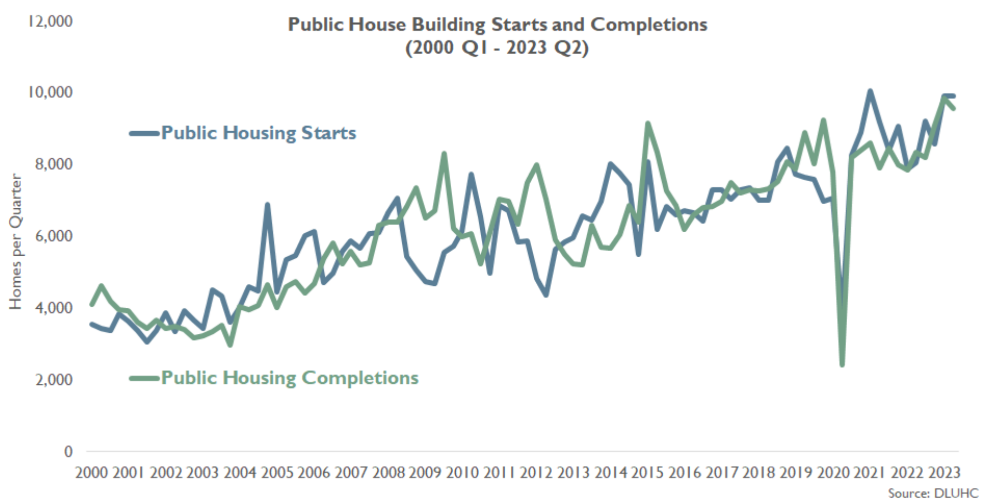
This is because some of the major house builders with year-end in Summer 2023 (such as Barratt, Bellway, Redrow) had completions were 'only' between 2% and 5% lower than a year ago based on pre-sales last year before the Mini Budget but recent reservation rates for these firms were between 28 and 32% lower and will inevitably feed through in the next 6-9 months.



Curiously, public housing starts in 2023 Q2 were flat (0.0%) compared with Q1 and 23.1% higher than a year earlier whilst public housing completions in 2023 Q2 were 3.0% lower than in Q1 but 14.6% higher than a year earlier.

This contrasts sharply with the indications we have from housing associations that, whilst affordable housing demand has broadly been maintained despite the headwinds facing the private housing sector, they are reducing social house building units.

Housing associations and local authorities have increasingly found new build to be less of a priority than the need to redirect finance towards the increasing demands on their existing housing stock as a result of basic living condition issues (such as mould etc.), the need to finance decarbonisation of their existing homes and cladding remediation. This is something that the CPA will have to look into and discuss with the forecast panel.

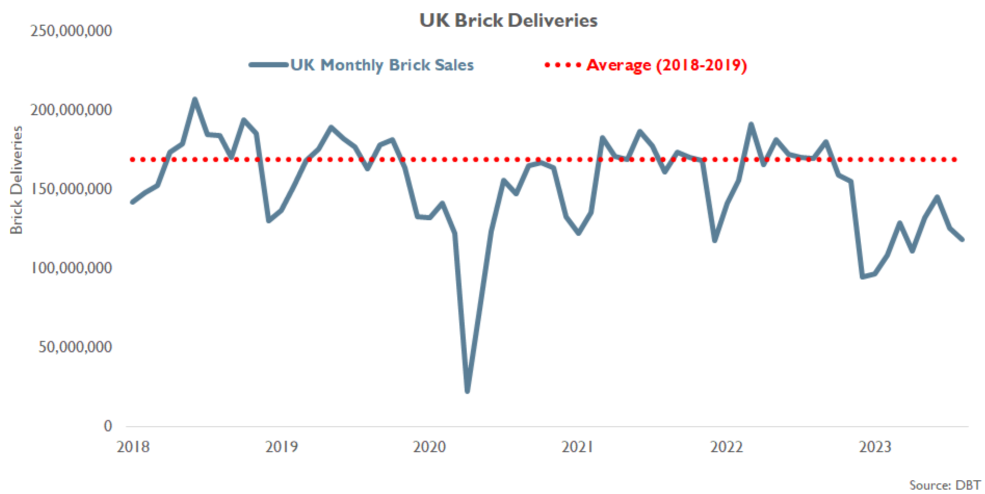


[DBT UK Brick Deliveries (August 2023)](): UK brick deliveries are a useful proxy for house building starts given the absence of monthly housing starts data. In addition, brick deliveries are a useful proxy for starts given that house builders rushed through what the CPA refers to as 'technical starts' in 2032 Q2.

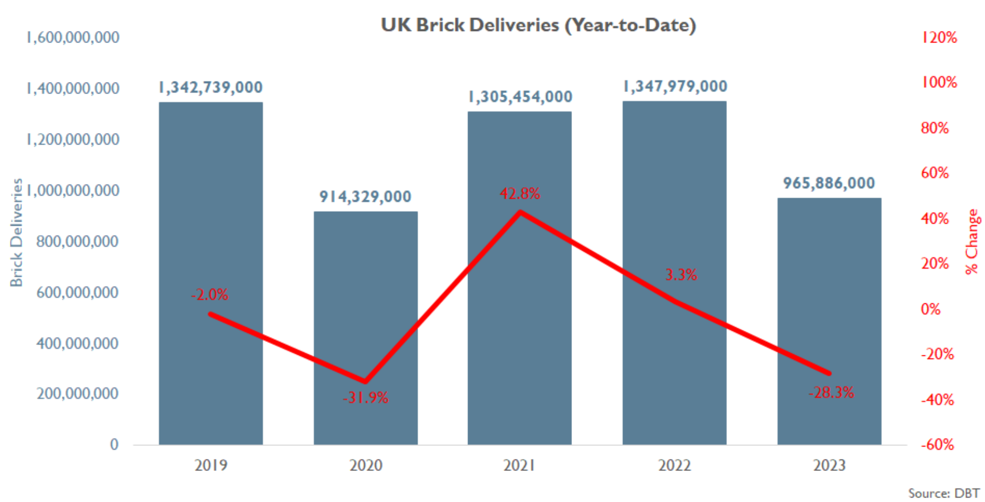
Many house builders did the absolute minimum necessary to register a start to get ahead of the uprated building regulations F, L, O and S that add substantial cost but this doesn't represent near-term house building and product manufacturers that generally feed into house building starts did not report a similar upturn in sales alongside the sharp upturn in 'technical starts' in Q2.

Brick deliveries are a more useful indication of intention to build in the near-term whilst the starts data in Q2 merely reflects house building that may be built out under previous building regulations at any stage of the next 2-3 years, dependent on demand. Brick deliveries in August 2023 were 5.6% lower than in July and 30.2% lower than a year earlier.

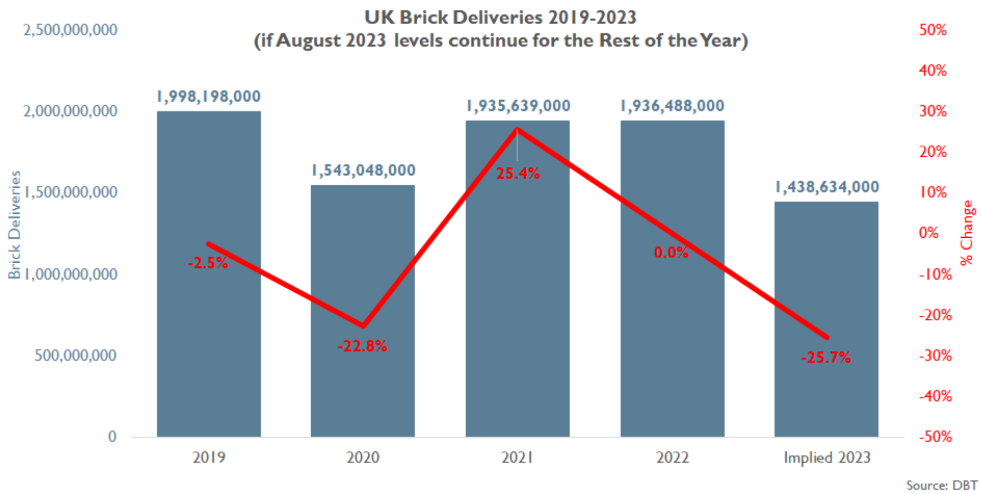
It is worth noting that August 2022, a year ago was a high base (prior to the Mini Budget that led to the initial sharp rise in mortgage rates and a fall in housing demand). Through brick deliveries, we can the lagged impact of mortgage rate rises in May and June on house builder confidence and starts. Given the low level of homebuyer demand and uncertainty, house builders are unsurprisingly focusing solely on completing existing developments to meet the current level of demand rather than starting new developments.



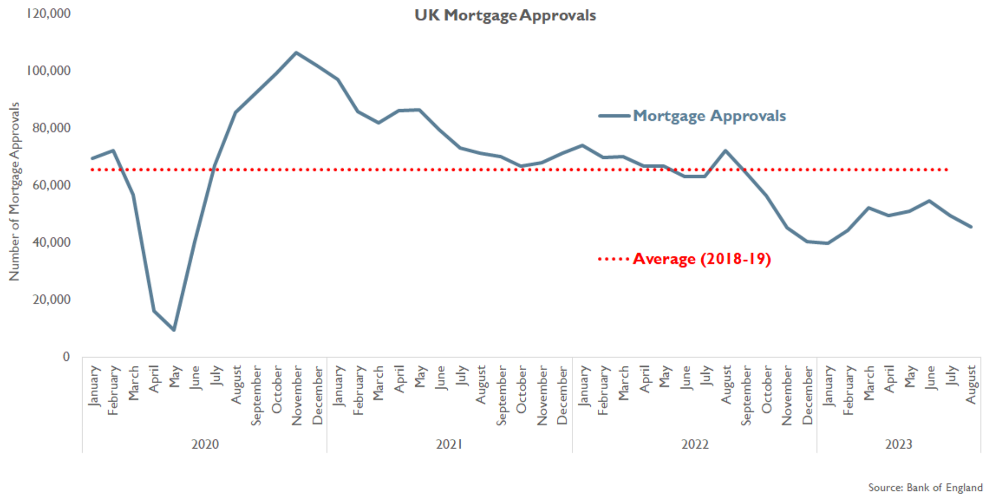
Year-to-date (January-August), UK brick deliveries in 2023 were 28.3% lower than a strong level in 2022. They were also 28.2% lower than in 2019, pre-pandemic, and only 5.6% higher than in 2020, which was affected by national lockdowns. It is, however, broadly in line with the 28-32% falls in recent reservations/forward sales from some major house builders that reported year-end in Summer 2023.



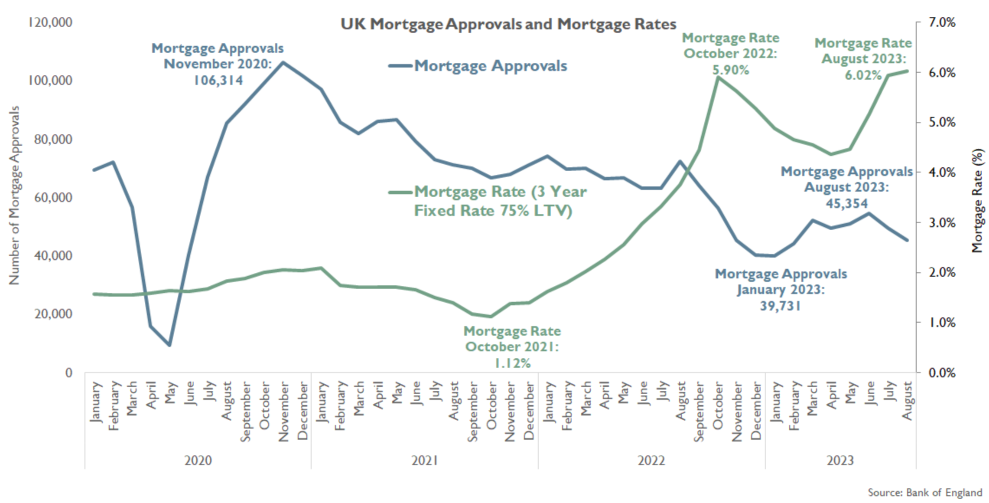
As another reference point for brick deliveries and house building starts this year, if deliveries continue at August levels for the rest of the year then overall in 2023 deliveries they would be 25.7% lower than in 2022 and 28.0% lower than in 2019, pre-pandemic, but note that this reference point is likely to be on the optimistic side as house building starts tend to fall towards the end of the year as house building slows in Winter and builders focus more on completions for year-end, especially given the current low level of housing demand.



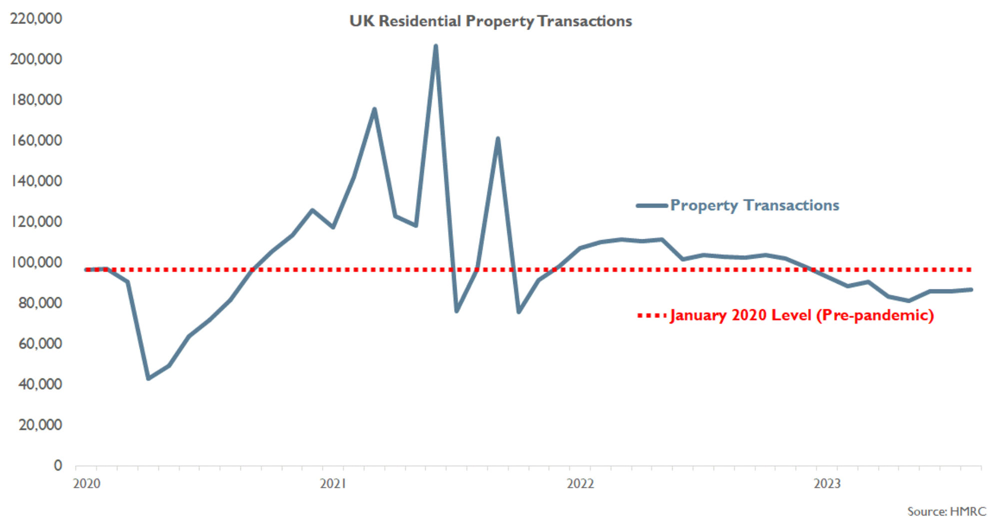
[Bank of England UK Mortgage Approvals (August 2023)](): There were 45,354 mortgage approvals in the UK in August according to the Bank of England, which is 8.4% lower than in July, 37.3% lower than a year ago and 30.7% lower than the 2018 to 2019 average, pre-pandemic (pre-'race for space' and rate rises etc.).



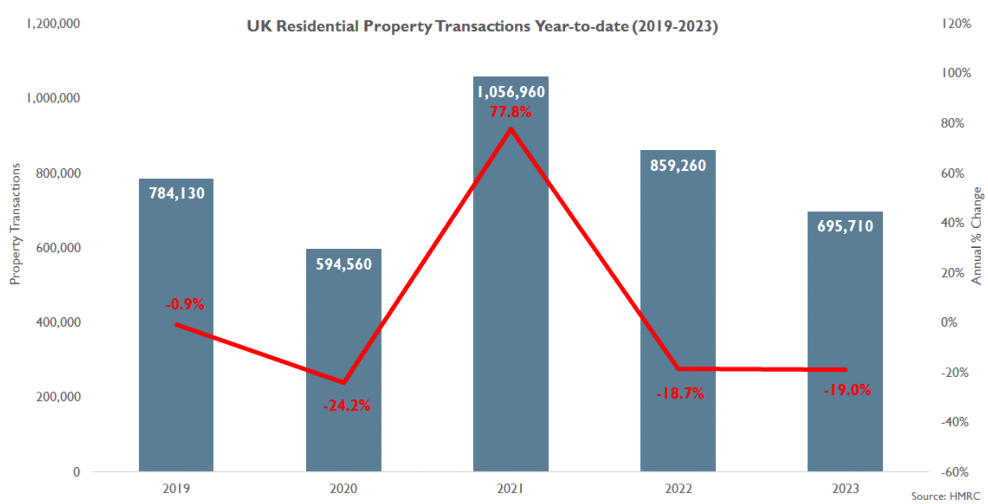
UK mortgage approvals had been on a general upward trend since January 2023 but from a low base (after the collapse in demand in 2022 Q4 following Mini Budget and spike in mortgage rates) as mortgage rates fell from the October 2022 peak. However, they have started to fall once again as mortgage rates rose this Summer with increases in the Bank of England's base rate and increases in the expectation of peak interest rates. UK mortgage approvals appear to be close reaching the nadir, slightly higher than at the end of last year, as the Bank of England's interest rate appears to have now peaked and mortgage rates are likely to fall slightly. The impacts on property transactions, however, will only been seen towards the end of this year.



HMRC UK Residential Property Transactions (August 2023): There were 87,010 property transactions in the UK in August 2023, which is 1.1% higher than in July but 15.6% lower than a year ago, according to HMRC. The number of property transactions in August was also 9.8% 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 August were still largely based on mortgages applied for and approved months earlier, prior to the mortgage rate rises in May and June. As a result, based on mortgage approvals in July and August, property transactions are likely to fall further in the rest of the year.

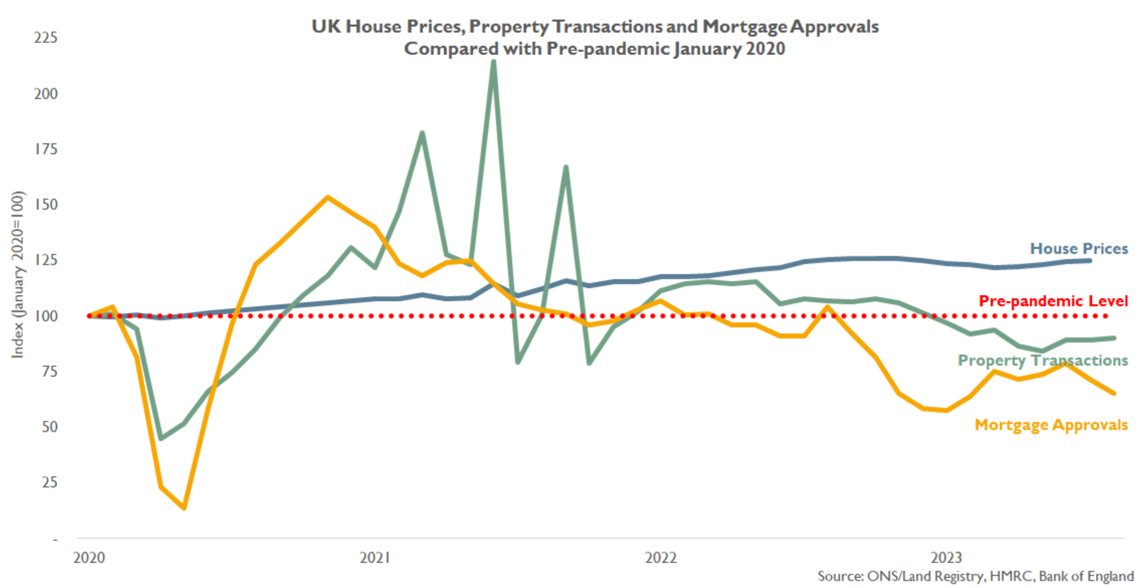


Year-to-date (January to August), there were 695,710 residential property transactions in the UK in 2023, which is 19.0% lower than in 2022 and 11.3% lower than in 2019, pre-pandemic.

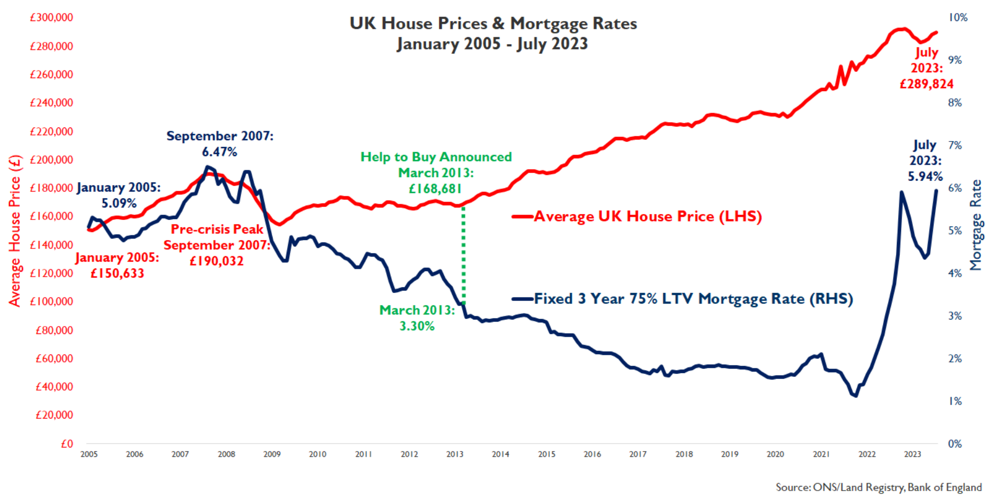


It is worth highlighting again that the largest impacts of the fall in demand in the housing market since the government's Mini-Budget and consequent spike in mortgage rates as well as the rise in mortgage rates in May and June will be on mortgage approvals. Hopefully, now that interest rates appear to have peaked at 5.25%, this will lead to slight falls in mortgage rates as lenders had previously been assuming that the Bank of England would raise interest rates to 5.75% towards the end of the year), which may marginally help demand in the housing market but note that mortgage rates will remain at relatively high levels compared with the low rates seen for most of the last decade.

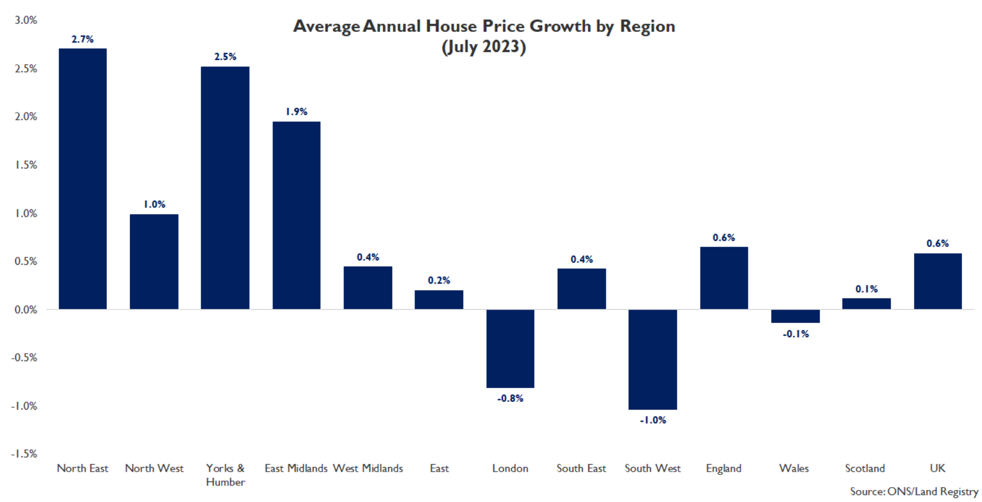
Mortgage rate rises are so far having a less negative impact on property transactions than on mortgage approvals due to the lag effect (as mortgage offers and approvals between June and August have not fed through yet) and because cash buyers and investors are accounting for a higher proportion of transactions 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.



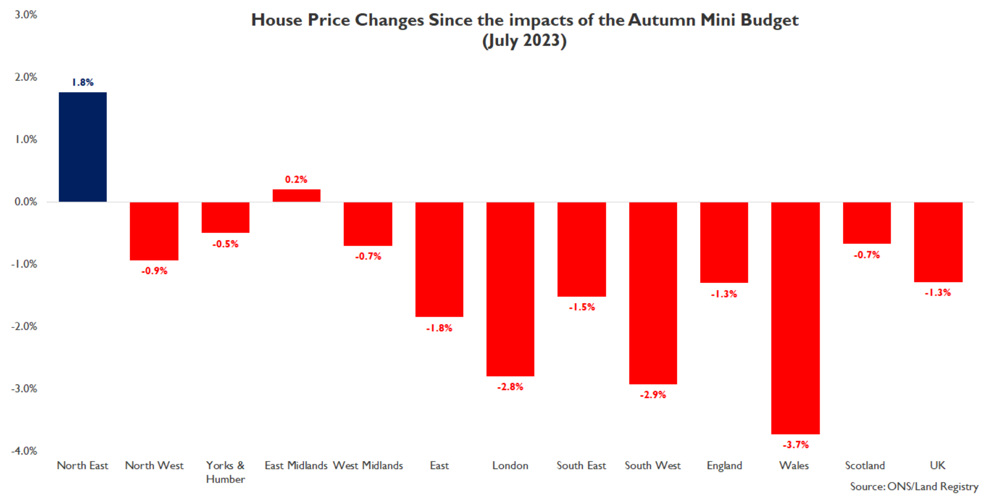
[ONS/Land Registry UK House Price Index (July 2023)](): The average UK house price in July 2023 rose by 0.6% compared with a year earlier, significantly lower than the ONS/Land Registry revised 1.9% in June. House prices in July were also 1.3% lower than at the November peak. The ONS/Land Registry house price index is based on all property transactions including cash buyers and investor purchases, unlike the Nationwide and Halifax house price indices, which are based only on their mortgage offers and will have been affected more by the rising interest rates than the ONS/Land Registry house prices. It is worth noting, however, that as the number of mortgage approvals and property transactions has fallen significantly, cash buyers and bulk purchases at the higher end of what is a smaller housing market may skew the ONS/Land Registry average house price. Also, given that the ONS/Land Registry house prices are based on transactions, many of the transactions in July may have been based on mortgages before the most recent spike in mortgage rates, which are likely to feed through to prices later in the year.



Across the regions and nations, the fastest annual house price growth was in the North East (2.7%) and Yorkshire & Humber (2.5%) whilst the slowest house price growth was in South West (-1.0%) and London (-0.8%) according to the ONS/Land Registry.



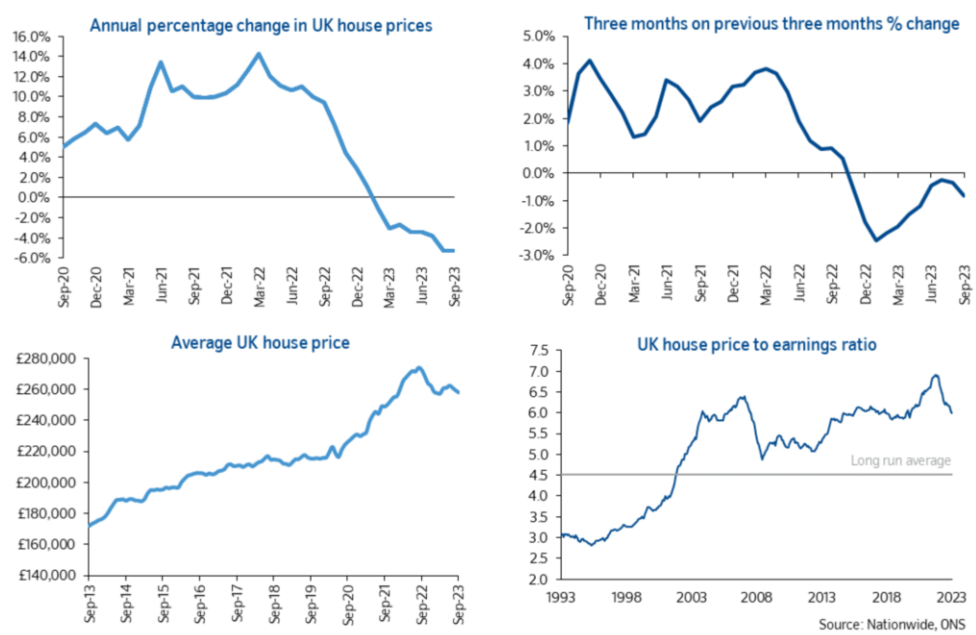
Since the recent peak of UK house prices in November 2022 (following the government's Mini Budget but before the impacts of the initial spike in mortgage rates on transactions), UK house prices have fallen by 1.3%. So far, the largest falls in house prices since the 2022 peak were in Wales (-3.7%), South West (-2.9%) and London (-2.8%).



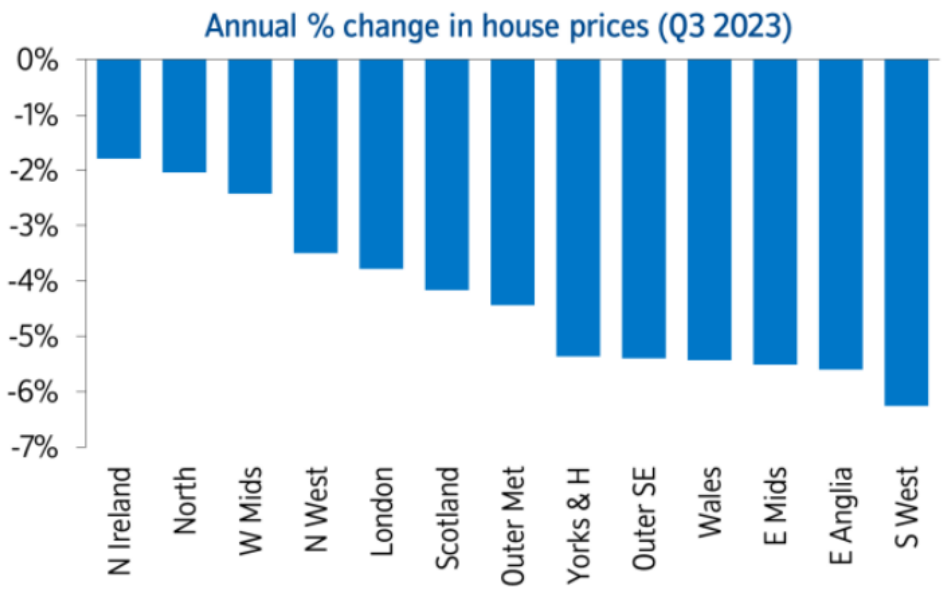
The marginal falls in ONS/Land Registry UK house prices so far mean that the chart of mortgage approvals, property transactions and house prices (all indexed to 100 in January 2020, pre-pandemic) looks curious. Unsurprisingly, mortgage approvals have been the most affected and earliest affected by the rise in mortgage rates and in July 2023 approvals were 28.8% lower than in January 2020 whilst property transactions were 10.3% lower but UK house prices were still 25.0% higher. A part of this is that with lower demand in the housing market, prices have been partly offset by falls in the number of homes onto the market as well as cash buyers and investor purchases but it is also partly explained by ONS/Land Registry house prices being a lagging indicator and, as a result, it is likely to fall more significantly in the coming months.

Nationwide UK House Price Index (September 2023): Nationwide reported that annual house price growth based on its own mortgage offers was unchanged at -5.3% in September 2023. House prices were also flat over the month following a 0.8% decline seen in August. According to Nationwide, UK housing market activity remains weak, which is unsurprising given the more challenging picture for housing affordability. A person earning an average income and purchasing the typical first-time buyer home with a 20% deposit would spend 38% of their take home pay on their monthly mortgage payment, which is considerably higher than the long-run average of 29%.

Investors have marked down their expectations for the future path of interest rates in recent months due to underlying inflation pressures in the UK economy easing and with labour market conditions softening. This has lessened the pressure on the Bank of England to raise rates further and led to downward pressure on long-term interest rates, which underpin fixed rate mortgage pricing. If this continues then it may ease pressure slightly on those remortgaging or looking to buy a new home. With the Bank of England's base rate not expected to decline even in the medium-term, however, borrowing costs will not return anywhere near the historic lows seen in the aftermath of the pandemic or even the rates seen in the previous decade. It is more likely that sustained income growth combined with modestly lower house prices and mortgage rates will improve affordability in real terms over time but with housing market activity remaining substantially below the buoyant levels seen during the pandemic 'race for space'.



Nationwide's regional house price indices showed annual price declines in all regions during 2023 Q3. The South West was the weakest performing region, with prices down 6.3% year-on-year, whilst Northern Ireland remained the best performing region, with a modest 1.8% fall. Wales saw a sharp slowing in the annual rate of change to -5.4% from -1.4% last quarter. While Scotland also saw a slowing in annual house price growth to -4.2%, from -1.5% in Q2. Across northern England (which comprises North, North West, Yorkshire & The Humber, East Midlands and West Midlands), prices were down 3.9% compared with Q3 2022. The North was the strongest performing northern region, with the annual rate of change improving from -3.3% to -2.0%, whilst the East Midlands was the weakest, with a 5.5% decline.



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. It's 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 targeting total home completions of between 13,250 and 14,250 in this financial year, representing a fall of between 17% and 23%.

£m unless otherwise stated[1,2]	**Year ended 30 June 2023**	**Year ended 30 June 2022**	**Change**
Total completions (homes)[3]	17,206	17,908	(3.9%)
Revenue	5,321.4	5,267.9	1.0%
Alternative performance measures:[4]			
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%)
Statutory basis:			
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%

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 H1 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[1]	**£1.19bn**	£1.69bn
Underlying new housing gross margin[2]	**21.5%**	31.0%
Underlying operating profit[3]	**£152.2m**	£440.7m
Underlying operating margin[4]	**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[5]	**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.

Redrow Final Results (September 2023): Redrow reported for the financial year ending 2 July 2023 that its revenue was £2.13 billion, broadly in line with the £2.14 billion reported in the previous year. It also issued guidance for the following financial year that it anticipates revenue falling to between £1.65 billion and £1.7 billion.

It delivered 5,436 homes compared with 5,715 a year ago and stated that the cost of living and mortgage affordability continue to have a negative impact on the market. Reflecting the macro-economic picture and a tougher sales market, its average private reservation rate per week for the year was 0.46 compared to 0.68 in 2022.

Furthermore, it reported a challenging sales market over the summer that has resulted in a sales per outlet per week of 0.34 for the first 10 weeks of the new financial year compared with 0.61 a year ago.

Financial Results

	Unaudited 2023	2022	Var	Var %
Legal Completions	5,436	5,715	(279)	(5)
Revenue	£2.13bn	£2.14bn	£(0.01bn)	-
Underlying profit before tax[1]	£395m	£410m	£(15m)	(4)
Statutory profit before tax	£395m	£246m	£149m	61
Underlying EPS[1]	91.2p	96.0p	(4.8p)	(5)
Statutory EPS	91.2p	57.7p	33.5	58
Final dividend per share (DPS)	20.0p	22.0p	(2.0p)	(9)
Underlying ROCE[1]	23.1%	24.5%	(1.4ppts)	(6)
Total order book[1]	£0.85bn	£1.44bn	£(0.59bn)	(41)