(Updated – 29 September 2023)

Weekly Economic and Construction Update

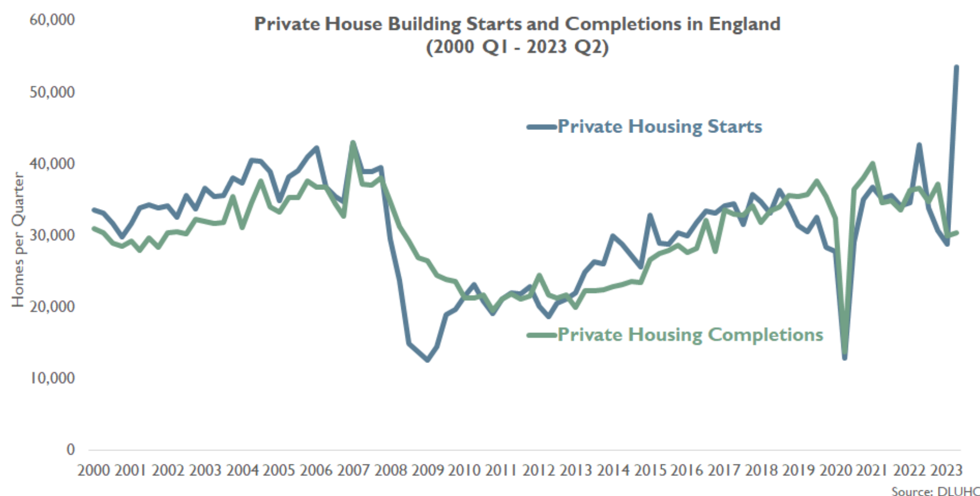
1) DLUHC Housing Starts and Completions in England (2023 Q2):

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.

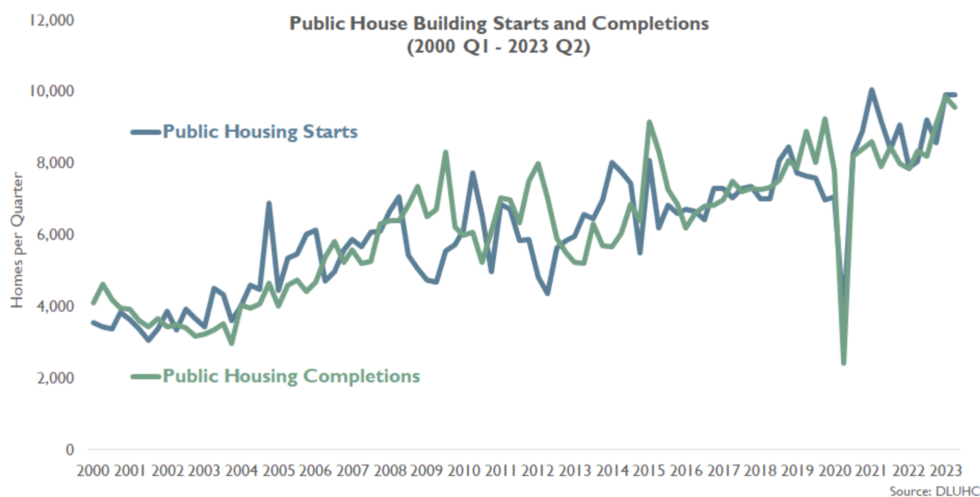
This is because some of the major house builders with year-end in Summer 2023 (such as Barratt, Bellway, Redrow) had completions were 'only' between 2% and 5% lower than a year ago based on pre-sales last year before the Mini Budget but recent reservation rates for these firms were between 28 and 32%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

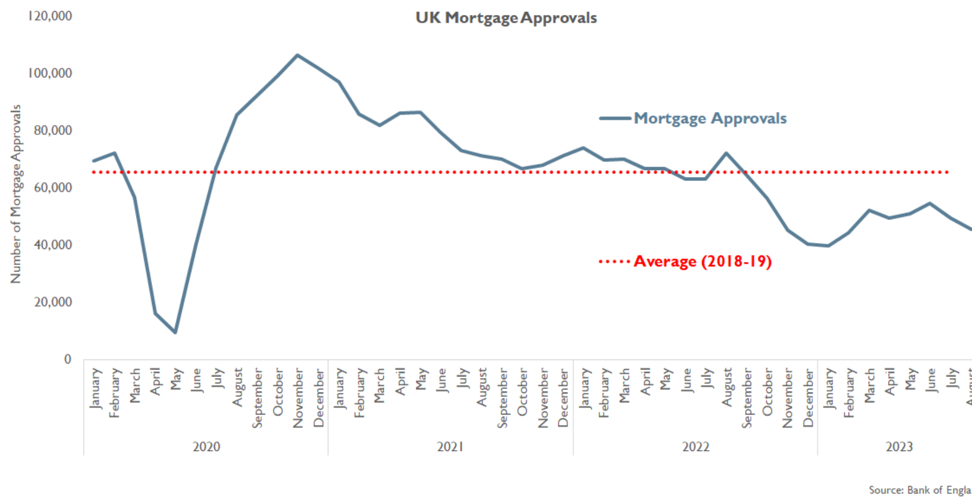
This contrasts sharply with the indications we have from housing associations that, whilst affordable housing demand has broadly been maintained despite the headwinds facing the private housing sector, they are reducing social house building units.

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.

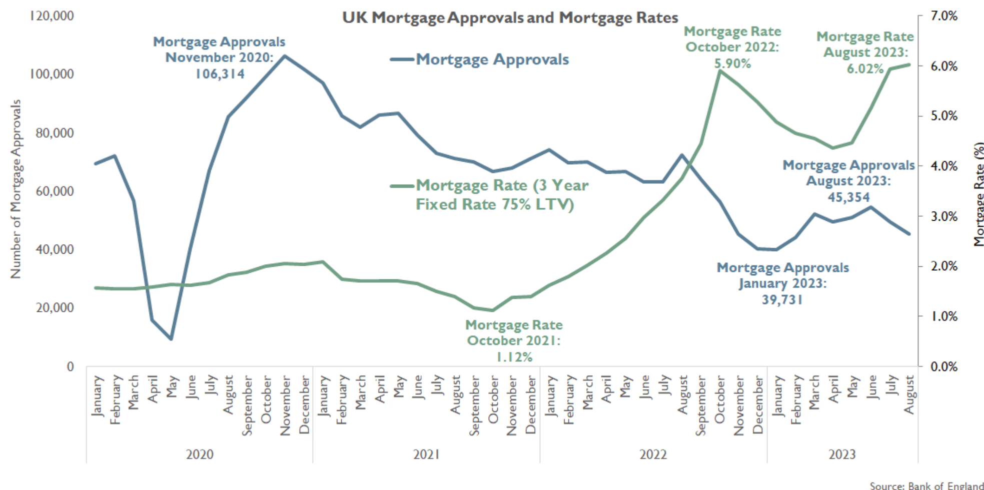


2) Bank of England UK Mortgage Approvals (August 2023):

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.).

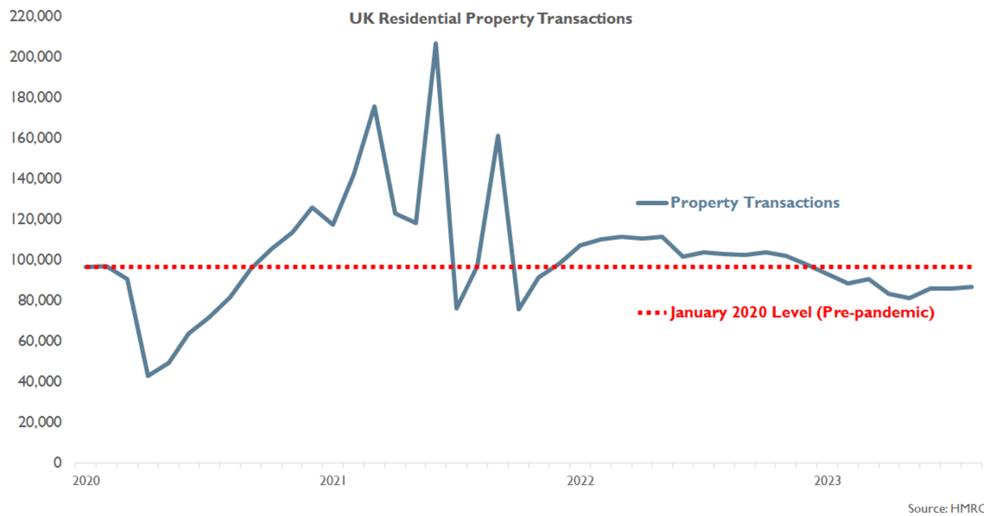


UK mortgage approvals had been on a general upward trend since January 2023 but from a low base (after the collapse in demand in 2022 Q4 following Mini Budget and spike in mortgage rates) as mortgage rates fell from the October 2022 peak. However, they have started to fall once again as mortgage rates 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.

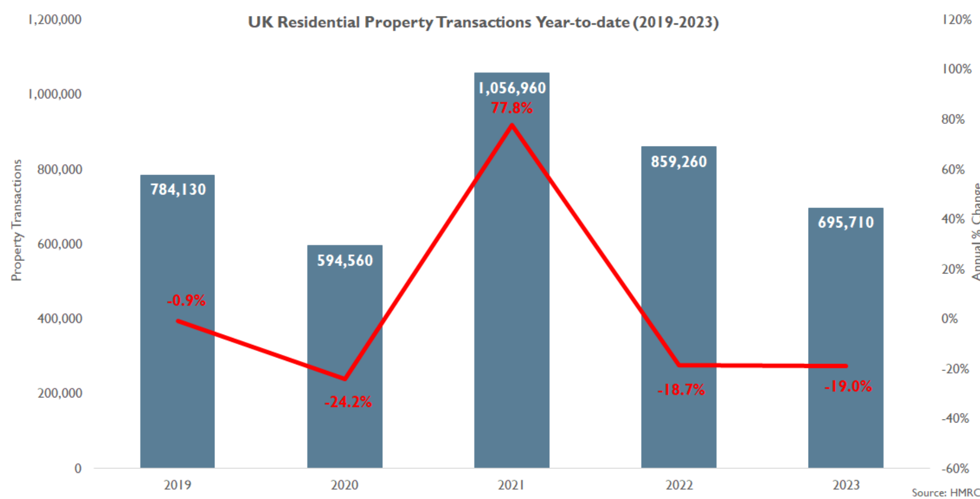


3) HMRC UK Residential Property Transactions (August 2023):

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.

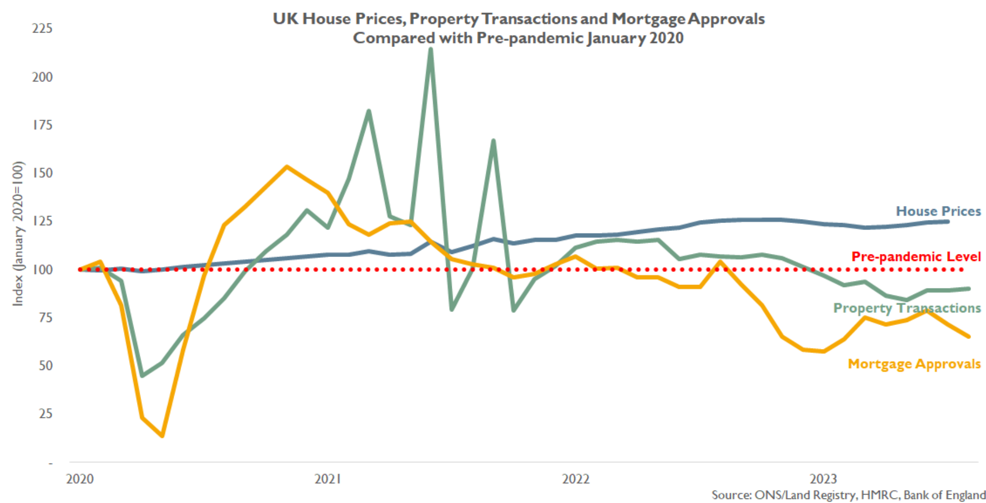


Year-to-date (January to August), there were 695,710 residential property transactions in the UK in 2023, which is 19.0% lower than in 2022 and 11.3% lower than in 2019, pre-pandemic.



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.



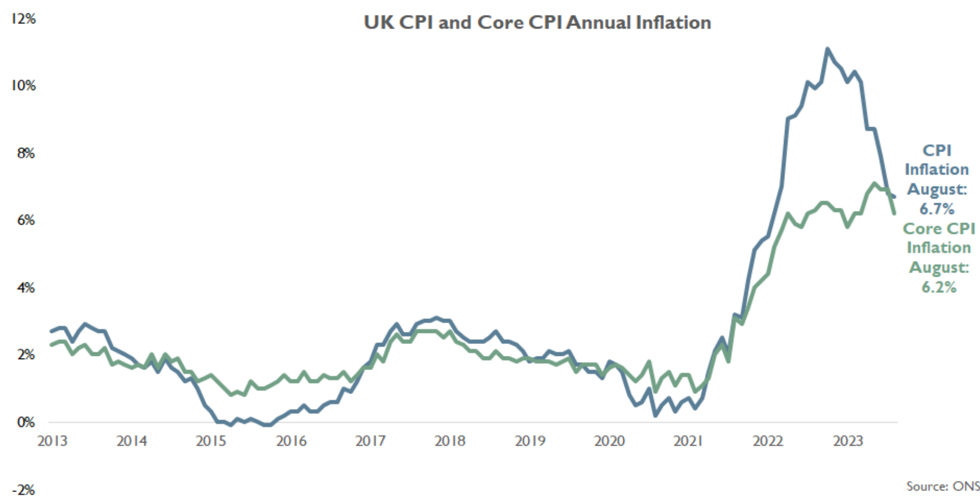
EXISTING INFORMATION

ONS UK CPI and Core CPI Inflation (August 2023): UK CPI inflation slowed marginally from 6.8% in July to 6.7% in August, compared with macroeconomic forecasters' consensus beforehand of a rise to 7.0%. This is despite the rise in Brent crude oil prices during August. The slight slowdown in price growth was primarily driven by restaurant prices in the month and moderate price rises in goods and services related to pets and recorded media.

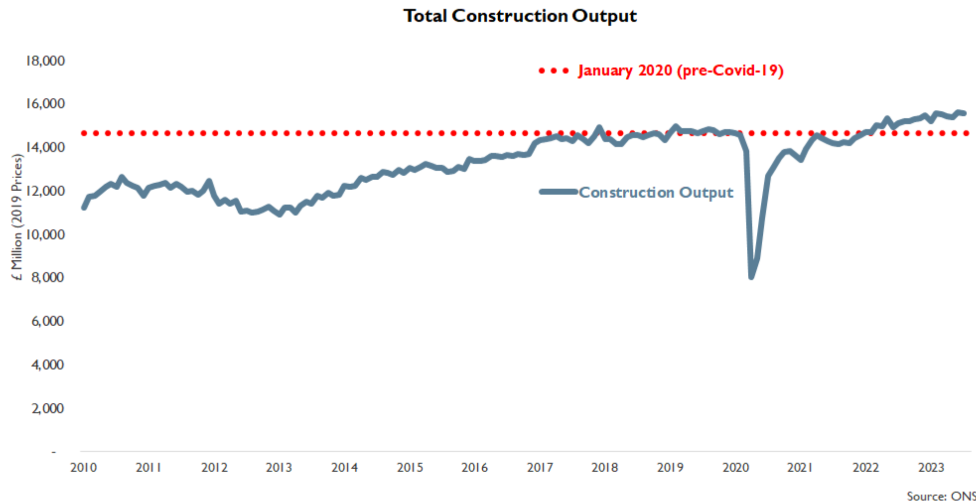
Furthermore, core CPI inflation, which the Bank of England monitors closely to see medium-term inflation prospects, slowed from 6.9% to 6.2% whilst macroeconomic forecasters' consensus beforehand was for no change.

The slowdown in inflation, particularly core CPI inflation, points strongly towards the Bank of England getting close to peak interest rates and it is most likely there already. The Bank of England chose to keep interest rates at 5.25% in September with 5 members of the Bank's Monetary Policy Committee (MPC) voting for no change whilst 4 members voted for a further rise so it was close decision and it is worth noting that both the Bank and financial markets have been reacting strongly to the latest inflation data point so a further rise in rates cannot be entirely ruled out but it increasingly unlikely.

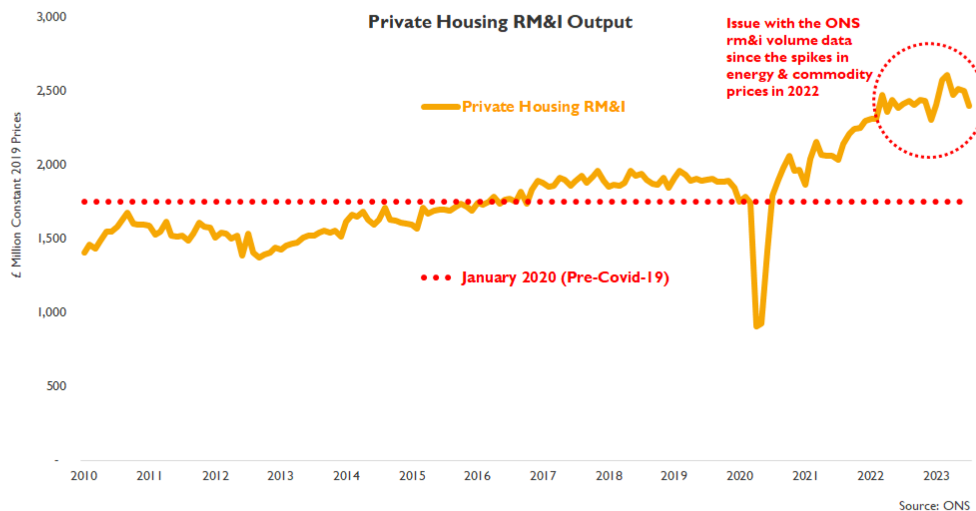
It is worth noting that in the CPA's Summer forecasts, published in July, interest rates were assumed to peak in 2023 Q4 at 5.75% before gradually falling from 2024 Q2. With interest rates likely to be at peak already, this is likely to lead to a revision in the Autumn forecasts that is likely to benefit mortgage rates and payments as well as consumer spending and GDP over the forecast period.



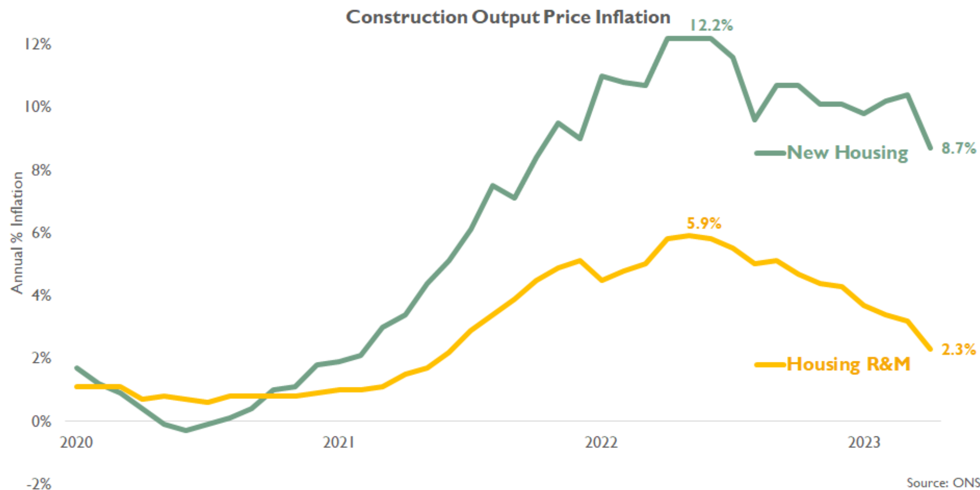
ONS Construction Output (July 2023): Construction output in July 2023 was 0.5% lower than in June but still 2.8% higher than a year ago and 6.1% higher than in January 2020, pre-pandemic, according to the ONS. The ONS partly attributed this monthly fall to the rain in July and partly to the continued fall in private house building activity.



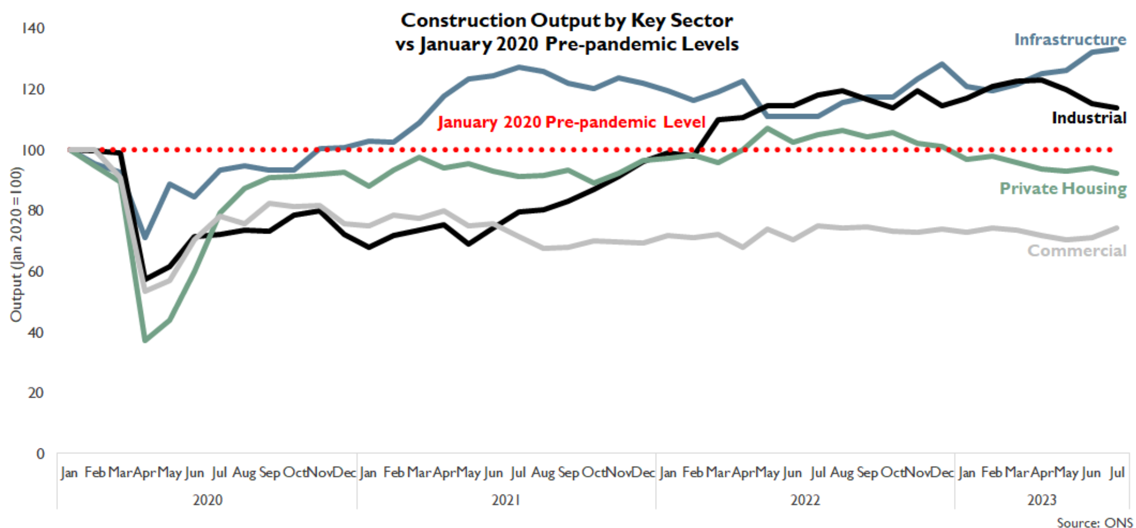
It is worth noting, however, that the ONS construction output data continues to be inflated by issues in the repair and maintenance data, which particularly affected private housing repair, maintenance and improvement (rm&i) and the CPA has been highlighting for over one year. According to the ONS, private housing rm&i output in July was 3.9% lower than in June and 0.5% lower than a year ago but it reported that it remained 36.9% 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 change in private housing rm&i output but it will still leave the output level at an artificially high level.



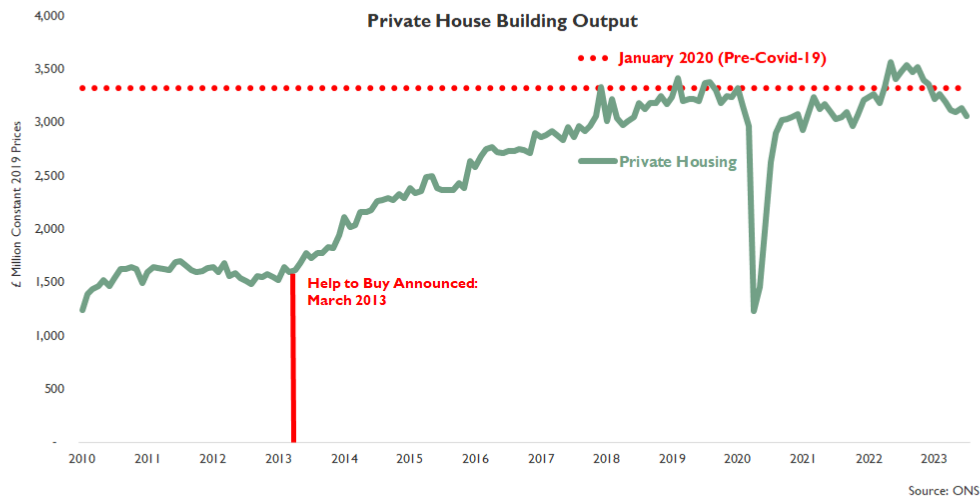
The issue in the ONS r&m volume of output data appears to occur as the ONS is underestimating price inflation in r&m, which it uses to deflate construction output value and turn it into volume of output. As it is underestimating price inflation, it is overestimating volume of activity. To illustrate 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.



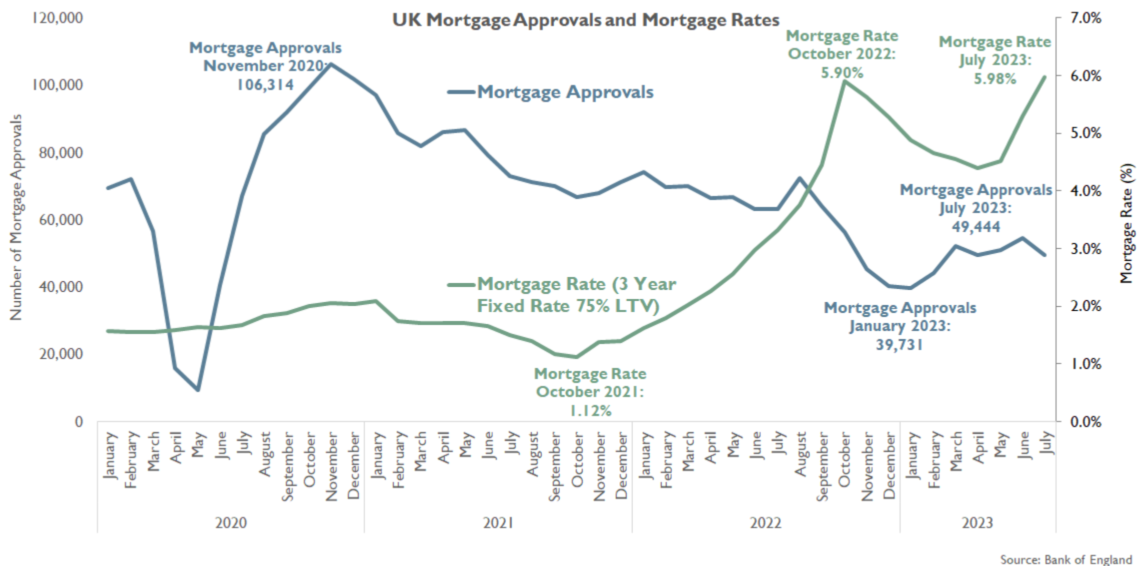
As a result of the ONS data issues for housing r&m, it is more useful to focus on the differing fortunes across the new construction sectors, with a clear contrast between the sectors in which activity is higher than pre-pandemic and sectors in which activity is below pre-pandemic levels. Infrastructure output rose in July 2023 and was 33.3% higher than pre-pandemic whilst industrial output fell away from historic highs earlier this year but remained 14.0% higher than pre-pandemic. Private housing output continued to fall in July 2023 and was 7.9% lower than in January 2020 whilst commercial output in July rising but it remained 25.7% lower than pre-pandemic.



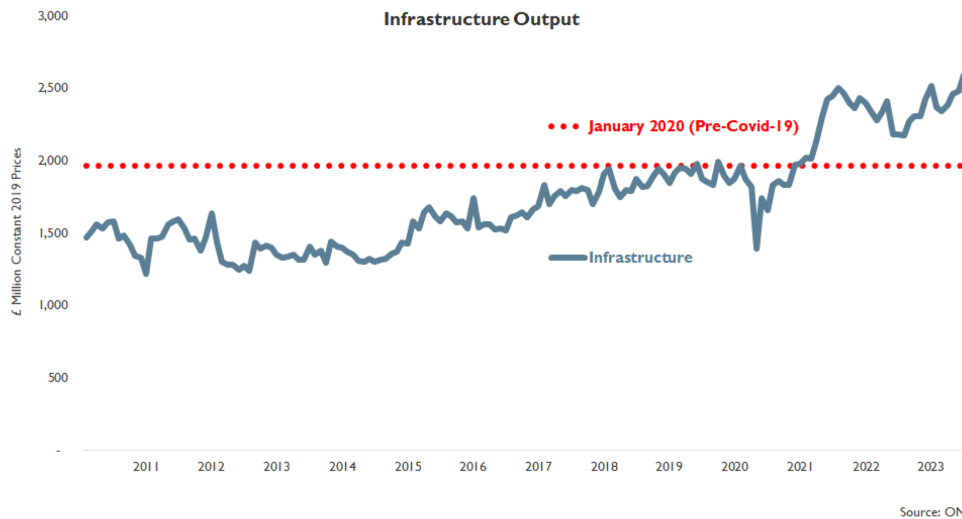
Looking in more detail at the key sectors, private housing is the largest construction sector and output in July 2023 was 2.2% lower than in June, 12.1% lower than a year ago and 14.1% lower than at the peak last Summer, just before the Mini Budget and the consequent spike in mortgage rates. The fall in private housing demand has been slightly offset by an increase in investor (bulk) purchases and cash buyers plus shifts towards more 'affordable' housing and partnerships for some of the major house builders. This does not help the smaller house builders, however, and even for the majors it is clearly not enough to offset the 20-25% fall in the general housing market and new homebuyer demand so further falls in private housing output are expected over the course of this year.



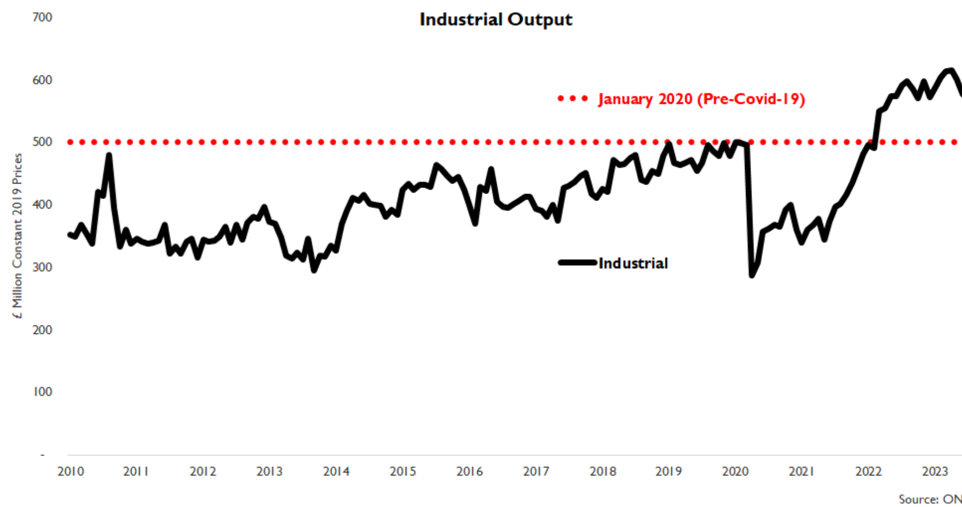
Clearly, house builders continue to be affected by the fall in homebuyer demand due to higher mortgage rates, which rose sharply in 2022 Q4 before falling back in 2023 Q1 and then once again since May 2023. It is worth noting that even if mortgage rates fall back slightly as interest rates may peak lower than lenders had factored in, they will remain at relatively high rates and affect housing demand medium-term.



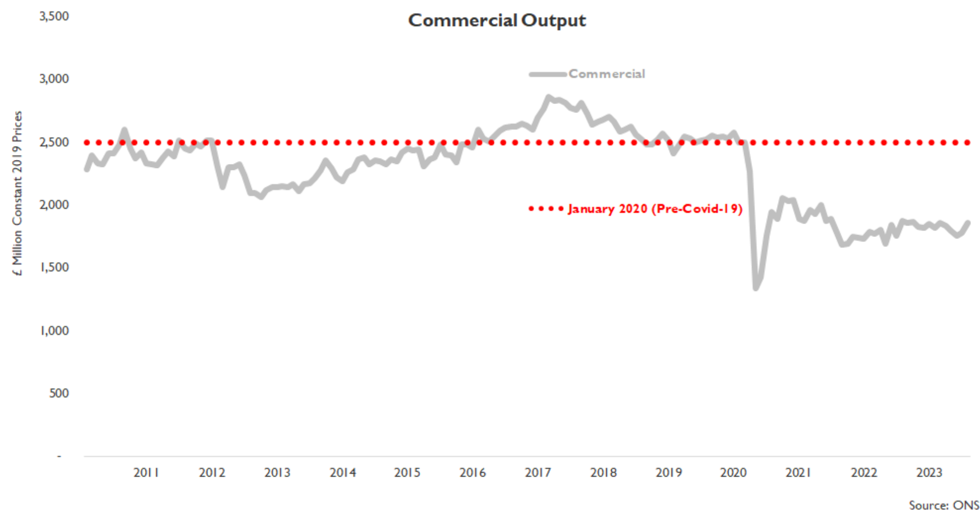
Infrastructure output in July 2023 was 0.8% higher than in June and 20.2% higher than a year ago due to projects already on the ground (particularly major projects such as HS2 Phase 1, Hinkley Point C and Thames Tideway) providing double-digit growth. This growth is enough to offset declines in local authority infrastructure due to financial constraints, work stopping at Euston station and the government announced delays/cancellations to roads projects earlier this year. There remains client hesitancy in infrastructure signing off new projects due to cost concerns and budget constraints that will affect activity over the next 12-18 months but activity remains at historic high levels currently and existing projects are likely to ensure that output does not fall away significantly near-term.



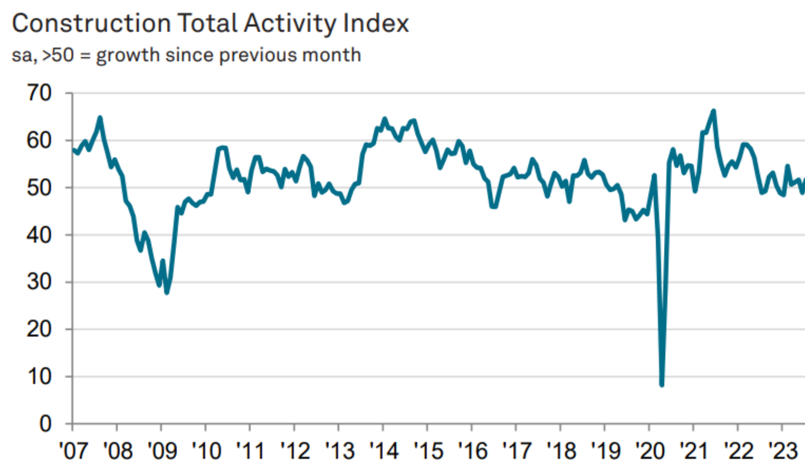
Industrial output reached its highest ever level in March 2023, due to the long-term structural shift towards online shopping increasing warehouses investment, exacerbated by a short-term spike in online shopping during the pandemic. Plus, factories construction was boosted by capacity constrained manufacturers who faced strong demand in 2021 and so signed-off new investments in Autumn 2021, which led to activity in 2022 and early 2023. However, warehouses new investment has peaked and factories construction is already falling as it was affected by manufacturers not signing off investment plans in Autumn 2022 due to post-Mini Budget uncertainty. So, as warehouse and factory projects complete, there are fewer new projects to replace them. Industrial output in July was 1.0% lower than in June and 3.4% lower than a year earlier, although output remains 14.0% higher than in January 2020.



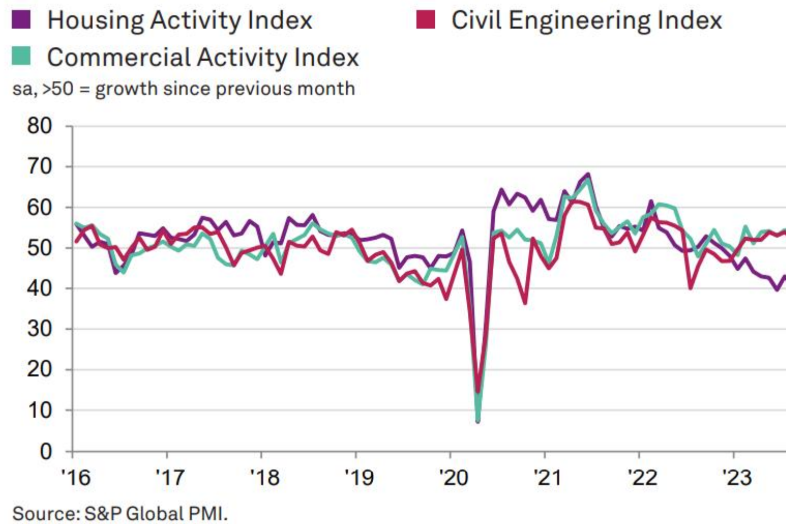
Commercial output in July 2023 was 4.3% higher than in June but 0.9% lower than a year ago and it remained 25.7% lower than in January 2020, pre-pandemic. New commercial towers projects dominate the majority of the value in the sector and remain one-third lower than pre-pandemic. This has been only partially offset by the buoyant and growing activity on the refurbishment and fit-out of existing commercial space. In addition, there has also been strong activity and growth in the changing use of existing commercial space into either residential (in city centres) or industrial/logistics (on the outskirts of city centres). Rising interest rates (increased funding costs) also mean that it is increasingly difficult to justify new, large, upfront investments in commercial towers, particularly given an excess of existing commercial space that needs to be refurbished or replaced to avoid potential 'stranded assets'.



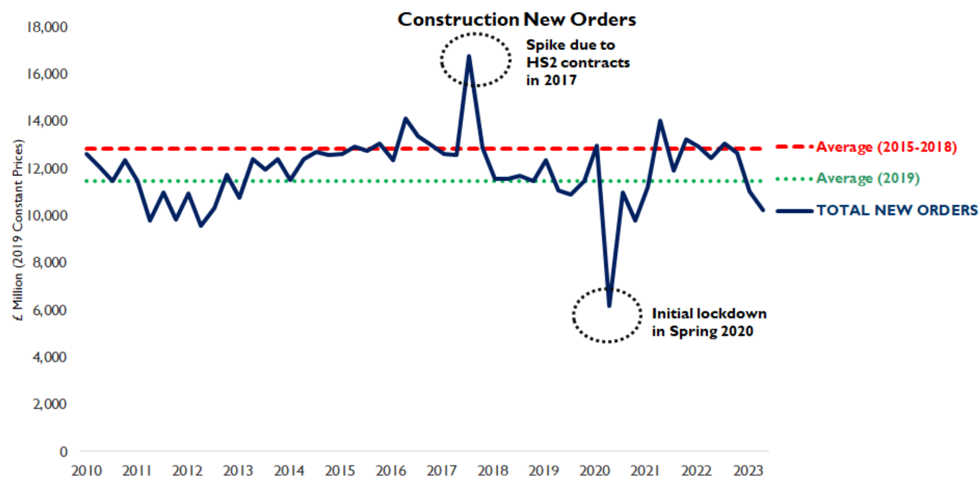
S&P Global/CIPS UK Construction PMI (August 2023): The S&P Global/CIPS UK Construction PMI was 50.8 in August, down from 51.7 in July. 50=monthly change so it signalled marginal growth in construction activity in August and slower growth than in July.



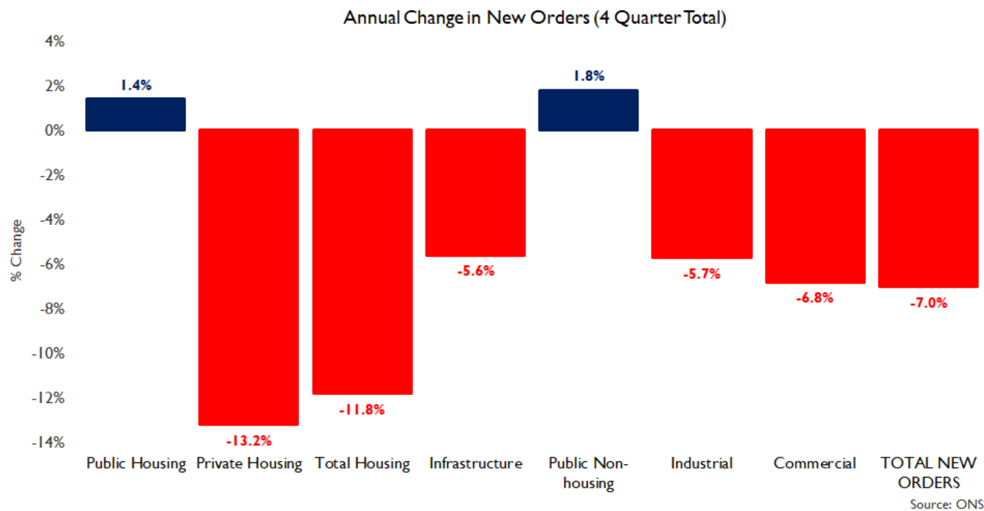
Commercial building continued to expand robustly (54.2) with the rate of growth the same as July's five-month high. Civil engineering (52.4) also rose but the speed was its lowest since April. House building was the weakest sector (40.7), with the index at its lowest since May 2020. Respondents highlighted subdued market conditions and a cutback to new projects. New orders contracted for the 2nd 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.



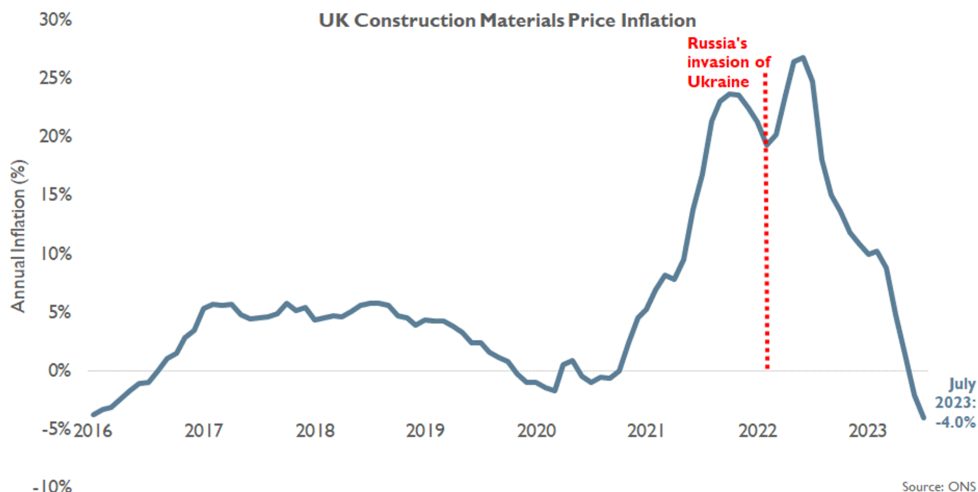
ONS Construction New Orders (2023 Q2): The volume of construction new orders, which only cover new construction work, in 2023 Q2 were 7.1% lower than in Q1 and 17.7% lower than a year earlier. Construction new orders have been falling for three consecutive quarters since the Government's Mini Budget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



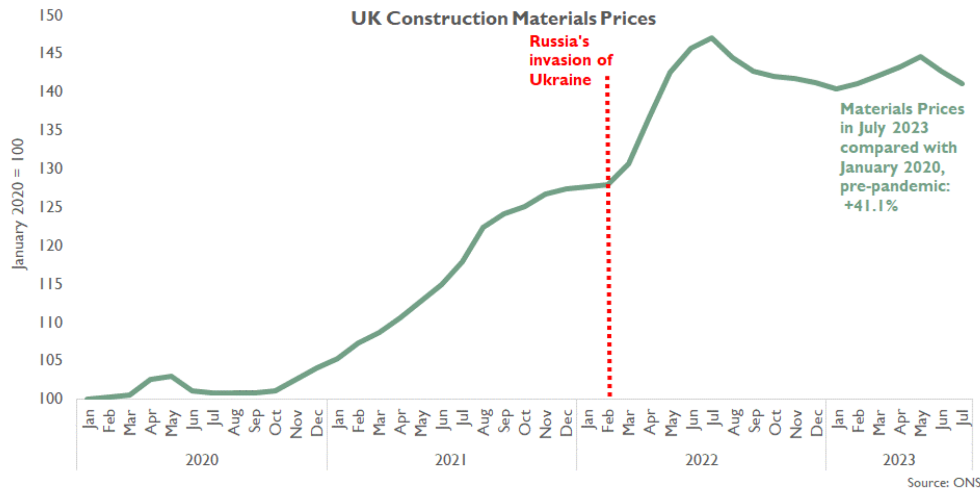
New orders by sector can be volatile on a quarterly basis and distort the forward looking picture given that different sectors have different lags between order and activity down on the ground but looking at the 4 quarter total to 2023 Q2, orders were 7.0% lower than a year earlier with falls across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

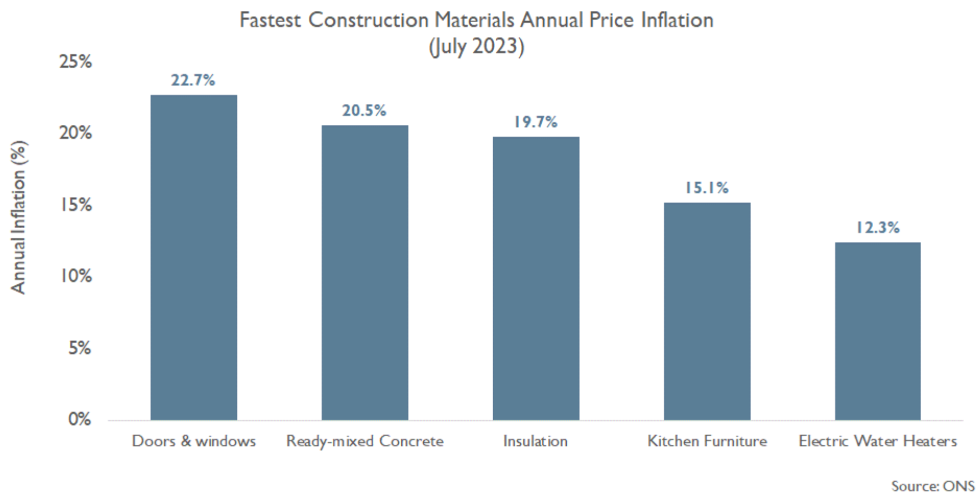


Whilst the construction materials annual inflation rate is now falling, however, prices remain at historically high levels and in July 2023 construction materials prices were 41.1% higher than in January 2020, pre-pandemic, which continues to have cost implications for construction projects, in particular 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.

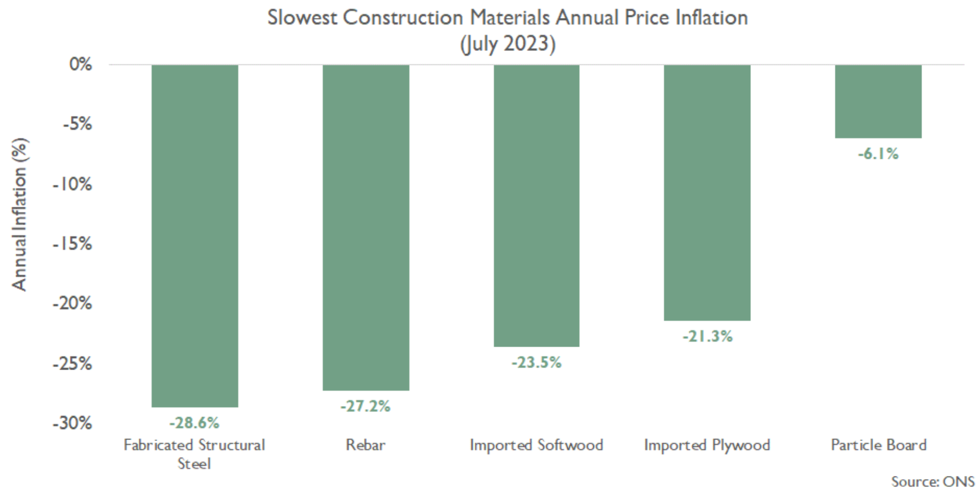


Although construction materials prices fell by 4.0% overall in the year to July, the prices of some materials are still rising at double-digit rates whilst the prices of other materials are falling at double-digit rates so how house builders and contractors find the impacts of the current changes in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

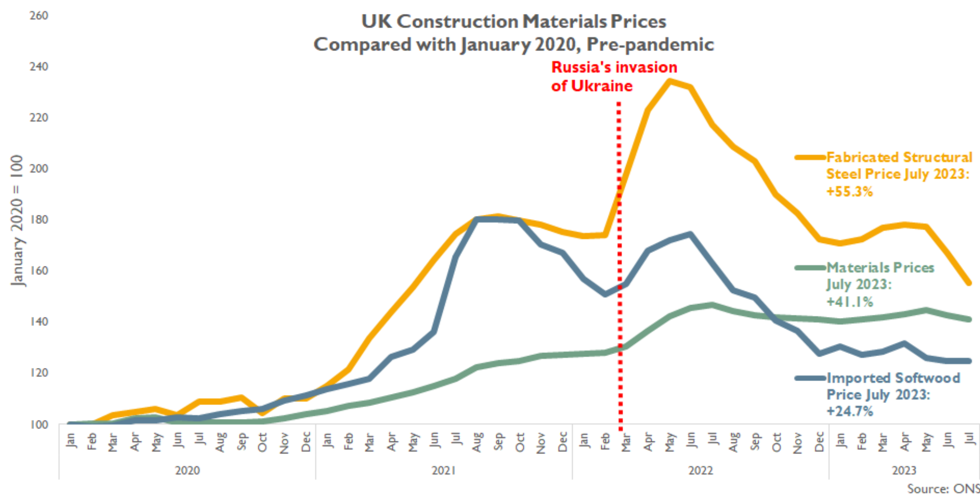
The fastest rates of UK construction materials price rises in the year to July 2023 were in doors & windows, ready-mixed concrete, insulation kitchen furniture and electric water heaters.



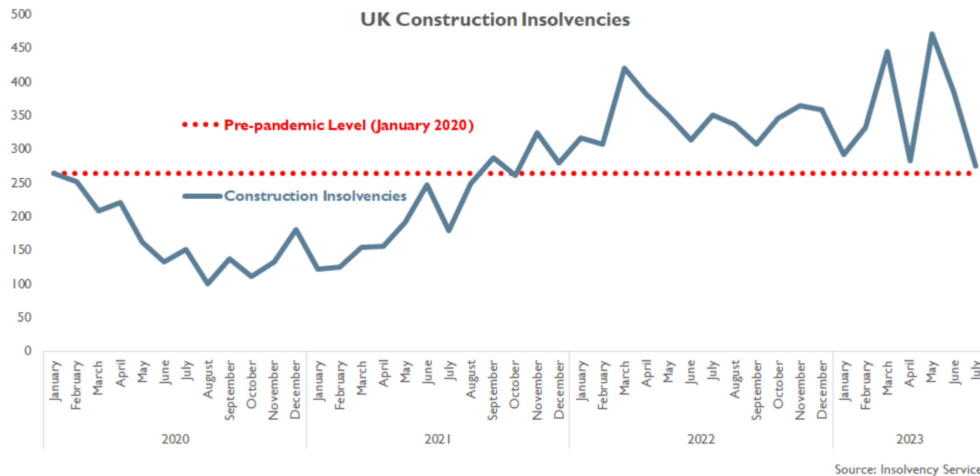
Conversely, the sharpest annual falls in construction materials prices in the year to July 2023 were in steel-related products such as fabricated structural steel (-28.6%) and rebar (-27.2%) plus timber-related products such as imported softwood (-23.5%), plywood (-21.3%) and particle board (-6.1%).



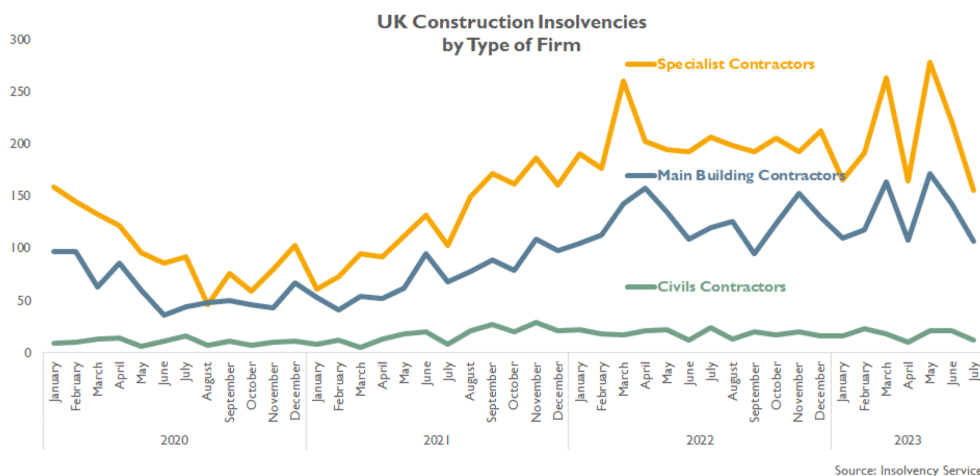
It is important to note, however, that the main reason that steel-related and timber-related product prices are falling so quickly is that their prices peaked higher than other construction materials and, in the case of timber, were due to the supply chain issues in 2021 before the energy and commodity 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.



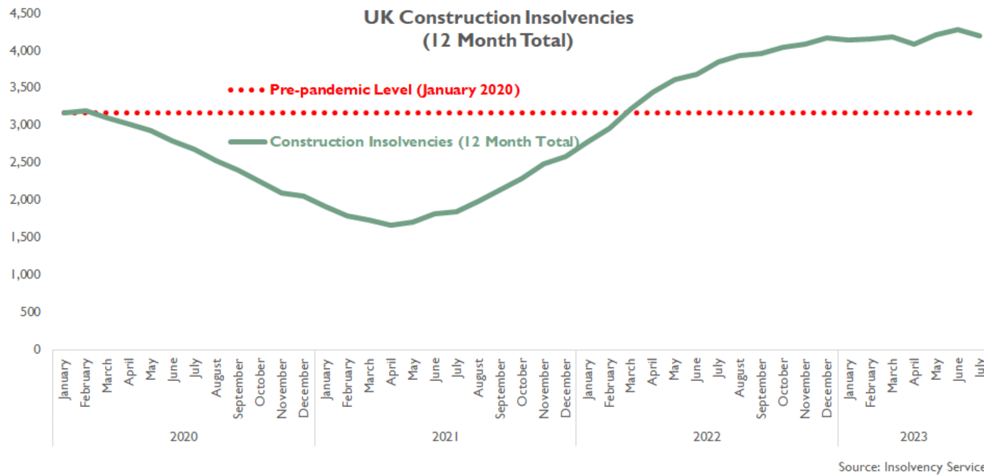
Insolvency Service UK Construction Insolvencies (July 2023): 275 construction firms in the UK went out of business in July 2023, which is 21.7% lower than a year ago but still 3.8% higher than in January 2020, pre-pandemic, according to the Government's Insolvency Service. On a monthly basis, the number 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.



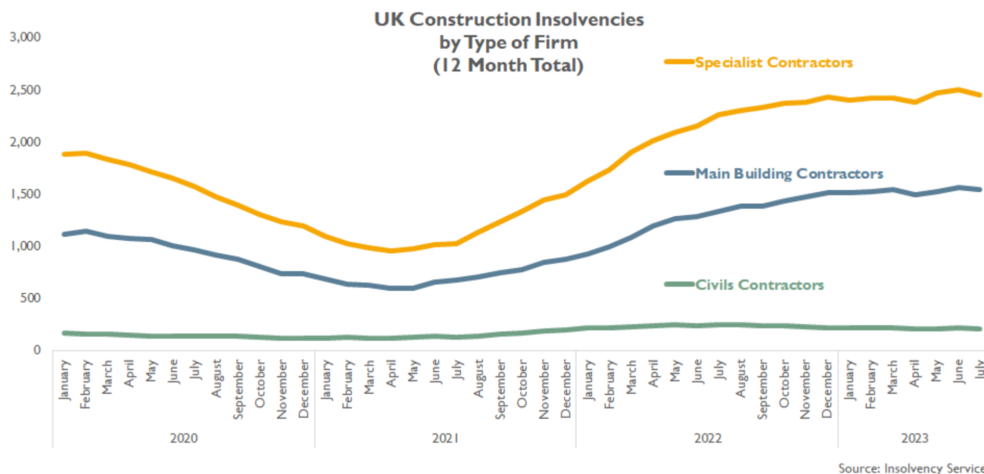
The largest impacts of the insolvencies remain on smaller, specialist sub-contractors and 59% (156) of the construction firms that went under in July were specialist contractors. As the CPA has previously highlighted, in addition to the recent sharp downturns in private housing and private housing rm&i 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.



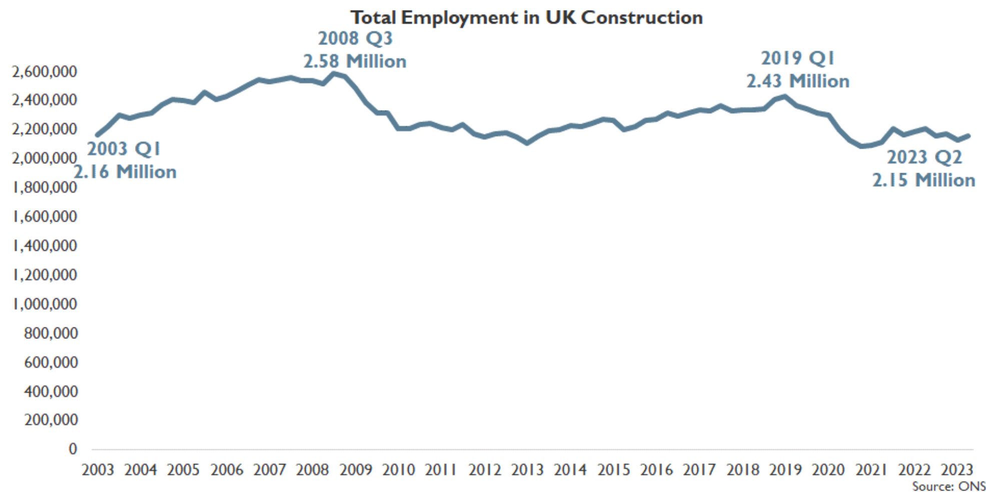
As insolvencies are volatile on a monthly basis, it is worth highlighting that 4,205 UK construction firms went out of business in the year to July 2023, which is 9.2% higher than a year ago, 32.6% higher than in the year to January 2020, pre-pandemic, and construction insolvencies in the year to July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



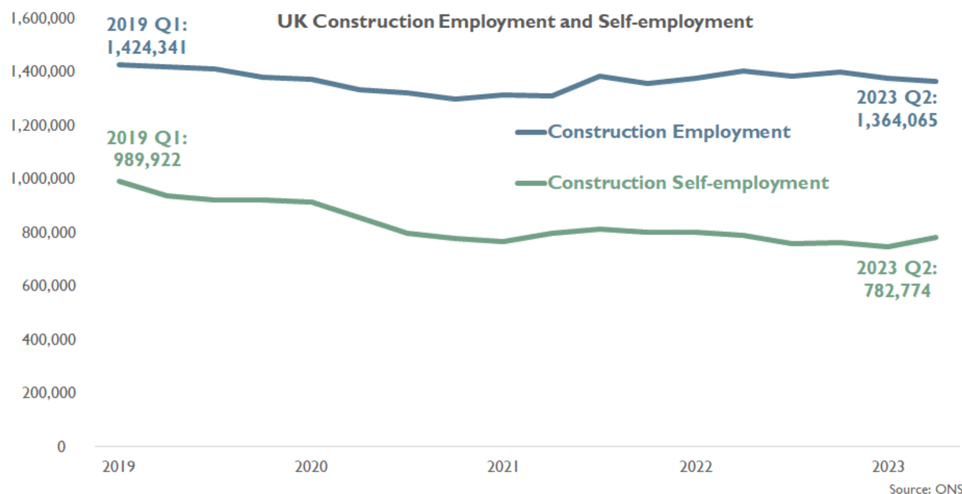
The greatest concern is whether there will be further rises in insolvencies towards the end of this year and early next year given that house building is likely to fall further in the second half of this year, some areas of private housing rm&i remain subdued and government's announcements of delays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



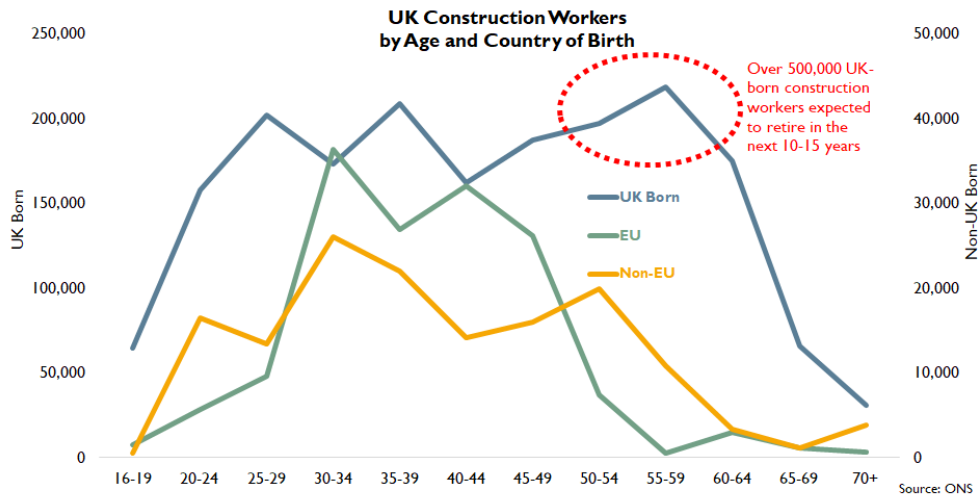
[ONS UK Construction Employment and Self Employment (2023 Q2)]: Given that overall construction materials price inflation is now falling (albeit with materials prices remaining high), the greatest issue facing UK construction industry medium-term will be the skills shortages and the large number of construction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



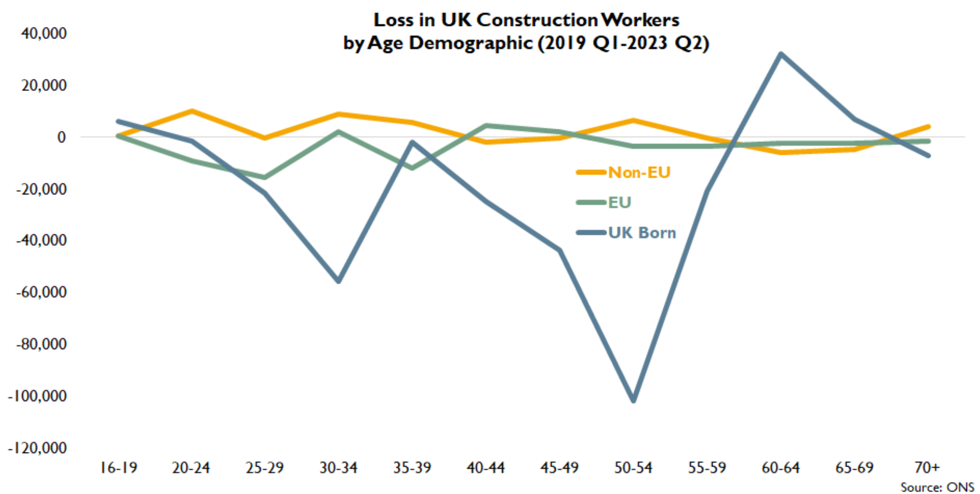
It is worth highlighting that the largest loss in construction employment since the recent peak in 2019 Q1 has been in self-employment, primarily older age-demographic workers in specialist trades. Self-employment in construction in 2023 Q2 was 0.9% lower than a year ago but 20.9% lower (over 200,000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



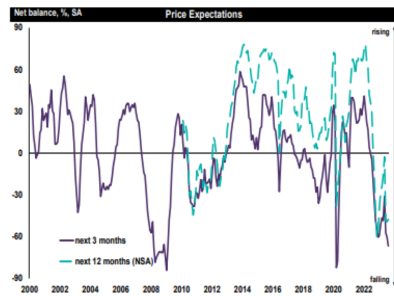
The age-demographic problem has accelerated since 2019 Q1 (the recent peak) and 2023 Q2. There has been a loss of over 250,000 workers in just over 4 years. The UK-born workforce main losses were between 45 and 59 years old. The EU worker losses have been between 20 and 29 years old and 35 and 39 years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



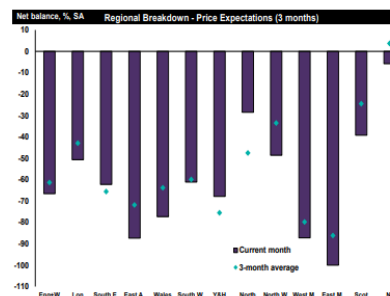
Given the loss of construction workers and as construction apprenticeship starts averaged 31,000 per year in the last 5 years but with a dropout rate over 40%, new entrants will not address the issue. And, without a skilled construction workforce then 300,000+ homes per year, Levelling Up, transition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

RICS UK Residential Market Survey (August 2023): The RICS UK Residential Survey for August 2023 reported that for home buyer demand a net balance of -47% of respondents reported a decline in enquiries compared with July, which is broadly in-line with in the previous two months. All parts of the UK continued to see a pull-back in demand during August. The newly agreed sales net balance was also -47%, its weakest reading since the early stages of the pandemic. The downward trend in sales activity was evident across the UK. Looking ahead, near-term sales expectations remained subdued although the net balance was marginally less negative, at -38%, compared to last month's reading of -45%. On a twelve-month view, the trend in home sales volumes is anticipated to flatten out, with a net balance of -5% in August compared with -25 in July. The average time taken to finalise a sale (from initial listing to completion) was closer to 20 weeks compared with around 19 weeks in previous months and approximately 16 weeks in late 2021. The flow of new instructions being listed onto the sales market deteriorated sharply with a net balance of -26%, down from -17% last month. This was its weakest since September 2021. The survey's headline price growth measure had a net balance of -68% in August, falling from -55% in July, and was the most negative figure since February 2009. Almost all parts of the UK saw a steep fall in house prices, with the West Midlands, East Midlands, East Anglia and South East all exhibiting particularly negative feedback. Northern Ireland was the only area where the house price metric was in positive territory, although the latest net balance of +7% was its lowest figure since 2013 (excluding two months at the start of the pandemic). Going forward, near-term price expectations are signalling further falls to come over the next few months, with the net balance falling deeper into negative territory at -67% compared to 60% last month. At the twelve-month time horizon, the net balance stands at -48%, similar to the -49% in June and July, indicating further price falls ahead.

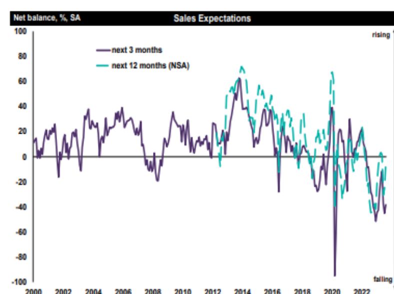
National Price Expectations - Three and twelve month expectations



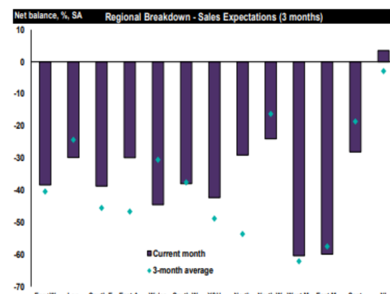
Regional Price Expectations - Next three months



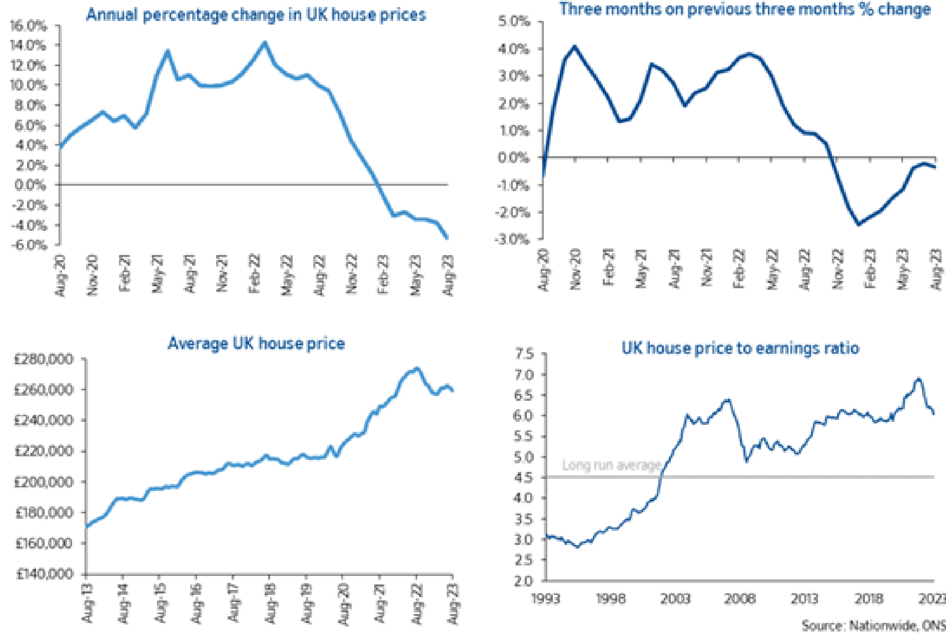
National Sales Expectations - Three and twelve month expectations



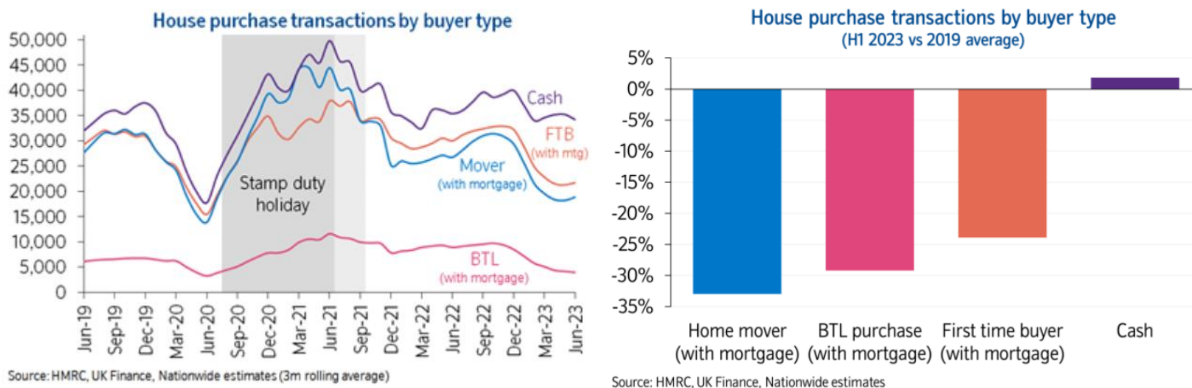
Regional Sales Expectations - Next three months



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.

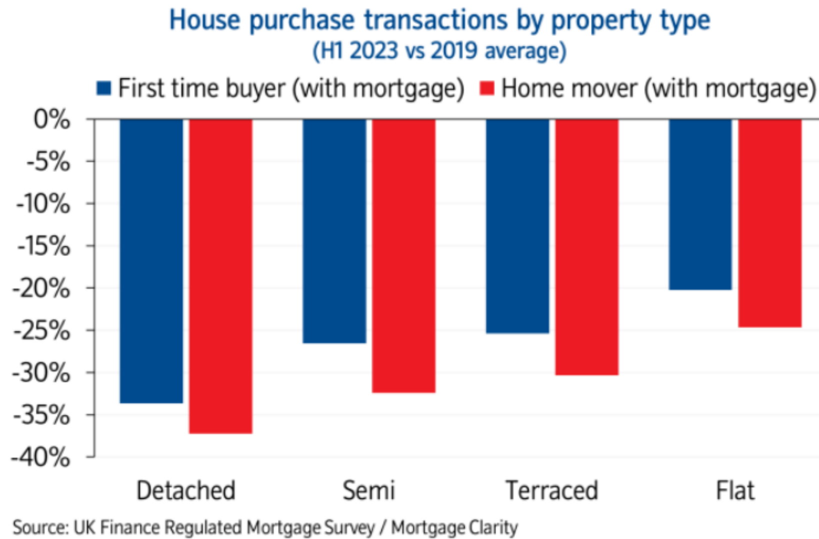


It also stated, however, that a relatively soft landing for house prices is still achievable, providing broader economic conditions evolve in line with most other forecasters' expectations. In particular, unemployment is expected to remain low and the vast majority of existing borrowers should be able 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.

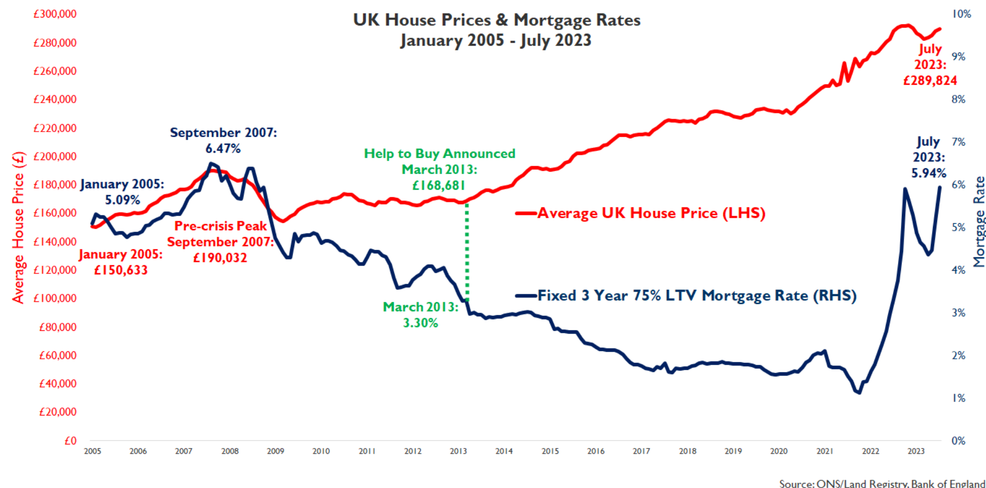


In addition to the fall in demand for owner-occupiers buying with a mortgage, there has also been a modest shift in the type of properties being purchased. While transactions are lower than pre-pandemic levels across all property types, the biggest decline has been in detached houses. There are signs 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

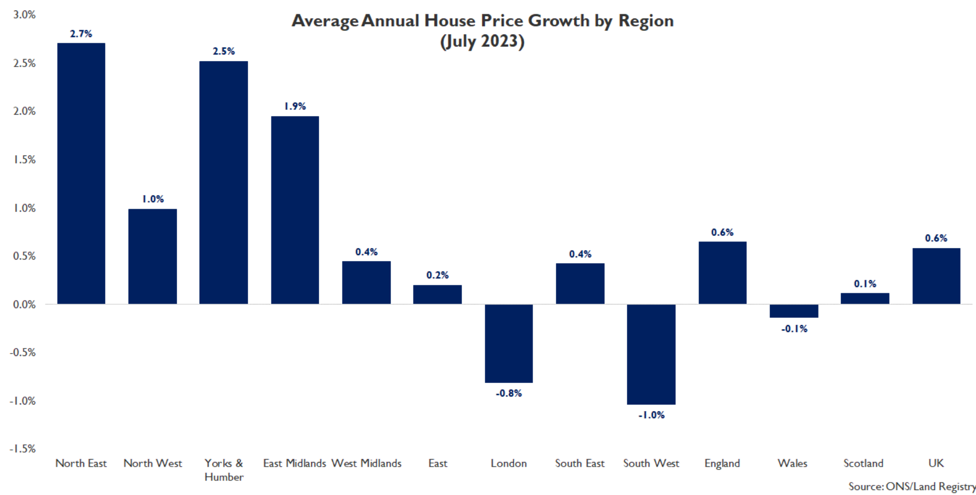
risen by only 13% since the onset of the pandemic, compared with 23% for detached properties.



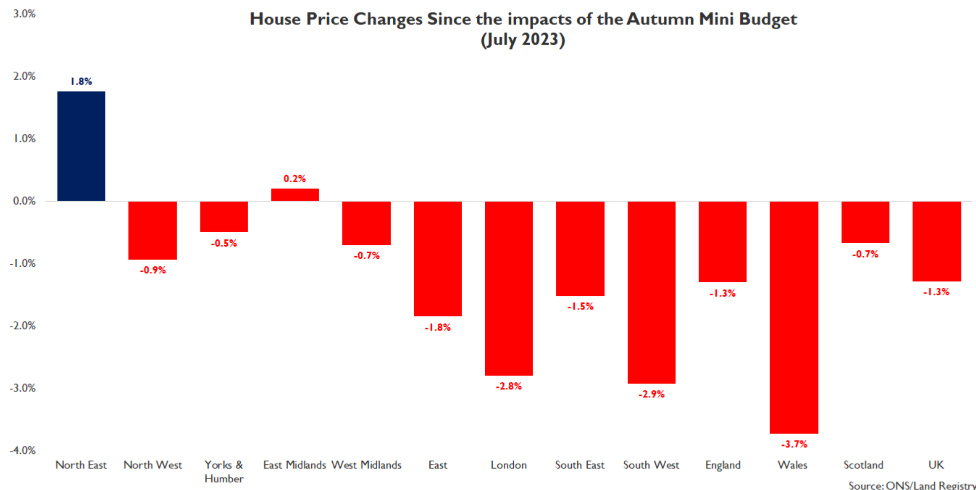
[ONS/Land Registry UK House Price Index (July 2023)](): The average UK house price in July 2023 rose by 0.6% compared with a year earlier, significantly lower than the ONS/Land Registry revised 1.9% in June. House prices in July were also 1.3% lower than at the November peak. The ONS/Land Registry house 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.

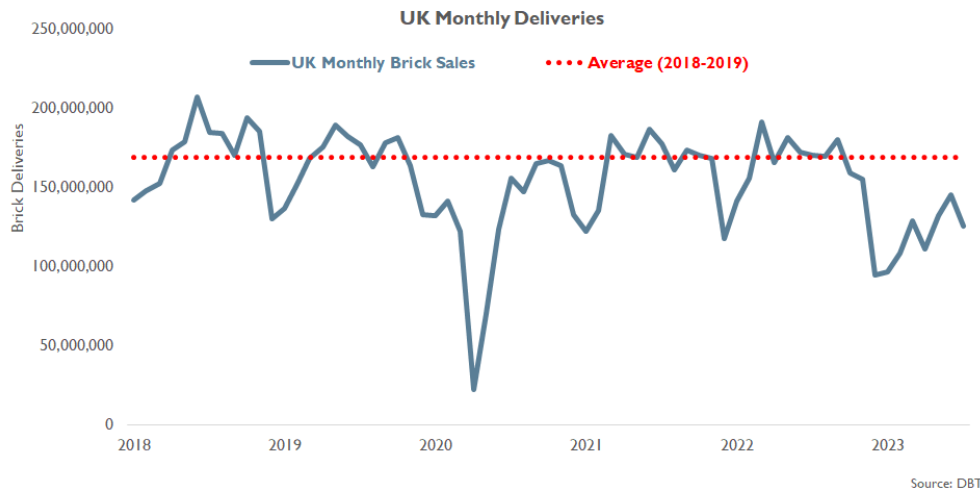


Since the recent peak of UK house prices in November 2022 (following the government's Mini Budget but before the impacts of the initial spike in mortgage rates on transactions), UK house prices have fallen by 1.3%. So far, the largest falls in house prices since the 2022 peak were in Wales (-3.7%), South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

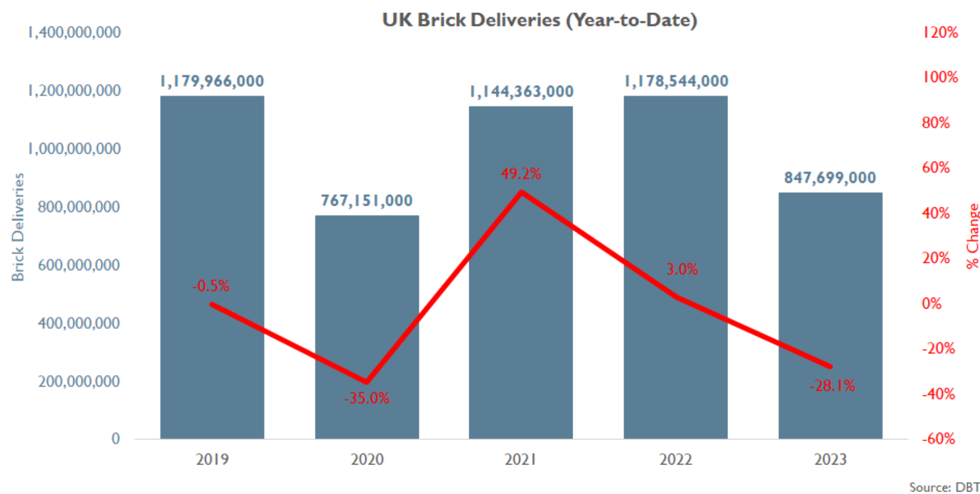


The marginal falls in ONS/Land Registry UK house prices so far mean that the chart of mortgage approvals, property transactions and house prices (all indexed to 100 in January 2020, pre-pandemic) looks curious. Unsurprisingly, mortgage approvals have been the most affected and earliest affected by the 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.

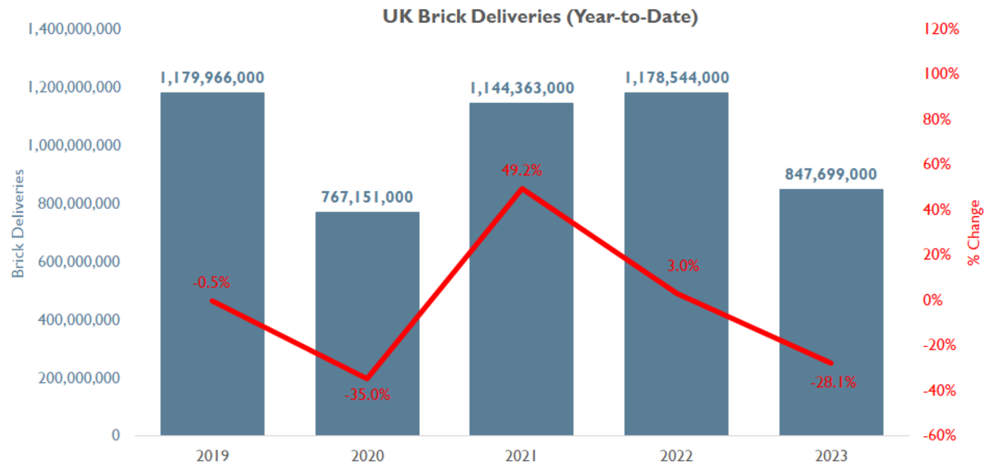
DBT UK Brick Deliveries (July 2023): According to the latest data from the Department for Business and Trade, UK brick deliveries (a proxy measure for house building starts in the absence of monthly house building data) in July 2023 were 13.8% lower than in June and 32.1% higher than December's post-Mini 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%.



[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)