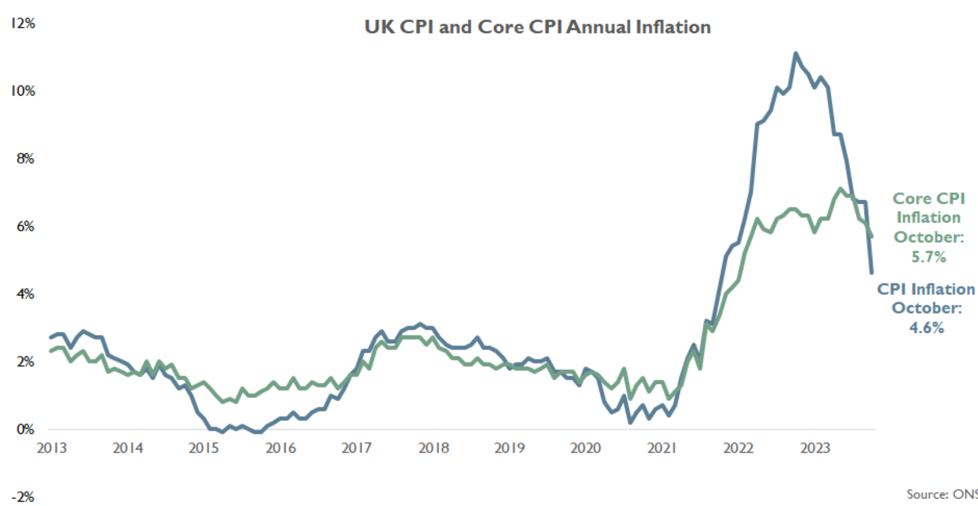
(Updated – 17 November 2023)

Weekly Economic and Construction Update

1) ONS UK CPI and Core CPI Inflation (September 2023):

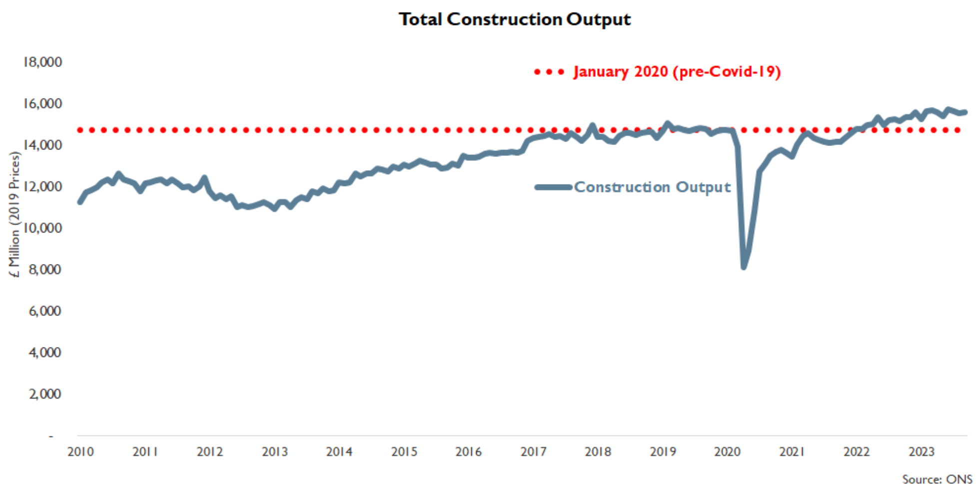
UK CPI inflation slowed to 4.6% in October from 6.7% in September as the annual % increase in prices continues to slow more than one year on from the spikes in energy and commodity prices in 2022 following Russia's invasion of Ukraine. The 4.6% CPI inflation in October was also slightly lower than market expectations beforehand of October's figure of 4.8%. The slowdown in CPI inflation was partly due to the reduction in Ofgem's price cap, reflecting lower wholesale gas prices. In addition, the lower inflation was partly due to slowing food price inflation. It is worth noting that core CPI, which the Bank of England monitors to see medium-term inflation trends and excludes energy and food, was 5.7% in October, only slightly lower than the 6.1% figure reported in September.

The slowdown in CPI inflation suggests provides additional evidence that interest rates have already peaked at 5.25%, in line with the CPA's forecasts. The CPA currently forecasts that interest rates remain at peak throughout next year due to inflation remaining stubborn over the next 12 months as higher oil and energy prices plus strong wage growth feed through. If inflation continues to slow more than markets and the Bank of England expect then it may raise the question of whether interest rates should start to fall from 2024 Q2. However, with the Bank's target CPI inflation rate of 2.0%, inflation will have to slow considerably further over the next six months for this to be the case.



2) ONS Construction Output (September 2023):

Construction output in September 2023 was 0.4% higher than in August and still 2.8% higher than a year earlier according to the Office for National Statistics but it is worth noting that the concerns the CPA has consistently highlighted regarding the ONS construction output data remain. The concerns affect output in most construction sectors but, in particular, affect the repair and maintenance sectors and imply that the ONS has been consistently overestimating the volume of construction output since Spring 2022. Recent S&P Global/CIPS UK Construction PMI data pointed towards a fall in construction activity in September and also in October.

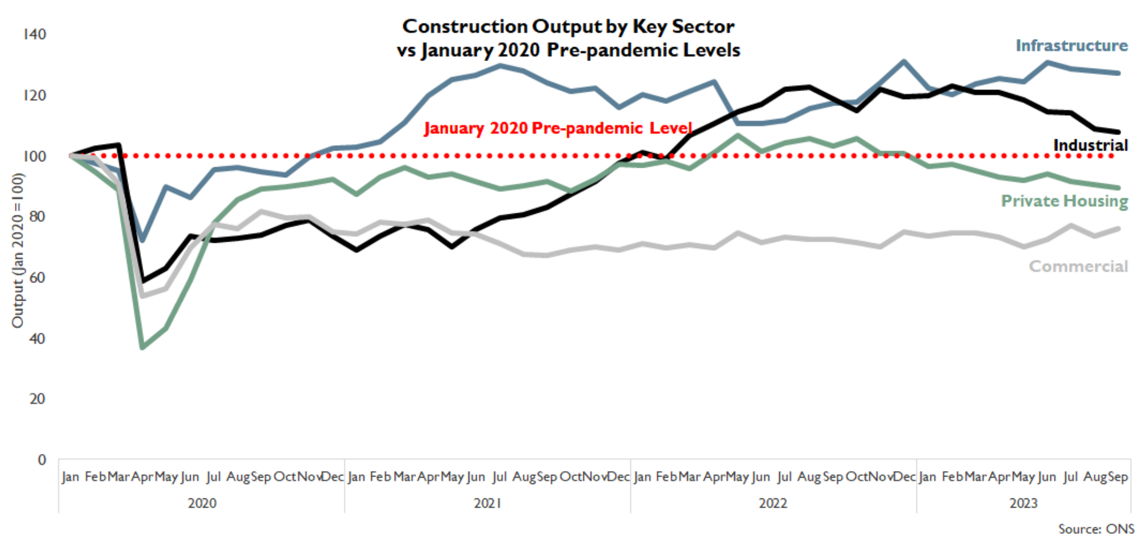


Looking at some of the key construction sectors, infrastructure output in September was 0.5% lower than in August but still 8.2% higher than a year ago. Activity remained strong on both major projects and large frameworks down on the ground despite government announcements earlier in the year of projects in the pipeline being paused and delayed. Activity on these major projects and frameworks is likely to drive activity in the near-term and medium-term although the paused and delayed projects are likely to restrict growth in the sector. A rising number of local authorities are either switching finance away from projects to rm&i or reducing infrastructure budgets due to financial constraints and the rising costs of social and health care.

Industrial output in September was 1.1% lower than in August and 9.4% lower than a year ago as activity continues to fall from its highest ever level early in 2023. Activity still remains strong by historical standards for warehouses and logistics but new investment has peaked already and output is likely to continue to fall away at the end of the year. Factories activity from investment decisions made in 2021 has largely now finished and activity down on the ground has already been slowing since 2022 Q4. Factories projects that finished last year were not replaced at the same rate as manufacturers' investment decisions in Autumn 2022 were put on hold due to the economic and political uncertainty following the Mini Budget last year.

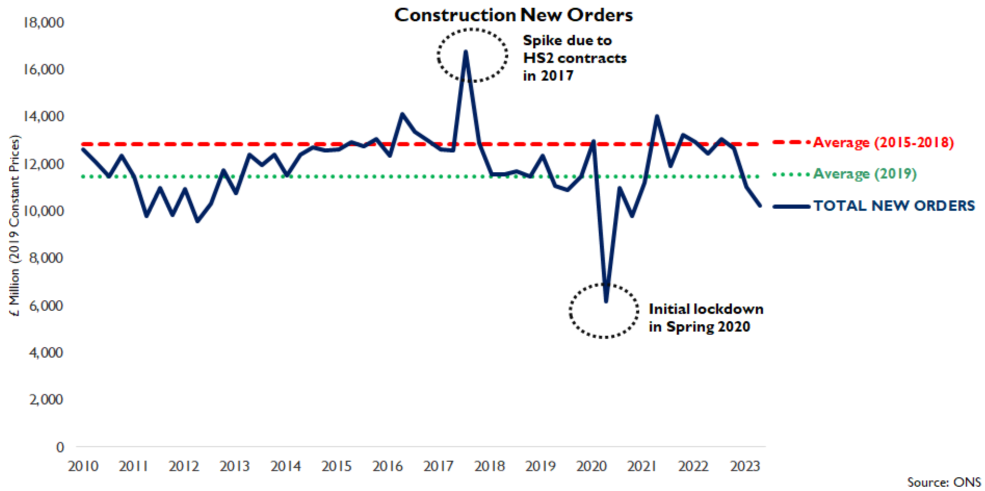
Private housing output in September was 1.0% lower than in August and 13.2% lower than a year earlier as higher mortgage rates continue to hit homebuyer affordability and, as a consequence, house builders remain focused on completions whilst starts and land purchasing are subdued except in some very selected areas. Demand since Summer was around 25-35% lower than a year earlier for some of the major house builders. House builders are anticipating potentially seeing government stimulus to help first-time buyers in the Autumn Statement in November although it is more likely to focus on extending mortgage guarantees and cuts to stamp duty rather than a new version of Help to Buy. Greater certainty over peak interest rates has led to slight falls in mortgage rates more recently but they remain at high levels compared with the previous ten years.

Commercial output in September was 3.6% higher than in August and 5.0% higher than a year earlier with activity still strong on the fit-out and refurbishment of existing commercial developments whilst conversions to residential in urban centres or industrial and logistics activity on the edge of cities also remains high. In addition, activity on data centres and biotech facilities also remains strong but there remain relatively few new commercial towers projects and new large commercial developments outside of a few high-profile projects in London whilst some of the new large entertainment (film studios) projects in counties surrounding Greater London have been put on hold due to financing and construction cost concerns.

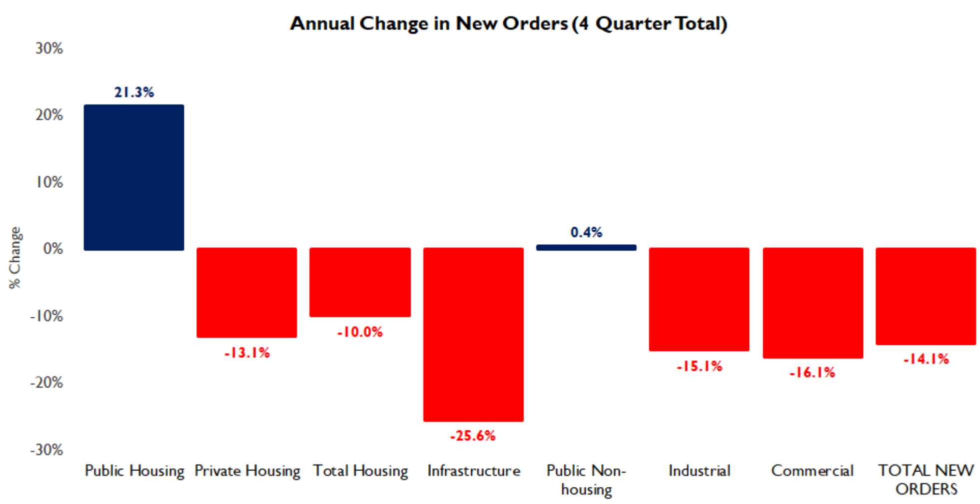


3) ONS Construction New Orders (2023 Q3):

The volume of construction new orders, which only cover new construction work, in 2023 Q3 was 3.9% lower than in Q2 and 20.0% lower than a year earlier. Construction new orders have been falling for four consecutive quarters since the Government's Mini Budget at the end of September 2022 and in 2023 Q3 new orders were 11.2% 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 20.8% lower than the average level of orders between 2015 and 2018.

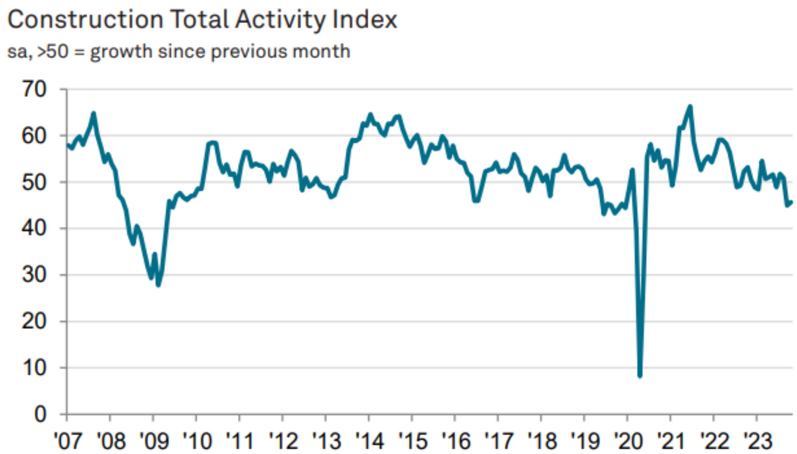


New orders by sector can be volatile on a quarterly basis and distort the forward looking picture given that different sectors have different lags between order and activity down on the ground but looking at the 4 quarter total to 2023 Q3, orders were 6.8% lower than a year earlier with falls across most sectors but the most pronounced were in infrastructure (-25.6%), private housing (-13.1%), commercial (-16.1%) and industrial (-15.1%). The only increases in orders were in public housing (21.3%) and public non-housing (0.4%).



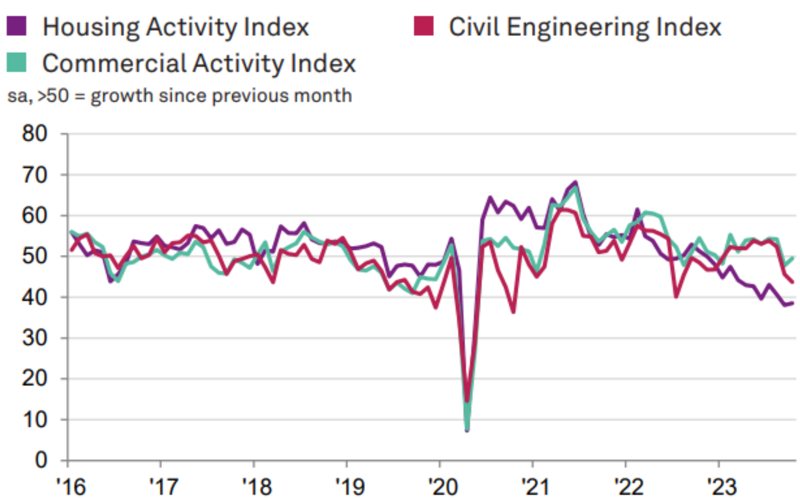
4) S&P Global UK Construction PMI (October 2023):

The S&P Global/CIPS UK Construction Purchasing Managers' Index (PMI) in October 2023 was 45.6, slightly higher than the 45.0 recorded in September but 50=no monthly change so October's figure means a further decline in construction activity. Furthermore, it was the second-lowest reading since May 2020, during the initial national lockdown when construction activity was not permitted. 37% of the survey forecast a rise in activity in the year ahead whilst 19% predict a decline. The degree of optimism was the lowest so far this year with firms commenting on particular weakness in the house building sector and an ongoing headwind from higher interest rates.



Sources: S&P Global, CIPS.
Data were collected 12-30 October 2023.

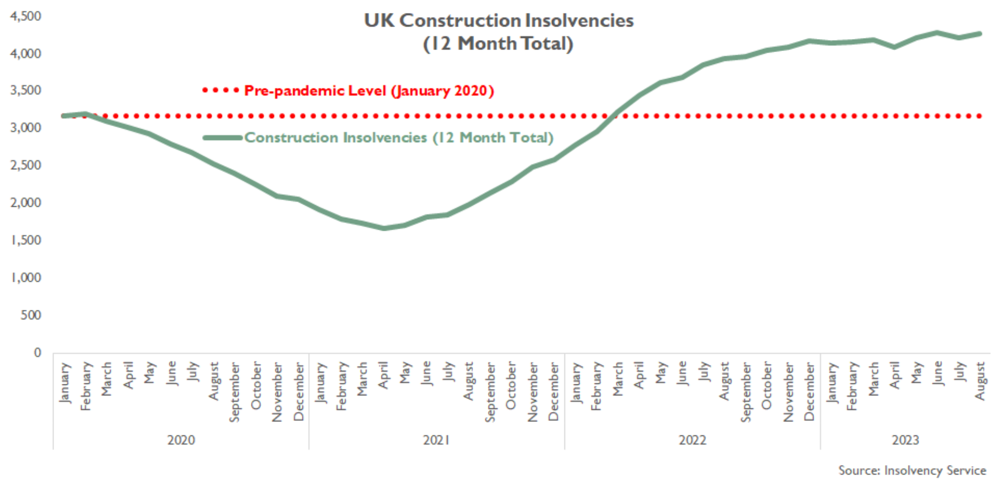
House building decreased for the eleventh successive month in October (38.5). Falling work on residential construction projects was widely linked to a lack of demand and subsequent cutbacks to new projects. Civil engineering activity also decreased sharply in October (43.7) and the rate of decline was the fastest since July 2022. There were signs of stabilisation in commercial with activity falling only marginally and at a slower pace than in September (49.5). Total new work fell for the third consecutive month and the rate of contraction was the joint-sharpest since May 2020. Survey respondents widely commented on a lack of tender opportunities and lengthier decision-making among clients due to concerns about the broader economic outlook.



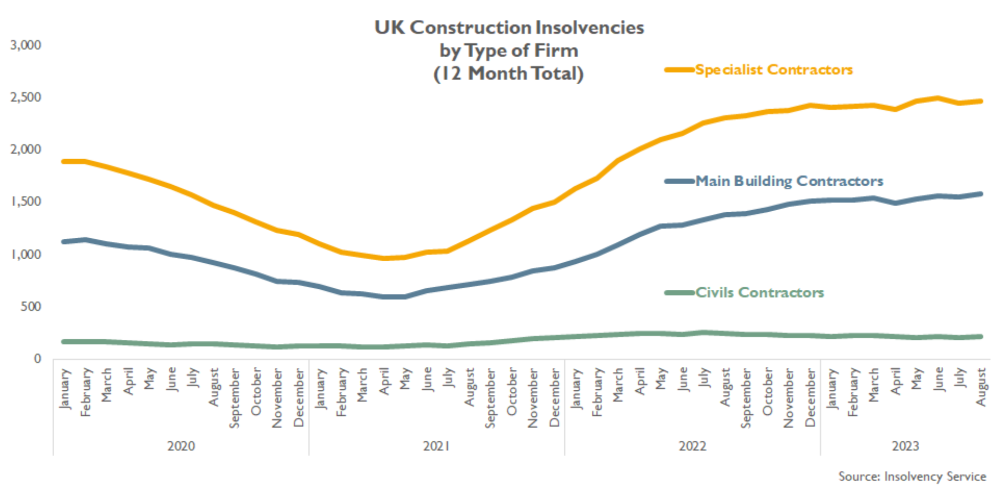
Source: S&P Global PMI.

5) [Insolvency Service UK Construction Insolvencies (September 2023)]:

4,287 construction firms in the UK went out of business in the year to August, which is 8.3% higher than a year ago and 35.2% higher than in the year to January 2020, pre-pandemic. The number of firms that went under in the year to August has been higher than pre-pandemic for 18 consecutive months. Insolvencies were at their second highest level since the financial crisis whilst the only time it was higher was in June 2023 and we still haven't seen the full impacts of the declines in private housing new build and repair, maintenance and improvement (rm&i), the two largest construction sectors, on insolvencies.

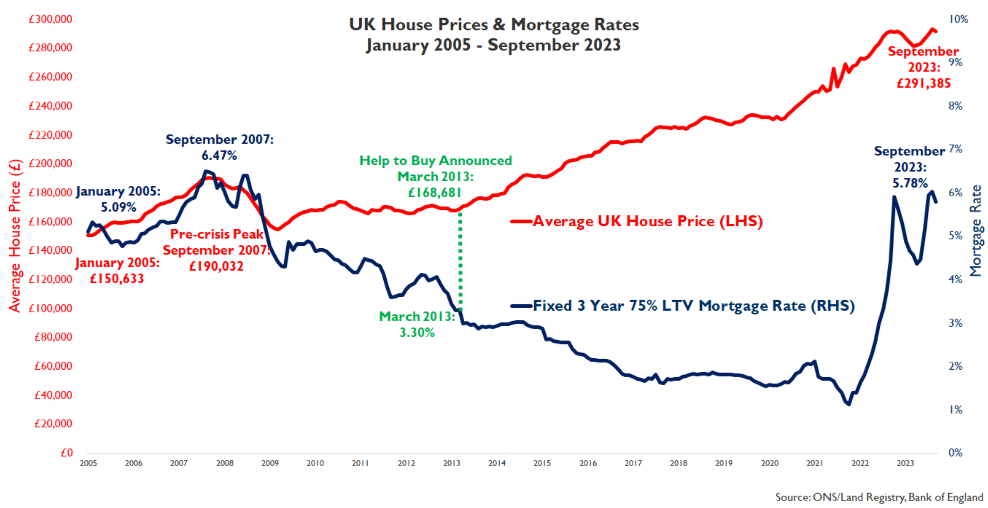


The biggest impacts remain on smaller specialist sub-contractors and 58% (2,475) of the firms that went under in the year to September were specialist contractors. As the CPA has previously highlighted, as well as sharp downturns in private housing and private housing rm&i demand, specialists have also had to deal with higher materials prices, IR35, reverse charge VAT, skills shortages and planning delays that have hit financial viability. Whilst specialists were the worst hit, main building contractors still accounted for 37% (1,600) of construction insolvencies in the year to August 2023 so they are clearly also affected by the issues as well. Civils contractors 'only' accounted for 5% (212) of the insolvencies as activity on major infrastructure projects and frameworks has been more stable plus public sector clients have tended to be more understanding of cost inflation and delays on site than some private sector clients. The key concern remains the likelihood that there will be further rises in insolvencies towards the end of 2023 and 2024 H2 due to house building and some areas of private housing rm&i remaining subdued combined with government's delays to roads and persistent delays on schools and hospital programmes.

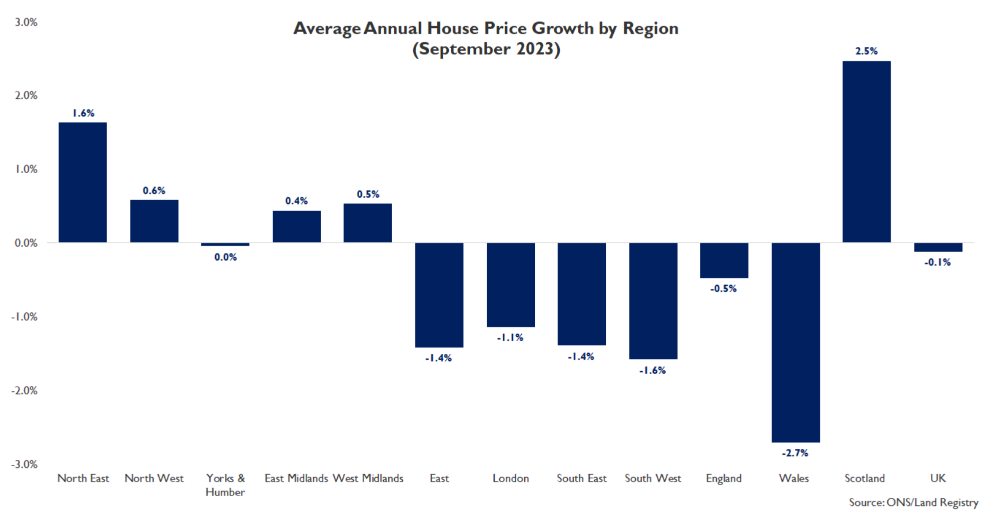


6) [ONS UK House Price Index (September 2023)](#):

The average UK house price in September 2023 fell by 0.1% compared with a year earlier, according to the ONS/Land Registry latest provisional data. House prices in September were also 0.5% lower than in August and 0.1% lower than at the pre-Mini Budget peak. As the CPA has previously highlighted, 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 also worth noting 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 September may have been based on mortgages before the August peak in mortgage rates, which would be likely to feed through to prices of transacted properties later in the year.



Across the regions and nations, the fastest annual house price growth was in Scotland (2.5%) and the North East (1.6%) whilst the slowest house price growth was in Wales (-2.7%), the South West (-1.4%) East of England and South East (-1.4%) according to the ONS/Land Registry.



7) Persimmon Q3 Trading Statement (November 2023):

Persimmon, the third largest house builder by volume and largest by market capitalisation, reported for the period from 1 July 2023 to 6 November 2023 that it delivered 1,439 homes compared with 2,270 homes a year earlier. This included 1,234 private homes compared with 1,894 homes a year ago and 205 partnerships homes from its housing association partners compared with 376 homes a year earlier. Its private selling price on completions was up 2% compared with a year earlier at £296,822. Its partnerships average selling price increased 20% in the same period, reflecting a higher weighting of completions to the South compared with the prior year.

Trading in the period followed the normal seasonal drop over the summer months and a pick-up from September according to Persimmon. Pricing was broadly stable in the period despite continued affordability constraints, particularly in the South of England where it saw an increase in the use of incentives. In the third quarter, average incentives on private sales increased to around 3.6%. In the past 5 weeks private sales rates improved to 0.59 compared with 0.45 a year earlier, showing a strong pick up since the start of October. Of this 0.08 relates to investor sales. It anticipates that investor sales will represent around 5% of full year delivery. Its current forward sales position has increased to £1.6 billion since the half year compared with £1.4 billion a year ago. Of this £0.9 billion relates to private forward sales compared with £0.7 billion a year earlier with a private average selling price of around £277,750 compared with £282,316 a year ago. It also stated that build cost inflation has been more stubborn than expected at the start of the year and it anticipates the annualised impact of build cost inflation for 2023 will be around 8-9% but build costs moderated since the half year, which will help completions in 2024.

Q3 Highlights

	Q3 2023	Q3 2022	% change
New home completions	**1,439**	2,270	-37%
Average open sales outlets	**271**	269	+1%
Net private sales per outlet[1]	**0.48**	0.63	-24%
Current forward sales position[2]	**£1.62bn**	£2.09bn	-23%
Of which private forward sales[2]	**£0.93bn**	£1.42bn	-35%
Land holdings (plots owned and under control)	**c.84,300**	c.91,300	

[1]Net private sales per outlet of 0.46 excluding bulk sales (Q3 2022: 0.61)
[2]Excluding completions year to date and as at 5 November for 2023 figure, as at 6 November for 2022 figure.

1. 2023 quarterly performance	**Q1**	**Q2**	**HY**	**Q3**	**YTD**
Completions	1,136	3,113	4,249	1,439	5,688
Private (homes)	902	2,379	3,281	1,234	4,515
Partnerships (homes)	234	734	968	205	1,173
Net private sales rate	0.62	0.58	0.59	0.48	0.56
FTB % (private completions)	38%	33%	34%	32%	34%
Average sales outlets	266	268	267	271	268

2. ASP	**Q3 2023**	**Q3 2022**	**Change**
Private	£296,822	£291,259	+2%
Partnerships	£155,844	£129,796	+20%
Total	**£276,738**	**£264,515**	**+5%**

	5 Nov 2023		**6 Nov 2022**		**Change**	
3. Forward sales	**Value**	**Homes**	**Value**	**Homes**	**Value**	**Homes**
Private	£928.8m	3,344	£1,424.2m	4,993	-35%	-33%
Partnerships	£688.0m	4,414	£664.5m	4,662	+4%	-5%
Total	**£1,616.8m**	**7,758**	**£2,088.7m**	**9,655**	**-23%**	**-20%**

8) [Taylor Wimpey Trading Statement (November 2023)]:

Taylor Wimpey, the second largest house builder by volume, reported that it expects to complete between 10,000 and 10,500 homes over the full year. In the second half to date, its net private sales rate per outlet per week was 0.51, the same as a year earlier with a cancellation rate of 21% compared with 24% a year ago. Excluding the impact of bulk deals, its net private sales rate was 0.48 for the second half to date compared with 0.50 a year ago.

For the year to date, its net private sales rate was 0.63 compared with 0.74 a year earlier with a cancellation rate of 18%, the same as a year earlier. Excluding bulk deals, it had a net private sales rate of 0.57 for the year to date compared with 0.72 a year earlier. As at 5 November 2023, its current total order book excluding joint ventures stood at around £1.9 billion compared with £2.6 billion, representing 7,042 homes compared with 9,153 homes a year ago.

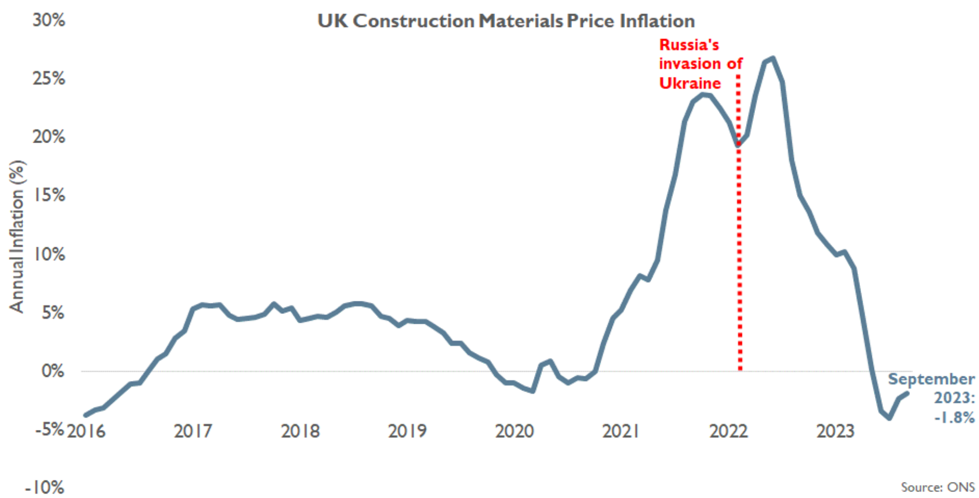
9) [Redrow AGM Statement (November 2023)]:

Top 10 UK housebuilder Redrow reported at its AGM a trading update for the 18 weeks ended 3 November 2023, being the first 18 weeks of the 2024 financial year. It stated that following the usual summer slowdown, the housing market has remained subdued through the Autumn. The value of net private reservations in the period was 25% below the prior year at £384 million compared with £515 million a year earlier. Gross private reservations per outlet per week for the period were 0.49 compared to 0.63 last year. 35% of its private customers were cash buyers with many of them are at the top of a house purchase chain and the rate of breakdown of chains is elevated because of difficulties with mortgages lower down the chains. This has caused its cancellation rate for the year to date to rise to 25% from 22% a year earlier and resulted in a net weekly reservation rate of 0.36. This is an increase on the 0.34 for the first 10 weeks of the financial year but it is below the 0.38 for the first half of FY2023. The average selling price of private reservations in the period was 2.5% lower at £471,000, compared to £483,000 in the prior year. It also stated that whilst build cost inflation continues to abate, it still expects overall build cost inflation will be around 7% for the current financial year given the inflation inherent in the opening work in progress.

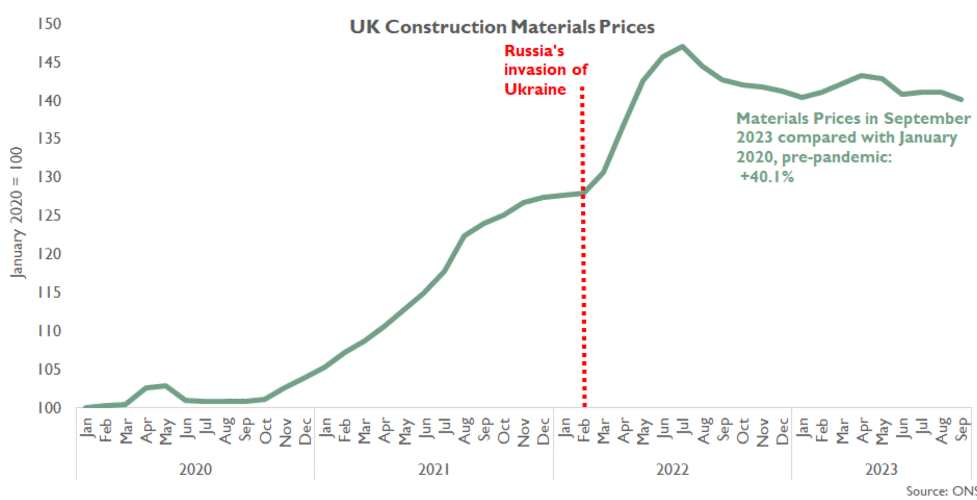
Its total order book at 3 November was £864 million of which 66% is exchanged, compared to £1.36 billion at the same time last year with 74% exchanged. For the current financial year, it has legally completed or exchanged around 58% of revenue compared with 72% a year ago. It continues to expect revenue between £1.65 billion and £1.7 billion with profit before tax of between £180 million and £200 million. However, with the lower than anticipated sales rate due to the more subdued Autumn housing market they are more likely to be towards the lower end of the range.

EXISTING INFORMATION

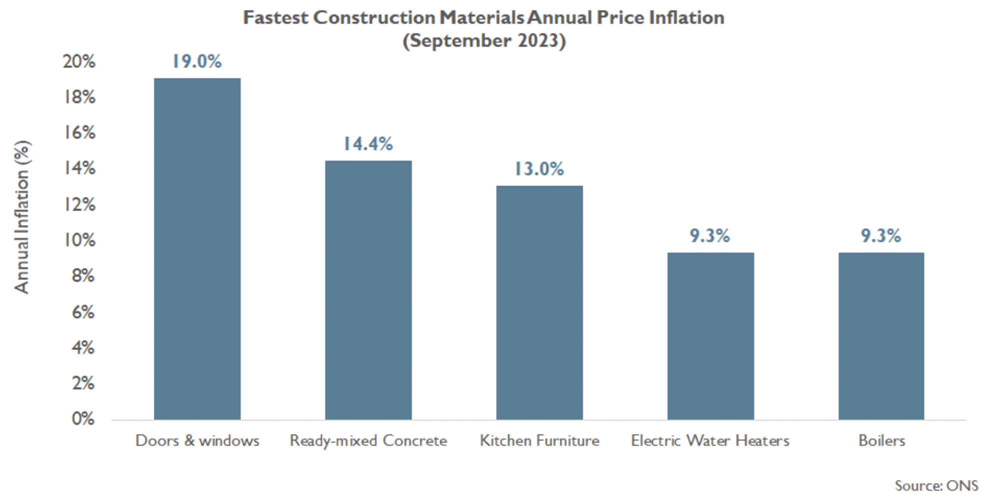
ONS UK Construction Materials Price Indices (September 2023): UK construction materials prices in September 2023 were 1.8% lower than a year ago according to the ONS as materials price inflation continues to slow, more than a year on from the spike in energy, commodity and materials prices when construction materials inflation peaked at 26.8% in June 2022 after Russia's invasion of Ukraine. It is worth noting that there has been an upturn in construction materials price inflation in August and September primarily because of the rise in oil prices, in turn, due to OPEC+ cutting production to raise prices, which has been exacerbated a rise in geopolitical uncertainty in the Middle East. As a result, going forward, construction materials price inflation may be more stubborn than anticipated 6-9 months ago as oil prices remain at high levels.



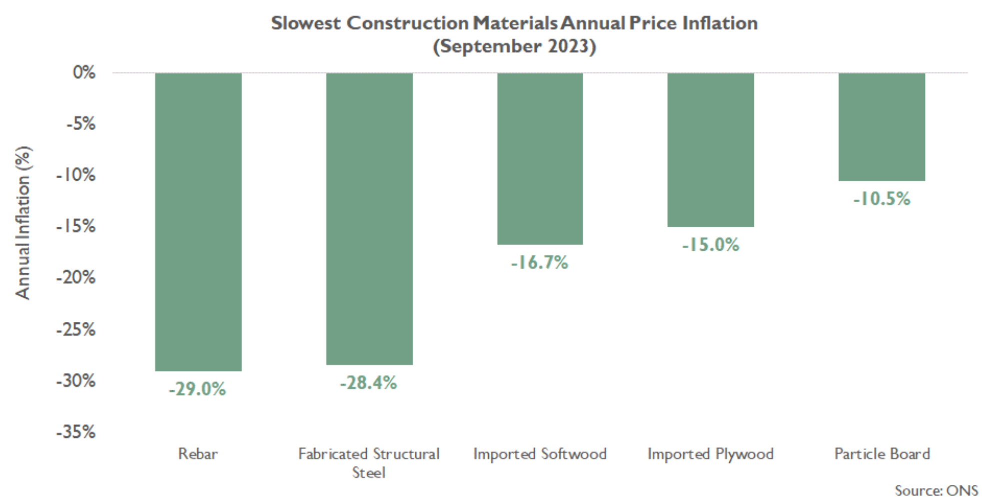
Whilst UK construction materials annual inflation is falling, materials prices remain at high levels and in September 2023 materials prices were still 40.1% higher than in January 2020, pre-pandemic, which continues to have cost implications for projects signed-up to and/or started over 18 months ago, especially for small specialist sub-contractors on fixed-price contracts who are also under pressure from some major house builders and main contractors to cut prices.



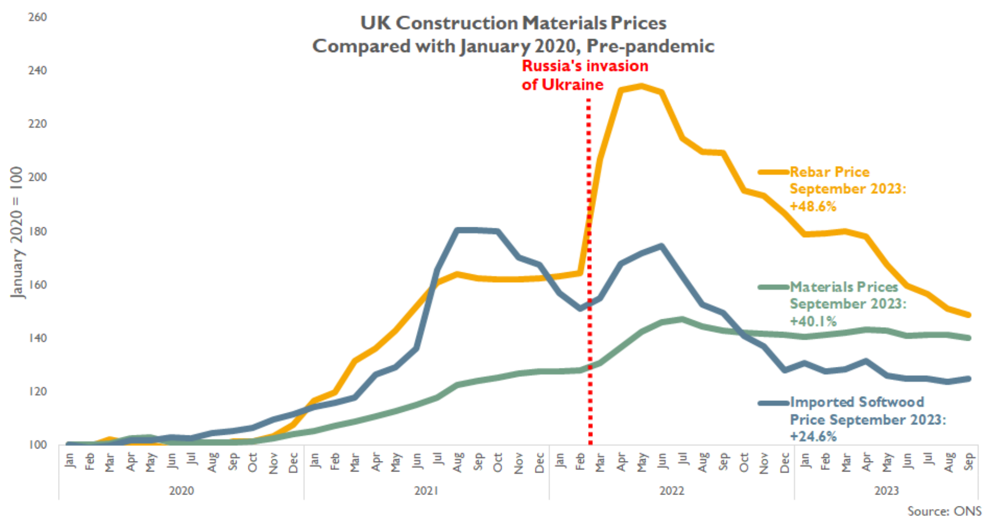
Although construction materials prices fell by 1.8% overall in the year to September, the prices of some materials are still rising at double-digit rates whilst the prices of other materials are falling at double-digit rates so how house builders and contractors find the impacts of the changes in construction materials prices on their cost base will depend on the product-mixes that they are primarily using. The fastest rates of UK construction materials price rises in the year to September 2023 were in Doors and windows (19.0%), Ready-mixed Concrete (14.4%), Kitchen Furniture (13.0%), Electric Water Heaters and Boilers (9.3%).



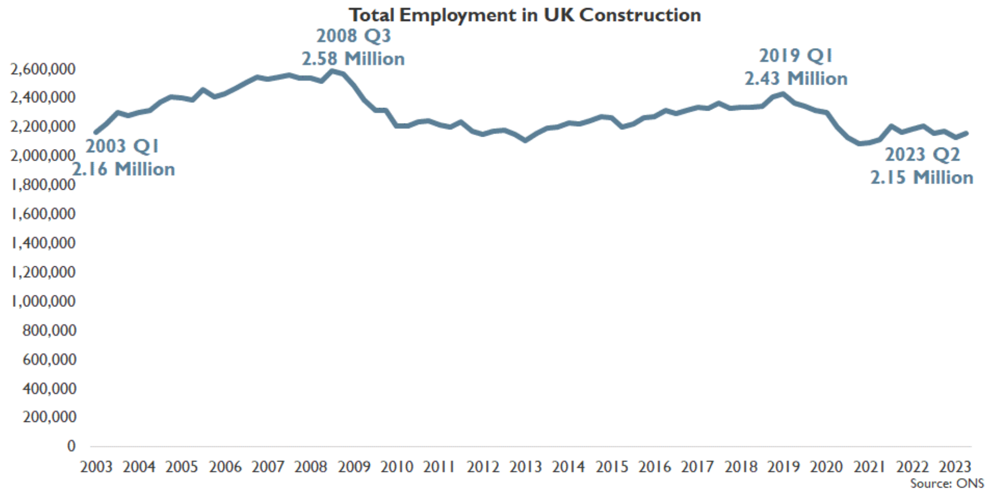
Conversely, the sharpest annual falls in materials prices in the year to September 2023 were in steel-related products such as rebar (-29.0%) and fabricated structural steel (-28.4%) as well as timber-related products such as imported softwood (-16.7%), plywood (-15.0%) and particle board (-10.5%).



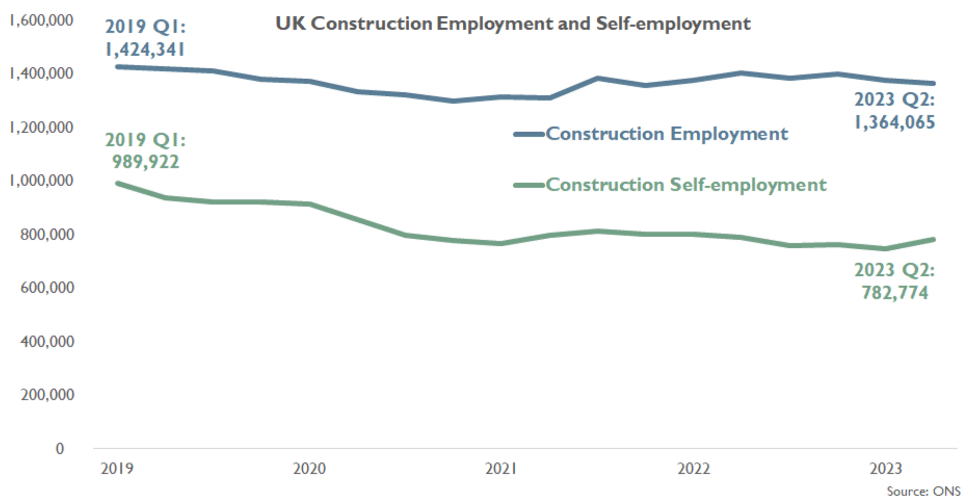
However, as highlighted previously, it is important to note that the key reason that the sharpest declines have been in steel-related and timber-related prices is that their prices peaked higher than other construction materials and, in the case of timber, peaked earlier than other materials prices due to supply chain issues in 2021, before the energy and commodity price spikes in 2022. So, even though the prices of steel-related products and timber-related products are falling at double-digit rates, they still remain at high prices historically (particularly steel products) as they are coming from a high peak. For example, despite double-digit price falls, rebar prices in September 2023 were 48.6% higher than in January 2020 whilst imported softwood timber prices were 24.6% higher.



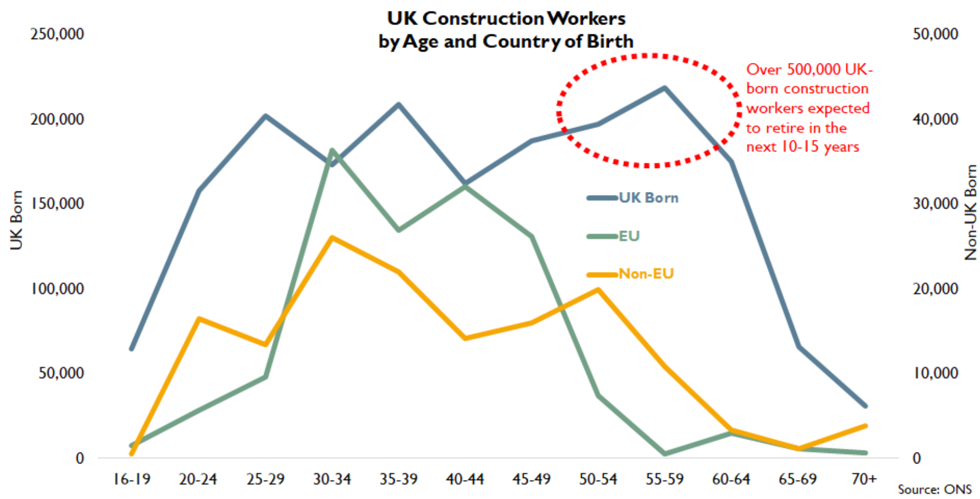
[ONS UK Construction Employment and Self Employment (2023 Q2)](): Given that overall construction materials price inflation is now falling (albeit with materials prices remaining high), the greatest issue facing UK construction industry medium-term will be the skills shortages and the large number of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



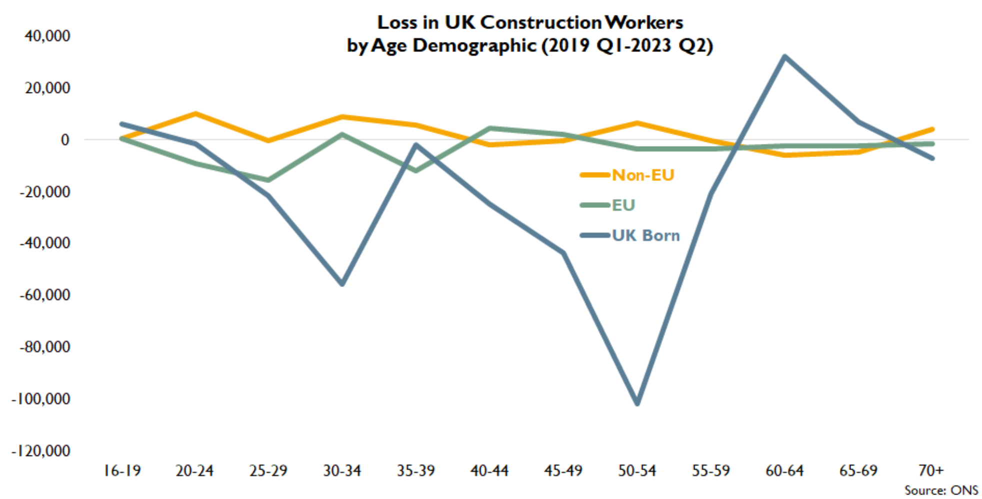
It is worth highlighting that the largest loss in construction employment since the recent peak in 2019 Q1 has been in self-employment, primarily older age-demographic workers in specialist trades. Self-employment in construction in 2023 Q2 was 0.9% lower than a year ago but 20.9% lower (over 200,000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

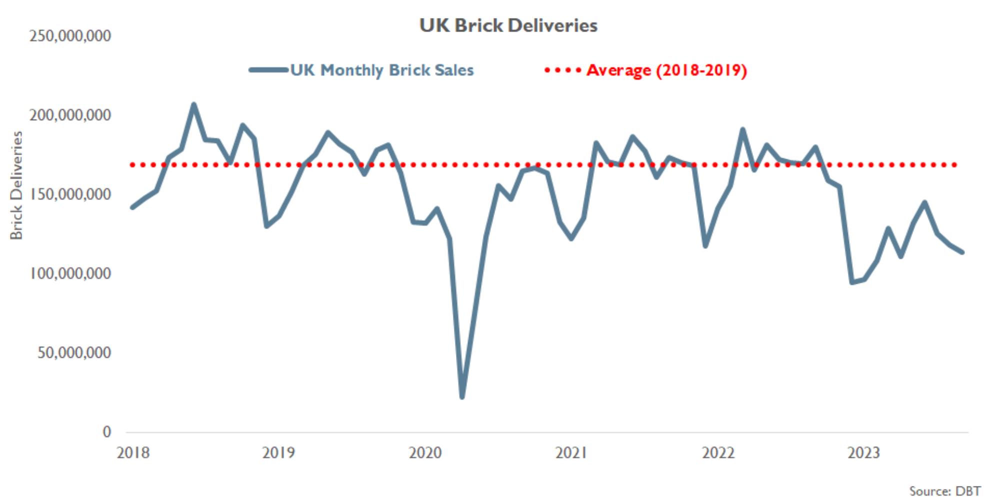


Given the loss of construction workers and as construction apprenticeship starts averaged 31,000 per year in the last 5 years but with a dropout rate over 40%, new entrants will not address the issue. And, without a skilled construction workforce then 300,000+ homes per year, Levelling Up, transition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

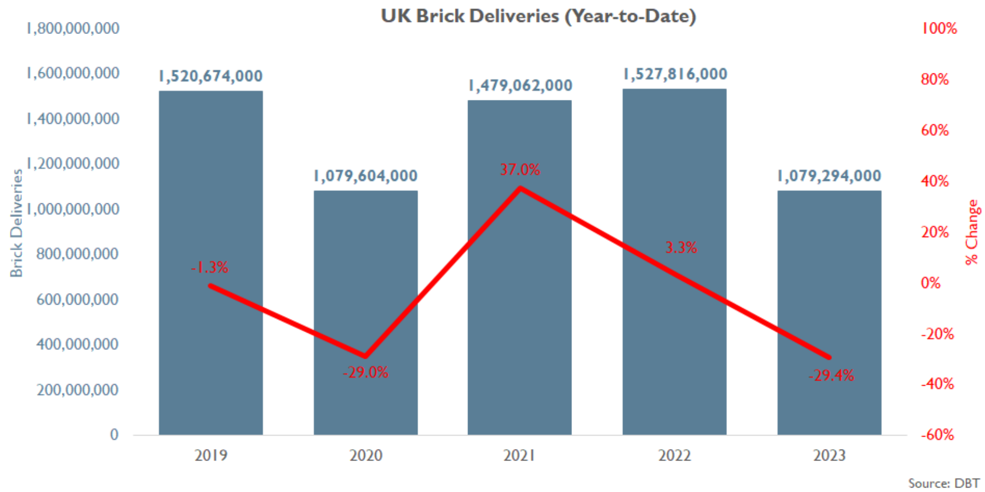
DBT UK Brick Deliveries (September 2023): UK brick deliveries are a useful proxy for house building starts given the absence of monthly housing starts data. In addition, brick deliveries are a more useful indication of intention to build in the near-term given that many house builders rushed through starts in 2023 Q2 prior to the uprated building regulations (see text and chart in comments). Brick deliveries in September 2023 were 4.0% lower than in August and 36.9% lower than a year earlier, which is in line with the negative views of house builders, who stated that Summer was poor and September did not have the usual pick up and was worse than anticipated.

It is worth noting that September 2022, a year ago, was a high base (prior to the Mini Budget that led to the initial spike in mortgage rates and the consequent sharp fall in housing demand). Through brick deliveries, we can see the lagged impact of mortgage rate rises (which peaked at 6.02% for 3-year fixed-rate 75% LTV mortgage in August 2023 contrasting sharply with just 1.12% as recently as October 2021) on housing market demand and house builder confidence and starts.

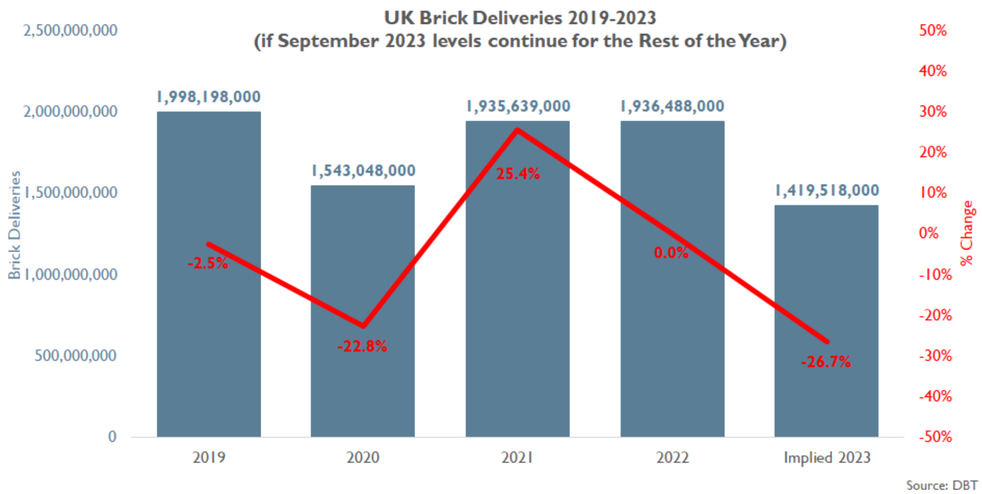
Given the low level of homebuyer demand and uncertainty, house builders are focusing on completing existing developments to meet the current level of demand rather than starting any new developments except in a very few select key hotspots where private sector demand has remained solid and for affordable housing, such as shared ownership, where demand has not dropped off.



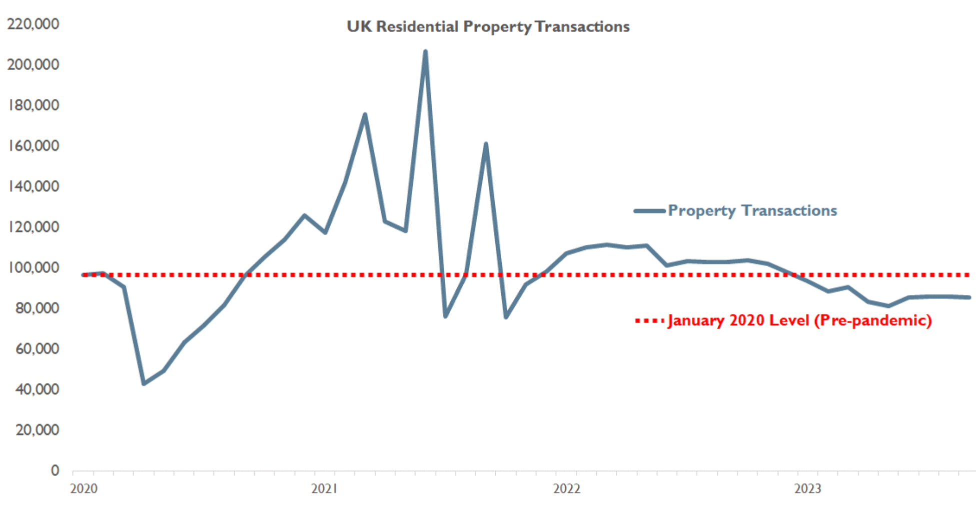
Year-to-date (January-September), UK brick deliveries in 2023 were 29.4% lower than a strong level between January and September in 2022. They were also 29.0% lower than in 2019, pre-pandemic, and 2023's levels have hit the same levels as in 2020, which was affected by the shutdown of the housing market and construction sector in the initial national lockdown. Brick deliveries are, 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.


UK Brick Deliveries (Year-to-Date)
Brick Deliveries
% Change
1,800,000,000
1,600,000,000
1,400,000,000
1,200,000,000
1,000,000,000
800,000,000
600,000,000
400,000,000
200,000,000
0
100%
80%
60%
40%
20%
0%
-20%
-40%
-60%
1,520,674,000
1,079,604,000
1,479,062,000
1,527,816,000
1,079,294,000
-1.3%
-29.0%
37.0%
3.3%
-29.4%
2019
2020
2021
2022
2023
Source: DBT

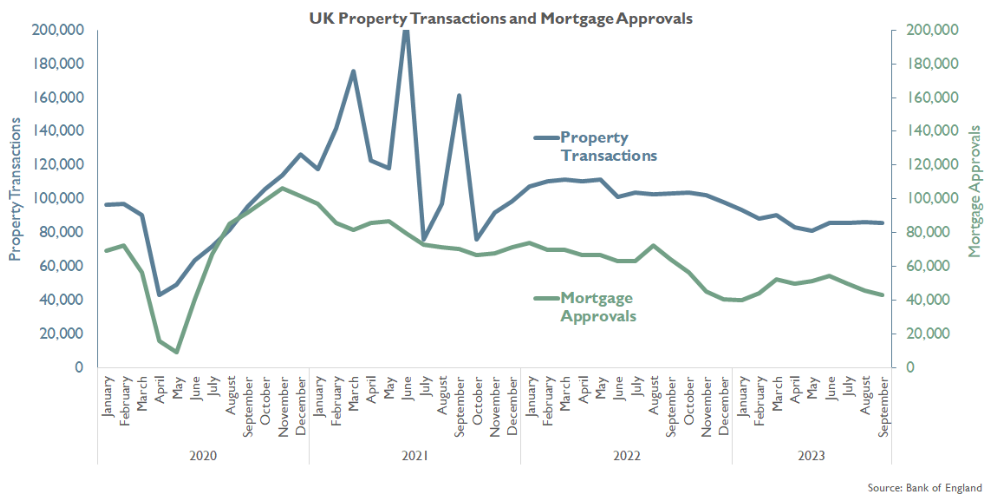
As another reference point for brick deliveries and house building starts this year, if deliveries continue at September levels for the rest of the year then, overall in 2023, deliveries they would be 26.7% lower than in 2022 and 29.0% lower than in 2019, pre-pandemic, but note that this reference point 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.



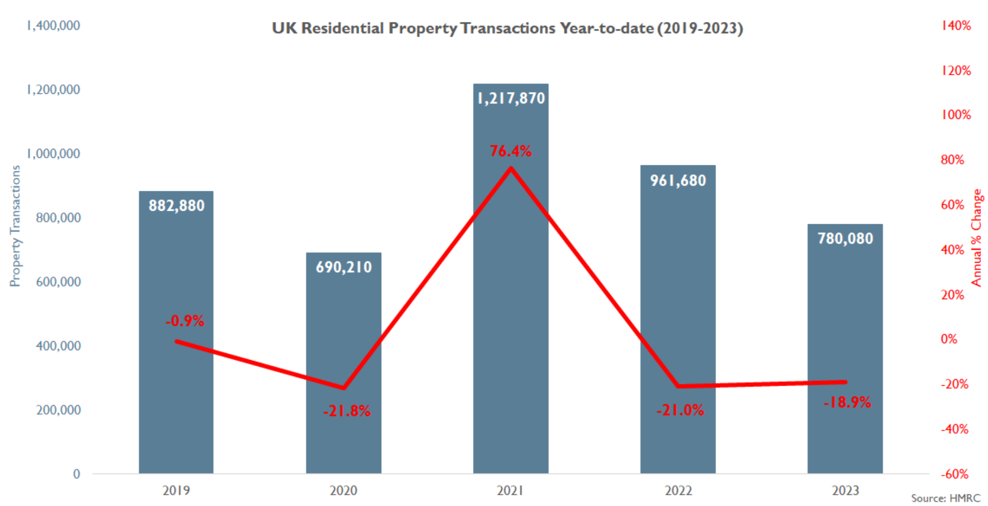
HMRC UK Residential Property Transactions (September 2023): There were 85,610 UK residential property transactions in September 2023, which is 0.6% lower than in August and 17.0% lower than a year ago (which was just before the impacts of last year's Mini Budget), according to HMRC. It is worth noting, however, that property transactions in September were based on mortgages applications and approvals months earlier so the 17.0% annual fall in transactions is significantly lower than the 32.5% annual fall in mortgage approvals in September. In addition, property transactions in the year to September 2023 also fell less than mortgage approvals as sharper falls in property transactions have been prevented, so far, by cash buyers and investor/bulk purchases.



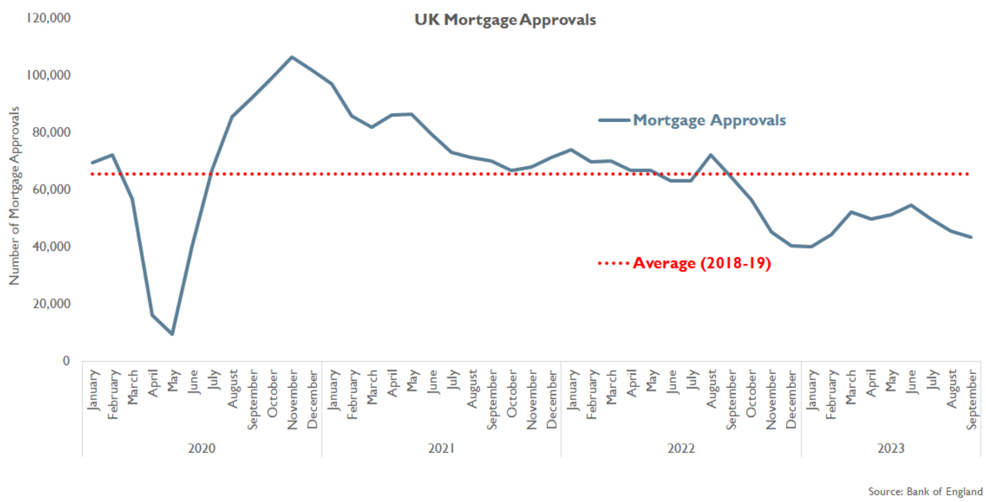
Mortgage approvals in September 2023 were already down to 51% of property transactions from 72% in January 2020 (before the pandemic 'race for space') and, as mortgage approvals are a leading indicator of property transactions, mortgage approvals declining further between July and September points towards further significant falls in UK residential property transactions between October and December 2023.



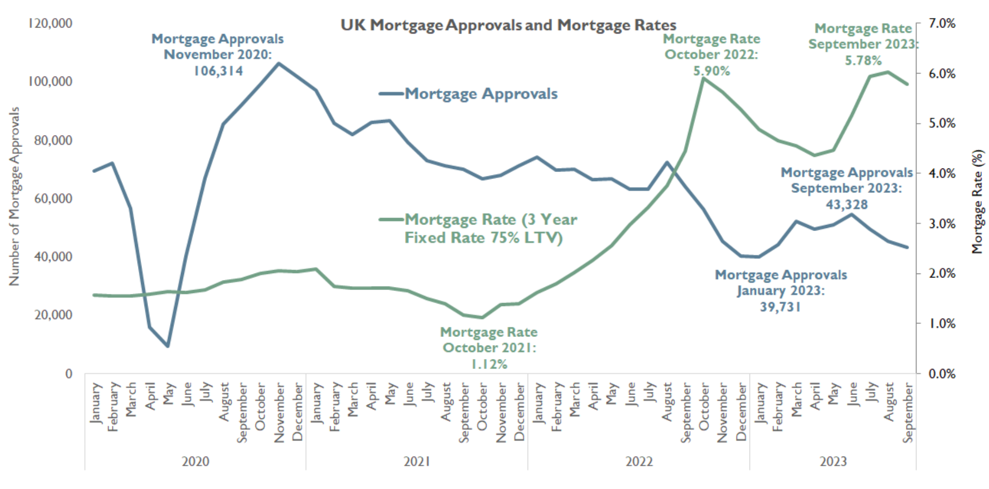
Even before these further expected falls in property transactions between October and December, year-to-date (January-September) UK residential property transactions in 2023 were 18.9% lower than in 2022 (which was a very strong housing market) and transactions year-to-date (January-September) in 2023 were also 35.9% lower than in 2021, which was an temporary spike in transactions due to delayed transactions from 2020, when the housing market was shut in initial lockdown and also boosted by the 'race for space', in turn, boosted by the stamp duty holiday and Help to Buy directly plus also by their deadlines bringing forward residential property transactions.



[Bank of England UK Mortgage Approvals (September 2023)](): There were 43,328 mortgage approvals in the UK during September 2023 according to the Bank of England, which is 4.7% lower than in August, 32.5% lower than a year ago and 33.8% lower than the average between 2018 and 2019, pre-pandemic i.e. before the 'race for space' and interest rate rises etc.



UK mortgage rates started to fall during September 2023, to 5.78% for a 3-year fixed-rate 75% LTV mortgage in September, which was slightly lower than the 6.02% in August (Lower Chart), but we still haven't seen the full impact of previous mortgage rate rises on homebuyer demand. Consequently, the number of UK mortgage approvals in September 2023 remained 8.6% higher than in January 2023, which was the recent nadir after the effects of the spike in mortgage rates and economic and political uncertainty after Autumn 2022's Truss/Kwarteng Mini Budget). So, it would not be a surprise to see UK mortgage approvals this Winter fall below January's level as higher general mortgage rates, despite recent marginal declines, become embedded in homebuyer decisions and as consumer confidence falls in Autumn/Winter.

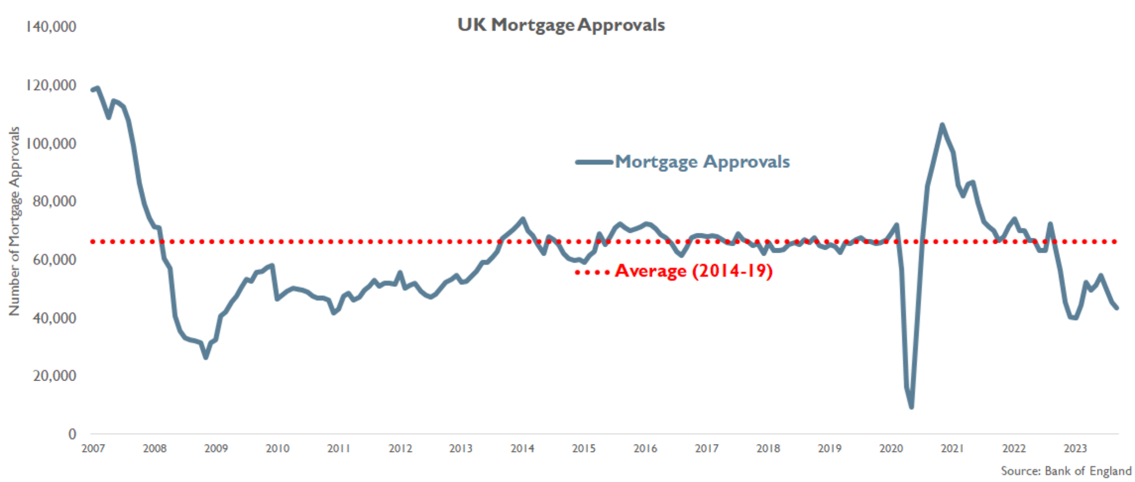


To give a longer view, mortgage approvals in the UK during September 2023 were 34.6% lower than the 2014 to 2019 average, when low rates became embedded (average of 2.12% for a 3-year fixed-rate 75% LTV mortgage) with positive demand stimulus from government (the unconstrained version of Help to Buy) and in a period of sustained economic growth before the disruptions of pandemic, Brexit, supply chain issues, double-digit inflation etc.

Mortgage approvals in September were still 64.2% higher than the long-term low point in November 2008 but that was during a global financial crisis when banks were going under so it is not a useful reference point.

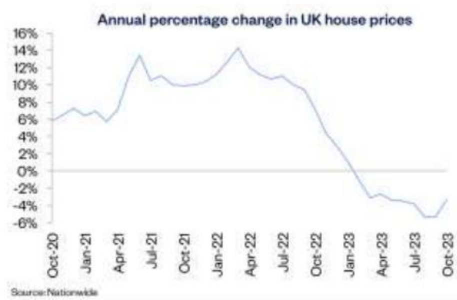
Going forward in the housing market, medium-term interest and mortgage rates will be at elevated levels compared to the last decade (or normal/long-term average rates pre-financial crisis depending on your point of view).

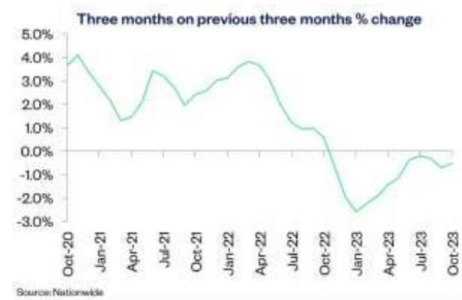
This means a structurally different housing market is likely medium-term as real house prices adjust to be more in line with average incomes and the demand moves away from larger family houses outside cities (which is where demand spiked in the pandemic 'race for space') more towards first-time buyers at lower price points.

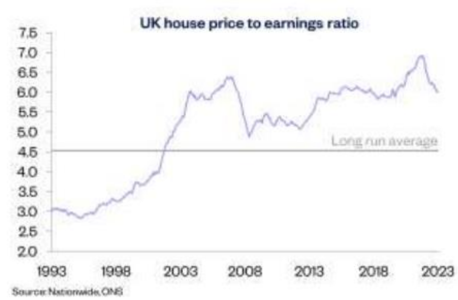


[Nationwide UK House Price Index (October 2023)](): Nationwide reported that UK house price growth on its mortgage offers were -3.3% in October, up from -5.3% in September. Furthermore, house prices in October were 0.9% higher than in September. Nevertheless, it reported that housing market activity remained extremely weak and that the uptick in house prices in October most likely reflects the fact that the supply of properties on the market is constrained. There is little sign of forced selling, which would exert downward pressure on prices, as labour market conditions are solid and mortgage arrears are at historically low levels.

It also stated that activity and house prices are likely to remain subdued in the coming quarters. Despite signs that cost-of-living pressures are easing, with the rate of inflation now running below the rate of average earnings growth, consumer confidence remains weak and surveyors continue to report subdued levels of new buyer enquiries.







Bellway Preliminary Financial Year Results (October 2023): Bellway reported preliminary results for the year ending 31 July 2023. Housing completions were 10,945 homes in the year compared with 11,198 a year earlier at an overall average selling price of £310,306 compared with £314,399 a year ago. Its reservation rate reduced by 28.4% to 156 per week compared with 218 per week a year earlier and its private reservation rate decreased by 35.9% to 109 per week compared with 170 per week a year ago, representing a private reservation rate per site per week of 0.46 compared with 0.70 a year earlier. The underlying operating margin was 16.0% compared with 18.5% a year earlier with the reduction mainly reflecting the effect of build cost and overhead inflation, extended site durations because of slower reservation rates and the increased use of targeted selling incentives. In the nine weeks since 1 August, its overall weekly reservations were 133 per week compared with 191 a year earlier and the private reservation rate was 99 per week compared with 136 a year ago. The private reservation rate includes a bulk sale to a private rental sector investor, on compelling financial terms, comprising 71 homes. The private reservation rate per site per week in the period was 0.41 compared with 0.58 a year earlier, including a contribution of 0.03 from the bulk sale.

Bellway stated its forward sales position was valued at £1,232.3 million at 1 October compared with £2,093.8 million, comprising of 4,636 homes compared with 7,257 homes a year earlier (-36%) of which 71% were exchanged. Given the reduced order book and lower reservation rates, it is targeting completions of around 7,500 homes compared with 10,945 homes a year ago (-31%), preparing for a return to growth beyond 31 July 2024. It also expects that the overall average selling price will be around £295,000 compared with £310,306 a year earlier, with the moderation from 2023 primarily reflecting a higher expected proportion of social housing completions and a continued use of incentives.

	Year ended 31 July 2023	Year ended 31 July 2022	Movement
Housing completions	10,945	11,198	(2.3%)
Revenue	£3,406.6m	£3,536.8m	(3.7%)
Underlying performance measures:			
Gross profit (underlying)	£687.3m[2,3]	£787.0m[2,3]	(12.7%)
Gross margin (underlying)	20.2%[2,3]	22.3%[2,3]	(210 bps)
Operating profit (underlying)	£543.9m[2,3]	£653.2m[2,3]	(16.7%)
Operating margin (underlying)	16.0%[2,3]	18.5%[2,3]	(250 bps)
Profit before taxation (underlying)	£532.6m[2,3]	£650.4m[2,3]	(18.1%)
Earnings per share (underlying)	328.1p[2,3]	420.8p[2,3]	(22.0%)
RoCE (underlying)	15.8%[2,3]	19.4%[2,3]	(360 bps)
Statutory and other measures:			
Net legacy building safety expense	£49.6m	£346.2m	(85.7%)
Profit before taxation	£483.0m	£304.2m	+58.8%
Earnings per share	297.7p	196.9p	+51.2%
Proposed total dividend per share	140.0p	140.0p	-
Net asset value per share	2,871p[2]	2,727p[2]	+5.3%
Net cash	£232.0m[2]	£245.3m[2]	(5.4%)
Land bank (total plots)	98,164[5]	97,706[5]	+0.5%

Barratt Developments AGM Trading Update (October 2023): Barratt Developments reported a trading update for the period 1 July 2023 to 8 October 2023. Its net private reservations per average week were 169 compared with 188 a year earlier and net private reservations per active outlet per average week were 0.46 compared with 0.55 a year ago. During the period sales to the private rental sector and registered providers of social housing contributed 0.04, the same as last year. Reservation activity has continued to reflect the mortgage challenges faced by potential homebuyers, as well as the absence of Help to Buy reservation activity which accounted for 12% of private reservations in the prior year period. Its total forward sales (including JVs) at 8 October 2023 totalled 9,221 homes compared with 13,314 homes a year earlier (-31%) at a value of £2,362.0 million compared with £3,603.1 million a year ago. It was 60% forward sold for private home completions for this financial year, which ends on 30 June 2024, compared with 70% a year ago.

It stated that the outlook for the year remains uncertain with the availability and pricing of mortgages being vital. It continues to expect to deliver total home completions of between 13,250 and 14,250 homes this financial year, including around 650 home completions from its JVs and around 750 completions for the private rental sector.

1. Net private reservation rate per active outlet per average week	**FY24**	**FY23**	**Change**
1st July to FY results announcement [1]	**0.42**	**0.60**	**(30.0%)**
Of which PRS and RPs	0.02	0.05	(60.0%)
FY results announcement to date [2]	**0.51**	**0.48**	**6.3%**
Of which PRS and RPs	0.07	0.02	250.0%
1st July to date [3]	**0.46**	**0.55**	**(16.4%)**
Of which PRS and RPs	0.04	0.04	-

Note 1: To 27 August 2023 and 28 August 2022 respectively.

	8 October 2023		**9 October 2022**		**Variance (%)**	
2. Forward sales	£m	Homes	£m	Homes	£m	Homes
Private	1,481.4	4,241	2,252.8	5,972	(34.2%)	(29.0%)
Affordable	720.7	4,495	1,035.7	6,402	(30.4%)	(29.8%)
Wholly Owned	**2,202.1**	**8,736**	**3,288.5**	**12,374**	**(33.0%)**	**(29.4%)**
JV	159.9	485	314.6	940	(49.2%)	(48.4%)
Total	**2,362.0**	**9,221**	**3,603.1**	**13,314**	**(34.4%)**	**(30.7%)**

	Current Year		**Prior Year**		**Variance (%)**	
3. Forward sales roll	Private	Total	Private	Total	Private	Total
June	3,884	8,995	6,108	13,579	(36.4%)	(33.8%)
Reservations	2,414	2,700	2,714	3,343	(11.1%)	(19.2%)
Completions	(2,057)	(2,474)	(2,850)	(3,608)	(27.8%)	(31.4%)
Total[4]	**4,241**	**9,221**	**5,972**	**13,314**	**(29.0%)**	**(30.7%)**

Note 4: As at 8 October 2023 and 9 October 2022 respectively.

Vistry Group Trading Update (2023 Q3): Vistry Group providing an update on trading for 1 July 2023 to date. It reported that it was private sales activity remained subdued, without the normal seasonal pickup since early September and with the increased use of incentives. In addition is reported that it was in "productive discussions with our supply chain to agree cost reductions". It is targeting adjusted profit before tax of £450 million for FY23, excluding the impact of transitioning the Housebuilding business to Partnerships, and estimates the FY23 impact of the reduction in full year site margins to be in the region of £40 million so that its adjusted profit before tax, is now £410 million.

It stated that it saw a slowdown in open market private sales during the summer months due to the higher interest rate environment and inflationary cost pressures on household income. This trend has continued and it has not seen the seasonal increase in private sales since September that it had expected. Open market demand continues to be supported by incentives of c. 5%. Vistry's average weekly sales rate since 1 July was 0.60 compared with a year earlier 0.64 and 0.76 for the year to date. The Group's forward order book totals £4.3bn with 100% of private units for FY23 forward sold.

It stated that its shift in business model to Partnerships means that it will operate as a single business with 27 regional business units, a reduction from 32, and its overall headcount will reduce by c. 200 as a result of restructuring. Redundancies are separate to the approximate 4% reduction in the total number of roles (on a full-time basis) that has been implemented in connection with the Countryside acquisition. In addition, it has the capacity within this to deliver upon its medium-term growth targets with greater use of standardisation and timber frame manufacturing. It expects to deliver c. £25 million of annualised cost savings from this integration of Partnerships and Housebuilding, in addition to the £60m of synergies from the Countryside acquisition.

Forward sales

(£m)	**20 October 2023**	03 September 2023
Housebuilding		
- Private	**699**	670
- Private - Vistry share of JVs	**95**	107
- Affordable	**422**	444
- Affordable - Vistry share of JVs	**82**	74
Total Housebuilding	**1,298**	1,295
Partnerships		
- Mixed tenure	**1,503**	1,482
- Mixed tenure - Vistry share of JVs	**382**	401
Total mixed tenure	**1,885**	1,883
Total partner delivery	**1,095**	1,106
Total Partnerships	**2,980**	2,989
Total Group	**4,278**	4,284