

Weekly Economic Update

4th April 2010

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Summary

The final reading of UK GDP shows that the economy exited the one and a half year long recession with a little more momentum than previously thought. The latest manufacturing survey adds to evidence that the gradual economic recovery continues, after the weather-related slowdown at the beginning of 2010. On a more cautious note, there are persistent weaknesses in the consumer sector, where confidence remains low amid concerns over the economic outlook and personal financial situation. Meanwhile, in the commodities market, the 40-year old benchmark system of annual iron ore price contracts broke down, with settlements now based on shorter-term pricing mechanisms. This will have major implications for the supply chain, above all steelmakers, who are being faced with higher and more volatile input costs.

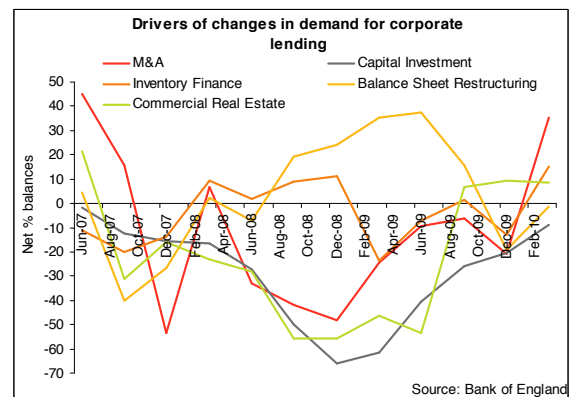
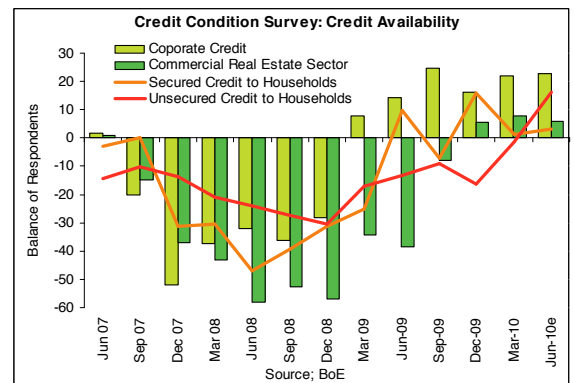
Statistics

Economy

Credit conditions

The latest Bank of England **credit condition survey** reveals a mixed picture across the whole economy. Credit availability to households was broadly unchanged in the 1st quarter of 2010, while corporate credit conditions continued to improve.

- o Overall **availability** of credit to corporates increased in the last three months and a further rise was expected in Q2. Within that, the availability of credit to the commercial real estate sector increased for a 2nd consecutive quarter, although by less than for the corporate sector as a whole. Lenders report that the increase in credit availability had been supported by an improvement in their funding costs and a better economic outlook for businesses.
- o **Demand for credit** by private non-financial corporations in the 1st quarter of 2010 rose more strongly than expected for SME's and was unchanged for large PNFCs. Stronger demand was mainly due to firms seeking to refinance existing facilities, higher M&A activity and inventory finance. Demand for credit to finance capital expenditure remained subdued.
- o **Default rates** on lending to corporations fell over the past three months for medium and large firms and were unchanged for small businesses. **Loss given default rates** were generally stable.



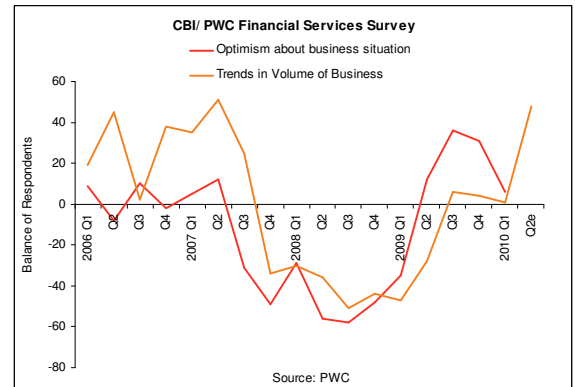
- With regards to **lending terms and conditions**, lenders report that spreads and fees on corporate lending had narrowed for medium and large PNFCs in the 1st quarter, but widened slightly for small businesses.

UK GDP

The UK economy expanded by 0.4% quarter-on-quarter in Q4 2009, revised up from 0.3% growth previously estimated. The recovery has been supported by very low interest rates, fiscal stimulus measures, stronger demand from key trading partners and a competitive pound. Whilst the UK economy is gradually recovering, strong headwinds persist. Consumers remain cautious and businesses' investment intentions are constrained by substantial spare capacity.

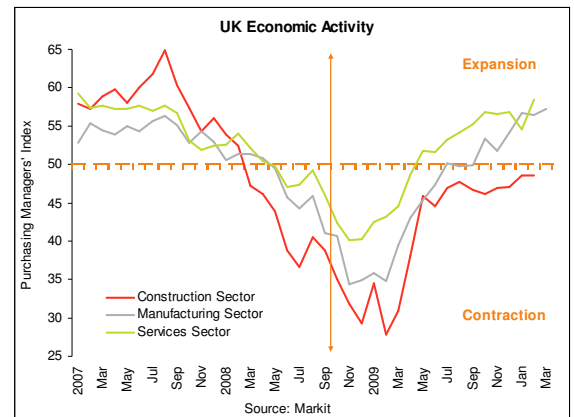
Financial services survey

The latest **CBI/PricewaterhouseCoopers financial services survey** shows that business volumes were broadly stable in the 1st quarter of 2009. Firms are increasingly optimistic about their prospects in the months ahead, due to stronger commercial demand and steadying levels of non-performing loans. Banks and security traders saw business volumes fall in the past three months, but both sub-sectors now expect volumes to increase in the 2nd quarter. Building societies and life insurers saw unexpectedly strong growth in the 1st quarter of 2010. The profitability of financial services businesses improved for the 3rd consecutive quarter and is expected to increase further. According to the survey, financial services firms see regulation as an increasing limitation on business and concerns about the UK's competitiveness are growing.



Manufacturing activity

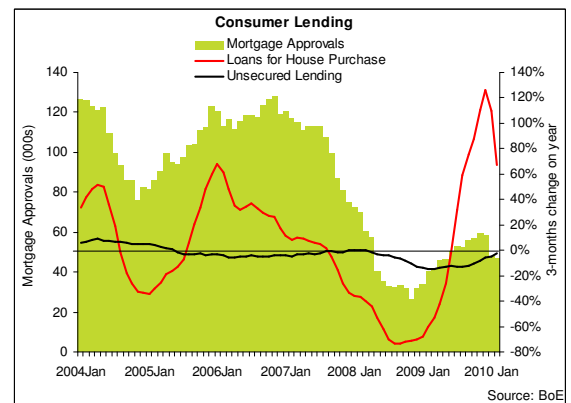
UK manufacturing activity rose in March, according to the latest CIPS/Markit **Purchasing Managers' Index (PMI)**. The index recorded a reading of 57.2, up from 56.5 in February. This is the highest level in the survey's history. Output rose for a 10th consecutive month, on the back of improving economic conditions, increased new work and efforts to reduce backlogs. New orders also rose due to solid demand from domestic and overseas markets. However, the recovery has a long way to go, with levels of output and demand well below their pre-recession peaks. Cost inflationary pressures rose in March.



Purchasing costs rose at the fastest pace since September 2008, due to higher chemicals, food, fuel, metal, timber and utility prices. Selling prices also rose, but by less than input costs.

Consumer lending

Mortgage lending fell back in February, renewing concerns of a double-dip in UK housing market activity. Mortgage approvals in February hit a 9-month low, while the value of loans for house purchase was at the lowest since May last year. In contrast, consumer borrowing rose, up £0.5bn in February, the strongest increase since November 2008.



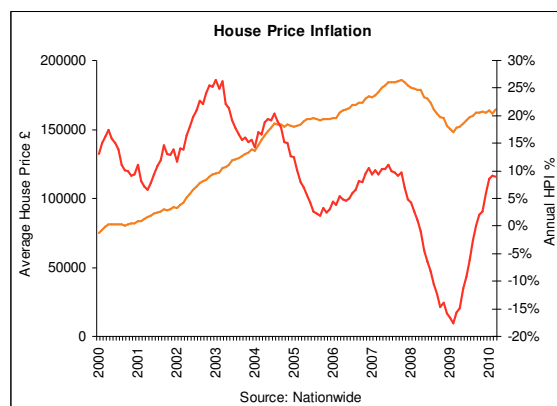
Consumer confidence

Consumer confidence slipped in March, with the GfK **Consumer Confidence Index** dropping one point to -15. Confidence in consumers' personal financial situation in the last 12

months and the next 12 months has both decreased. There is also a persistent lack of confidence in the UK's economic performance over the next 12 months.

Nationwide House Price Index

According to the Nationwide, house prices rose by 0.7% in March, reversing the 0.8% fall seen in February. The three-month moving average shows that prices grew by 1.6% in the first quarter of this year, down from 2.2% in the final quarter of 2009. House prices rose by 9% year-on-year in March 2010 compared with 9.2% in February. The average UK house price is now £164,520.



Commodity Prices

Commodities prices surged last week, on the back of a firm rebound in global manufacturing output and a dip in US jobless claims. Oil prices jumped to \$84/ barrel of Brent crude, up 6% over the week. The rise came despite signs that oil inventories and gasoline stockpiles remain at high levels. Base metals also posted strong gains, with copper up 5% at \$7,881/ tonne and aluminium rising 6% last week to \$2,330/ tonne. Nickel, used in stainless steel production, rose 8% to \$25,475/ tonne.

Commodity Prices (2nd April 2010)				
	Price	Weekly change	Monthly change	Annual change
"Brent" Oil (\$/ barrel)	83.9	6%	8%	76%
Copper (\$/tonne)	7,881	5%	7%	99%
Aluminium (\$/tonne)	2,330	6%	11%	74%
Nickel (\$/tonne)	25,475	8%	19%	167%
Iron Ore Spot Index(\$/t)	155.83	5%	17%	158%
Global Steel Price (Index 04/1994=100)	186.41	7%	9%	41%

Source: FT, LME, Cruspi, MBIO

The spot iron ore index surged to \$155.8/ tonne, the highest level since August 2008. Commodity markets are digesting the iron ore contract pricing shift announced last week. BHP Billiton and Vale have agreed with Japanese and Chinese steelmakers to replace annual contract pricing, in use for the past 40 years, with shorter-term (quarterly) pricing mechanism, based on recent spot prices. According to reports, historic spot prices, which factor in shipping costs, have been roughly twice the level of contract prices. Under the new price system the cost of iron ore for Asian steelmakers will be \$110-\$120/ tonne during April-June, up between 80-100% from the \$60 level at which the 2009/10 annual contracts were fixed. Steelmakers already indicate that they would compensate for the increase in their input costs by raising steel prices and some have already done so. The global steel price index recorded a 7% rise over the past week, with prices now 41% higher compared to a year ago.

Exchange Rates

The Sterling gained ground on the back of Dollar weakness last week, gaining 2.5% against the greenback to £/\$1.528. The Sterling also strengthened against the Euro, up 1.5% to £/€1.129.

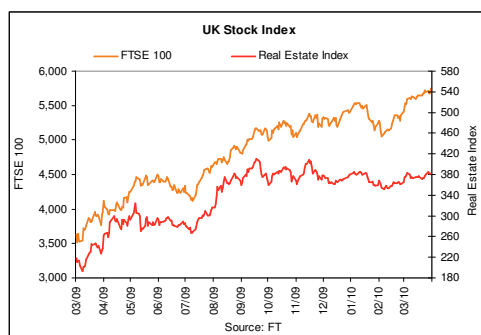
Looking ahead

The Bank of England's Monetary Policy Committee looks set to leave interest rates and quantitative easing on hold during its April meeting. The service sector purchasing managers' index is likely to reveal that sector activity improved in March. Manufacturing output should also show an expansion in March. The construction purchasing managers' index is expected to show that sector activity continues to contract, but the pace of the decline should have slowed further. However, a double-dip in construction activity is now widely expected, given the government's need to cut spending to improve public finances, which will hit public works.

Market Watch

Equity markets continued to gain last week, amid more evidence of a global economic recovery. The **FTSE 100** rose above 5,740 for the first time since June 2008, buoyed by basic resource and miners stocks, which rallied due to climbing metal prices.

Real estate companies had a good week overall. According to the CBRE tenant demand and take-up of office space in the City of London rose firmly in the 1st quarter of 2010, with leasing transactions totalling 2.04m sq ft. Minerva's share price jumped by almost 20% last week and up more than 30% over the last month. Derwent London advanced 4.2% and St. Modwen Properties gained 5.6%. British Land rose 3.8%. In contrast, the Workspace Group and Segro fell, down 4.1% and 1.2%. Land Securities and Quintain Estates & Developments also weakened.



Performance among **housebuilders** was mixed, as the latest data point to a slowing in the housing market recovery. Credit conditions for consumers remain tight and mortgage approvals fell to their lowest level in 9 months. Taylor Wimpey fell sharpest, down 3.5%, while Barrat Development and Berkeley fell by 1.8% and 1% respectively. In contrast, Bellway and Persimmon held up.

Share Prices	Friday 2 nd April 2010			
	Index	Week	Month	Year
FTSE100	5,744.9	0.3%	6.3%	45.2%
	Market Cap, £m	Week	Month	Year
Real Estate				
British Land	4,210	3.8%	9.6%	29.3%
Hammerson	2,780	2.2%	1.4%	52.8%
Land Securities	5,130	-0.3%	6.0%	51.2%
Liberty Intl.	3,170	1.9%	5.2%	37.7%
Shaftesbury	885.5	2.6%	3.3%	62.5%
Great Portland Est.	974.6	3.1%	10.1%	66.3%
Derwent London	1,400	4.2%	6.0%	103.1%
Segro	2,340	-1.2%	-1.6%	80.7%
Quintain Estates & Development	291.5	-0.9%	-9.7%	733.7%
St. Modwen Properties	395.1	5.6%	3.6%	128.5%
Unite Group	414.5	3.9%	-9.3%	258.7%
Workspace Group	267.3	-4.1%	8.1%	86.0%
Minerva	169.2	19.3%	31.3%	1515%
Average**		1.8%	5.0%	78.3%
Balfour Beatty	2,030	1.3%	6.6%	-1.8%
Carillion	1,330	1.9%	16.0%	32.9%
Morgan Sindall	239.3	-0.1%	-2.5%	-4.0%
Kier Group	403.5	0.9%	7.3%	19.8%
Lend Lease Corp*	2,812	-1.4%	-4.6%	37.4%
Average		0.3%	3.5%	22.3%
Wolseley	4,530	-0.6%	0.3%	55.5%
SIG	635.4	-0.2%	-2.4%	8.7%
Marshalls	170.0	-3.5%	6.3%	-0.4%
Kingspan	971	3.6%	18.2%	138.1%
BSS	351.1	2.3%	3.8%	-0.4%
Average		0.2%	3.0%	58.7%
Persimmon	1,440	1.6%	19.1%	32.1%
Taylor Wimpey	1,210	-3.5%	4.5%	111.6%
Barratt	1,230	-1.8%	11.5%	118.1%
Bovis Homes	540.1	0.2%	10.8%	-4.2%
Bellway	941.8	1.9%	18.7%	8.6%
Berkeley	1,110	-1.0%	10.4%	-9.8%
Average		-0.5%	12.7%	49.7%

*Lend Lease Corporation Limited is listed on the Australian and NZ stock exchange
**Sector averages are weighted according to current market capitalisations