theconstructionindex

Davis Langdon

Weekly Economic Update

17th January 2010

Summary

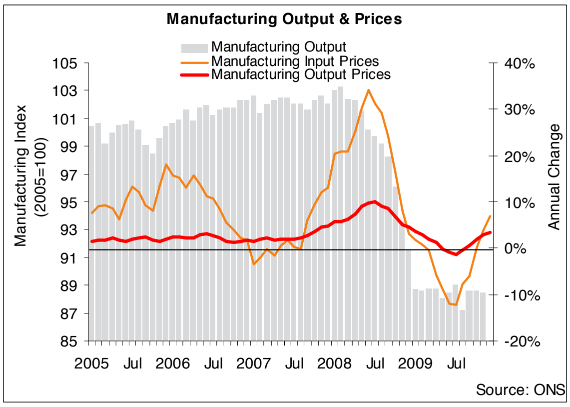
UK economic data were mixed last week, with stronger retail sales offset by disappointing manufacturing activity. Construction new orders also remain subdued and the industry lags behind recovery efforts in the wider UK economy.

Statistics

Economy

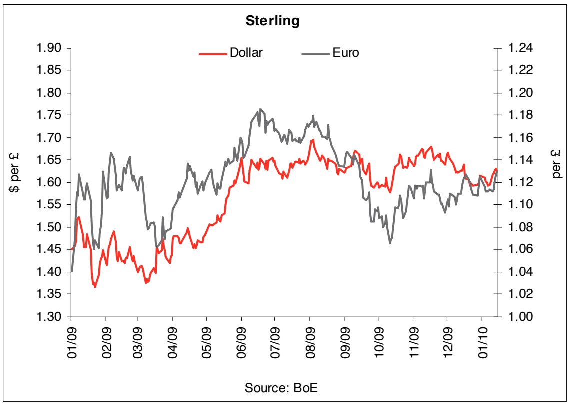
- According to the NIESR, the **UK economy** exited recession in the 4th quarter of 2009, growing by a moderate 0.3% in the final quarter of the year. The first official GDP data will be released at the end of the month.

- **Manufacturing output** in November remained weak. Output was marginally lower compared to the preceding month and was down 5.4% on a year ago. Despite some encouraging signs of stabilisation in industrial activity, the manufacturing sector is still struggling to develop a decent recovery. Doubts remain about the strength of demand for manufactured goods over the medium term, particularly once stimulative measures start being withdrawn.



- After weaker than expected November sales, the British Retail Consortium's **retail sales monitor** for December shows that UK retail sales rose 4.2% on a like-for-like basis compared to last year. Total sales values rose 6% over the same period. In addition to improving consumer confidence, the cold snap played a part in the increase. Also, retailers campaigned hard to boost their sales ahead of the VAT rise.

- Chinese monetary tightening and fears about public debt in Europe dominated **currency markets** last week. The Sterling appreciated against both the Dollar and the Euro. Against the Euro, the Sterling rose to a 2-month high at £/ 1.1294, after concerns increased over the deterioration of public finances in Greece. Against the Dollar the Sterling rose 1% in the week to Friday to £/$1.6236, after reports that the US short-term rates could stay low for as long as two years.



- **Commodity prices** edged back last week. The Brent crude **oil** price fell 4% in the week to Friday to $77.7 a barrel, amid higher than expected inventory levels and higher crude oil supplies. The price of **copper** fell 2% to $7,453/ tonne and **aluminium** prices slipped 1% to $2,293/ tonne. In contrast, the global **steel price** index recorded a 4% rise last week.

Commodity Prices (15th January 2010)

	Price	Weekly change	Monthly change	Annual change
"Brent" Oil ($/ barrel)	77.7	-4%	8%	67%
Copper ($/tonne)	7,453	-2%	8%	128%
Aluminium ($/tonne)	2,293	-1%	1%	58%
Nickel ($/tonne)	18,345	-2%	10%	76%
Global Steel Price (Index 04/1994=100)	159.78	4%	7%	1%

Source: FT, LME, Cruspi

- The latest RICS's **housing market survey** reveals mixed signals for a continued rebound in sector activity. The gap between housing demand and supply persists, although there are some signs of narrowing. New buyer enquiries increased for the 14th consecutive month in December 2009, but at the slowest pace since the beginning of last year. The same trend was visible in newly agreed sales and sales expectations. At the same time, supply of housing for sales remains limited. Overall, fewer surveyors surveyed reported that house price rose in December. A small majority reported that house prices fell in the North and the West Midlands, while a significant majority recorded price increases in London, the South East, the South West and East Anglia.

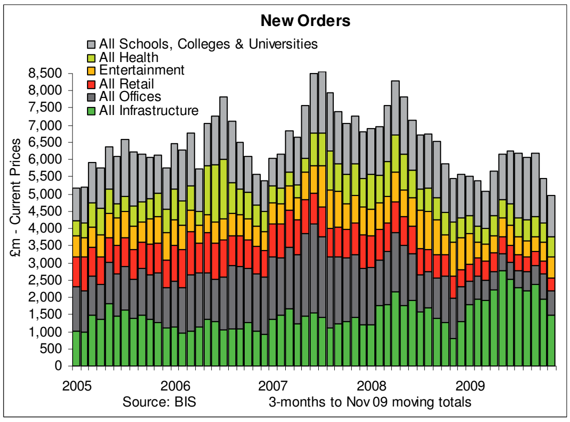
Construction

- **New orders for construction** remain subdued. Overall in the 3 months to November 2009, orders for new works were unchanged compared to the preceding three months and were – in constant price terms – 4% higher compared to last year. However, new orders in current prices fell, down 9% compared to the previous 3 months and 6% lower compared to the same period last year. This means that contractors are doing the same amount of work at much lower prices. As expected, new orders for **private residential** work are edging up, with volumes in the 3 months to November up by 56% compared to the previous 3 months and a quarter higher compared to a year ago. **Social housing** new orders dropped 30% on the preceding 3 months, but remained up on a year ago. Despite improvement in private housing work, new projects remain low by historic standards. Order volumes improved in the **industrial** and **commercial** sectors compared to the previous 3 months. However compared to a year ago orders are still significantly lower and order values are also down, signalling squeezed margins in the industry. Within the commercial sector, office work was almost 50% higher in cash terms compared to the 3 months to August in cash terms, but values remain 41% lower on last year. The same trend was observed in the entertainment and leisure sector. Retail related new orders remain particularly weak, while PFI education and health related work also continues to trickle away. **Public non-residential** order volumes rose compared to the previous 3 months and a year earlier, but a closer look at the data reveals that the value of work awarded also fell significantly in this sector. New orders for **infrastructure work** slipped back compared to the previous 3 months, but volumes are double of those seen last year. Within the sector, large roads related contracts were awarded in the past 3 months, while water related contracts should be coming forward as the water industry's 5-year investment programme (AMP5) will commence this year.

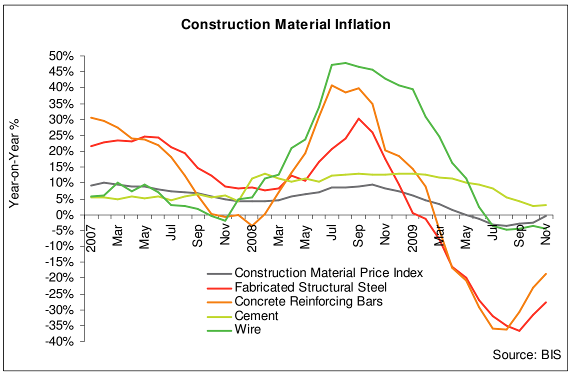
Construction New Orders - 3-months to Nov 2009

	Value, current prices	constant 2005 prices	
	in £ million	% change on previous 3 months	% change on year
Public Housing	537	-30%	9%
Private Housing	1,637	56%	23%
Public Non-Residential	2,183	0%	10%
Industrial	426	17%	-10%
Commercial	1,784	17%	-34%
Infrastructure	1,473	-28%	102%
Total New Work	8,040	0%	4%

Source: ONS



- The fall in **construction material costs** eased in November 2009, with the index for all work rising 0.5% compared to the preceding month. Year-on-year the decline slowed to 0.6%. Material prices rose in the residential and repair & maintenance sectors, while the decline eased in the other non-residential sector. Fabricated steel prices in November were down 2% on the month and 28% lower compared to a year ago, while concrete reinforcing bars were 6% down during the month and 19% lower year-on-year. Pre-cast concrete and cement prices were unchanged in November, but rose 2% and 3% respectively compared to a year ago.



Looking ahead

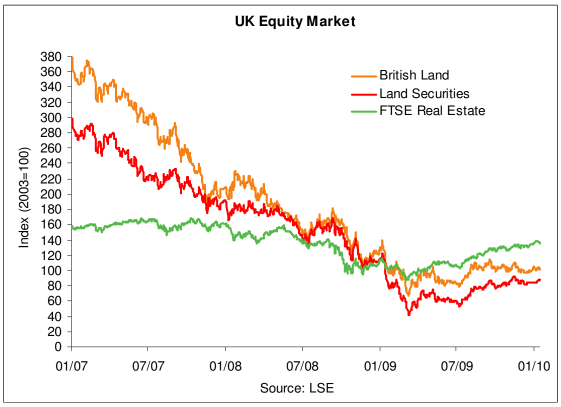
Consumer price inflation is likely to have increased markedly in December. CPI is likely to spike near term, pushed up by the VAT rate rising back up from 15% to 17.5% this month and well as higher oil and commodity prices. Annual **retail price inflation** is expected to have accelerated in December after recording its first positive reading in November after 8 months of deflation. **Unemployment** is expected to have risen further, though the pace of job losses has moderated. **Average earnings** growth will remain constraint by a weaker labour market and uncertain demand outlook for businesses. **Public finances** data for December will once again make a dismal reading. Official **retail sales data** are likely to show modest growth in December and consumer spending will remain volatile this year.

Market Watch

Share prices	Market Cap, £mn	Friday 15th January 2010 Week	Month	Year
FTSE100		-1.4%	3.2%	32.4%
Real Estate				
British Land	3,930	-1.5%	2.7%	12.2%
Hammerson	2,780	-0.8%	4.0%	24.3%
Land Securities	5,190	3.4%	6.8%	-0.9%
Liberty Intl.	3,010	-2.5%	4.1%	15.0%
Shaftesbury	885.5	-0.8%	9.6%	68.8%
Great Portland Est.	913.3	2.5%	7.5%	75.4%
Derwent London	1,350	2.6%	6.2%	105.7%
Segro	2,430	-3.8%	0.0%	-10.0%
Quintain Estates & Development	347.2	0.0%	15.1%	372.0%
St. Modwen Properties	419.0	4.6%	4.6%	119.5%
TR Property Investment Trust	588.5	-1.0%	-0.5%	40.5%
Unite Group	462.9	-2.1%	13.3%	192.5%
Workspace Group	264.4	0.0%	7.0%	-37.5%
Minerva	116.1	-3.4%	12.1%	200.0%
Average**		***-0.1%***	***4.8%***	***31.3%***
Contractors				
Balfour Beatty	1,910	0.6%	10.6%	-5.6%
Carillion	1,230	0.4%	2.4%	24.0%
Morgan Sindall	242.1	-2.0%	-4.0%	0.2%
Kier Group	396.4	0.1%	10.9%	25.8%
Lend Lease Corp*	2,346	-3.2%	1.8%	41.0%
Average		***-1.0%***	***5.0%***	***20.5%***
Material Suppliers				
Wolseley	4,230	3.6%	22.1%	6.9%
SIG	776.4	5.0%	19.5%	-0.5%
Marshalls	169.5	-0.8%	3.5%	26.8%
Kingspan	946	-6.2%	6.2%	119.9%
BSS	355.6	5.5%	14.9%	14.4%
Average		***2.3%***	***18.6%***	***23.5%***
House Builders				
Persimmon	1,450	-1.9%	15.9%	63.8%
Taylor Wimpey	1,330	-0.6%	22.7%	237.6%
Barratt	1,300	-4.8%	23.5%	154.4%
Bovis Homes	583.0	-1.8%	18.5%	8.2%
Bellway	945.2	-5.3%	7.3%	40.4%
Berkeley	1,130	-4.2%	2.3%	3.8%
Average		***-3.0%***	***15.4%***	***97.4%***

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

The FTSE 100 recorded its first weekly loss since early December 2008, with the index ending the week to Friday down 1.4% at 5455.4 points.



The performance among **real estate firms** was mixed.

Land Securities gained 3.4% last week, as Merrill Lynch said that the firm was well positioned to capitalise on a recovery in the key London offices market and offered a strong development pipeline for when the market turned. In contrast, Merrill Lynch cut **Segro** from its "buy" list, arguing that the industrial property market will remain very fragile in 2010. Segro closed the week down 3.8%.

Material suppliers Wolseley, SIG and BSS had a good week, rising 3.6%, 5% and 5.5% respectively in the week to Friday.

Despite signs of stabilisation in the housing market, **housebuilders** fell back last week.

Among **contractors**, Balfour Beatty advanced marginally this week. The firm has been awarded two contracts by water utilities within the AMP5 capital programme, worth approximately £600m.

On different note, **Debenham's** in its Interim Management Statement revealed that it aims to accelerate its store refit programme in 2010. Capital expenditure guidance for the year is approximately £115 million.