Weekly Economic Update

Summary

The latest data paint an ambiguous picture of the UK economic recovery. Manufacturing activity slowed slightly, but retail sales rebounded in May. The recent fall in commodity prices and a stronger Pound helped to slow input price inflation, but producers' output prices have risen further. A modest improvement in financial market risk appetite stabilised commodity prices last week and helped the Euro and the Pound to strengthen against the Dollar.

Statistics

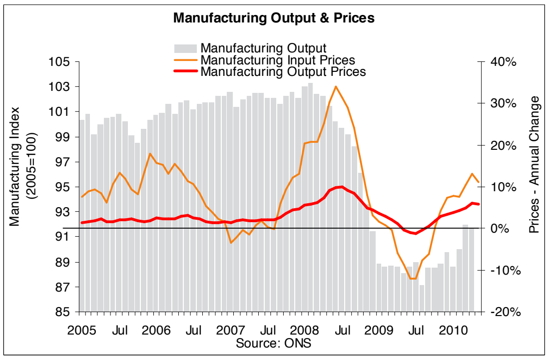
Economy

Interest rates

As widely expected, the Bank of England left the bank base rate unchanged at 0.5% during its June meeting. The Monetary Policy Committee also kept its asset buying target at £200bn, having put it on hold four months ago.

Manufacturing output

After two months of solid gains, manufacturing output declined by 0.3% during April. Year-on-year manufacturing output was up 3.5%. Manufacturers in recent months benefited from stronger domestic and foreign demand, a weaker Pound and the re-stocking cycle. However the latest weaker data point to uncertainty regarding manufacturers' growth in the medium term, given fiscal tightening and potentially slower demand from the Eurozone.



Producer prices

Input prices fell 0.6% in May compared to April, reflecting the fall in crude oil and imported materials prices. The annual rate of input price inflation eased from 13.1% to 11.2% in May. Further down the inflation pipeline, factory gate inflation was a touch softer than expected in May, with output prices rising 0.3% during the month and up 5.7% year-on-year.

Retail sales

The British Retail Consortium's retail sales monitor reveals that total sales in May were up 3% year-on-year, while like-for-like sales rose by 0.8% over the same period. This is a marked improvement on April's figures, which showed a fall in sales. Food and clothing sales rose in May, but uncertainty over the UK's economic outlook continues to limit sales of 'big-ticket' items.

Commodities

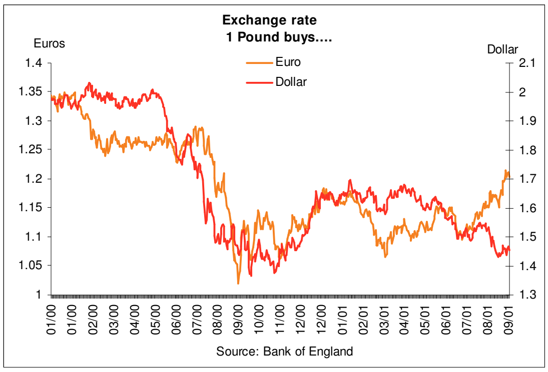
Commodity prices rose last week, amid a tentative return in investor confidence. The oil price rose 1% to $73.9 per barrel of Brent crude. Aluminium and nickel prices rose 1% and 5% respectively, after positive data from China. Copper held stable at $6,462. In contrast, the global steel price index continued

Commodity Prices (11th June 2010)				
	Price	Weekly change	Monthly change	Annual change
"Brent" Oil ($/ barrel)	73.9	1%	-8%	3%
Copper ($/tonne)	6,462	0%	-6%	23%
Aluminium ($/tonne)	1,932	1%	-5%	18%
Nickel ($/tonne)	19,300	5%	-13%	25%
Global Steel Price (Index 04/1994=100)	194.76	-3%	-5%	45%
Source: FT, LME, Cruspi				

to edge back, down 3% in the week to Friday.

Exchange rates

The Pound weakened against the Dollar at the start of last week after ratings agency Fitch said that "the scale of the UK's fiscal challenge is formidable and warrants a faster pace of medium term deficit reduction than set out in the April 2010 Budget". However, a bounce back in investor confidence boosted the Sterling at the end of the week. Overall the Pound held stable at £/$1.455. The Euro strengthened last week, rising 1% against the Pound to £/€1.203.



Construction

Stalled and cancelled projects

According to Glenigan, there has been a significant decline in the number and value of projects on hold in recent months. In the three months to May, the number of projects on hold fell 43% year-on-year, while the value of projects on hold fell 61%. The latest data indicate that developers are starting to review and reactivate stalled projects earlier than they planned, in particular in the residential, health and hotel sectors. At the same time however, the value of project cancellations has also increased, with education and private housing projects particularly affected. In addition, expected cuts in government spending and policy reviews are likely increase the number of public sector projects put on hold in the year ahead.

Looking ahead

The RICS's May housing market survey will provide insights into whether UK housing market activity may be starting to pick up again after the slowdown in recent months. Consumer price inflation is likely to have moderated somewhat in May, after spiking to 3.7% in April. However, inflation is set to remain substantially above the Bank of England's 2%-target.

Labour market data are expected to show that claimant unemployment fell in May. However, the number of people in employment is likely to have fallen further, as people withdraw from the labour market. Average earnings growth is expected to have risen modestly only in April. The CBI's industrial trends survey for June is expected to reveal that a larger number of manufacturers are reporting stronger sales and order books. However the latest official data show that the outlook for manufacturers remains uncertain.

Public finances remain in deep red, but the pace of deterioration is slowing, given that tax receipts are improving and VAT is back up at 17.5%. In addition, unemployment benefit claims have fallen markedly over the past year. The emergency budget on 22 June and the comprehensive spending review in autumn will feature major spending cuts and tax increases. In a recent speech, Prime Minister Cameron has started to prepare the British public for these measures. The government is obviously treading a fine line, arguing the need for austerity measures without heavily dampening consumer and business confidence.

WEEKLY ECONOMIC UPDATE

Market Watch

Financial markets remain volatile, but a series of more positive global economic data supported investor sentiment at the end of last week and raised hopes that the global economic recovery will continue. This helped stock indices and commodity markets.

The FTSE 100 started the week down, after Hungary warned that it was in danger of default, which hit stocks in Europe and the US. The FTSE recovered however, ending the week up 0.7% on Friday.

UK real estate underperformed the wider index, falling 1.2% in the week to Friday.

Performance within the sector was mixed. St. Modwen Properties and Minerva fared worst, falling 9.1% and 8.4% last week. Capital & Counties and Quintain Estates & Development were the top performers, rising 4.8% and 3.4% in the week to Friday.

The FT reports that UK Commercial Property Trust and F&C Commercial Property, two of the UK's largest commercial property investment trusts, are merging to form the 6th largest UK listed property company.

Hammerson announced that it has bought a long leasehold on Leadenhall Court, a City of London office building, for £65m including transaction costs, from Alan Bloom and Alan Hudson of Ernst & Young LLP, Joint Receivers over the property which is part of Simon Halabi's former Protractor portfolio. The building is fully let until March 2014. Passing rents are £7.16m per annum reflecting an initial yield of 11% (Source: FT).

Stock Market			**Friday 11th June 2010**		
Index	**Index**		**Week**	**Month**	**Year**
FTSE100	5,163.7	▲	0.7%	-3.2%	15.7%
EPRA/NAREIT UK	341.5	▼	-1.19%	-1.39%	15.48%
Stocks	**Market Cap, £m**		**Share Prices**		
			Week	**Month**	**Year**
Real Estate					
British Land	3,970	▼	-0.5%	3.2%	14.4%
Hammerson	2,540	▼	-0.4%	0.6%	12.2%
Land Securities	4,660	▲	0.8%	-1.8%	21.3%
Capital & Counties	671.6	▲	4.8%	-12.2%	
Capital Shopping Centres	2,060	▲	1.1%	-6.8%	
Shaftesbury	811.7	▼	-2.1%	-3.1%	19.2%
Great Portland Est.	900.5	▼	-3.2%	-2.0%	23.6%
Derwent London	1,320	▼	-2.3%	-4.6%	39.7%
Segro	2,020	▼	-1.2%	-3.7%	10.9%
Quintain Estates & Development	236.8	▲	3.4%	-10.8%	71.6%
St. Modwen Properties	323.7	▼	-9.1%	-7.9%	-6.3%
Unite Group	284.6	▼	-5.5%	-15.8%	28.5%
Workspace Group	235.6	▼	-2.4%	-3.5%	24.2%
Minerva	166.8	▼	-8.4%	-4.4%	800.0%
Average*		▼	***-0.5%***	***-2.2%***	***22.8%***
Building Contractors					
Balfour Beatty	1,740	▼	-0.5%	-3.6%	-14.0%
Carillion	1,310	▲	2.6%	-0.5%	19.3%
Morgan Sindall	228.1	▼	-1.6%	-4.8%	-26.0%
Kier Group	387.9	▼	-0.8%	-4.3%	2.9%
Lend Lease Corp*	2,353	▼	-4.1%	-3.7%	5.9%
Average		▼	***-1.3%***	***-3.1%***	***1.7%***
Building material suppliers					
Wolseley	4510	▼	-0.8%	3.7%	39.7%
SIG	644.6	▼	-1.6%	-9.0%	-20.1%
Marshalls	169.4	▼	-9.5%	-13.1%	2.1%
Kingspan	861.7	▼	-8.8%	-8.3%	25.3%
BSS	537.1	▼	-0.8%	34.7%	48.5%
Average		▼	***-2.1%***	***3.0%***	***31.9%***
Housebuilders					
Persimmon	1,100	▼	-5.8%	-16.1%	-8.9%
Taylor Wimpey	944.8	▼	-8.1%	-19.9%	-19.0%
Barratt	956.5	▼	-4.2%	-14.9%	-15.5%
Bovis Homes	464.9	▼	-6.2%	-8.7%	-13.4%
Bellway	774.5	▼	-5.5%	-9.7%	-4.6%
Berkeley	1,030	▼	-1.9%	-2.0%	-4.3%
Average		▼	***-5.2%***	***-12.2%***	***-10.8%***

**Sector averages are weighted according to current market capitalisations