

Weekly Economic Update

28th February 2010

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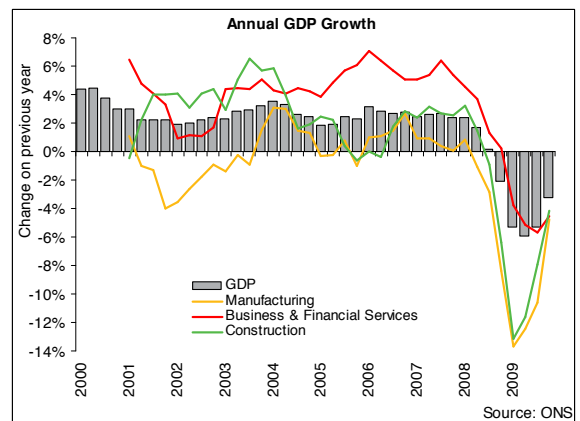
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The uplift in UK GDP reported this week would have been greeted by sighs of relief in the City and Whitehall. However, the revised rate remains 50% below trend. The fall in Nationwide's price index underlines the continuing fragility of the recovery of the housing market. Data on falling business investment was balanced by good figures from the distributive trades and the GDP update. However, low investment in manufacturing and other industries could contribute to a permanent loss of productive capacity – which could have implications for future growth and control of inflation.

Statistics

Gross Domestic Product

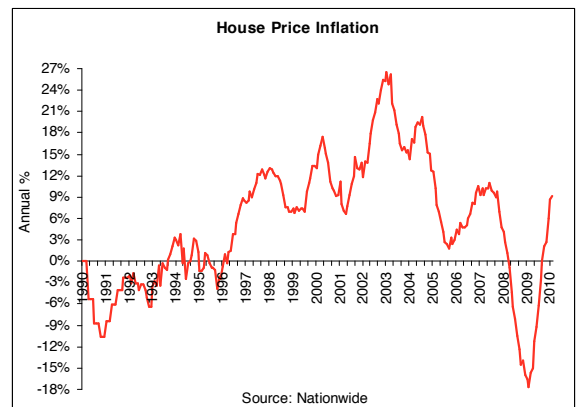
The first revision of estimates of 4th quarter GDP was issued this week. Based on a larger sample, ONS revised their estimate of GDP growth during the 4th quarter of 2009 upwards from 0.1% to 0.3%. Based on this revision, GDP is now thought to have contracted by 5% during 2009. The upward revision was ahead of consensus forecasts. The key drivers behind the revision were positive changes to output in services and production. Government spending and personal consumption were also revised upward, as were exports and imports. Inventory de-stocking also contributed to the rise. However, gross fixed capital formation



was revised downwards. Looking forward, some analysts expect even more buoyant conditions in early 2010 as current stimulus measures continue to support near-term growth. However particularly weak retail sales amid poor weather in January showed that the British recovery remains fairly weak. More sluggish growth may follow when stimulus measures are unwound, indicated by the Bank of England's continuing caution over the strength of the recovery. Figures from the US also showed that GDP was rising faster than expected, at an annualised rate of 5.9%, although consumer confidence fell markedly during February.

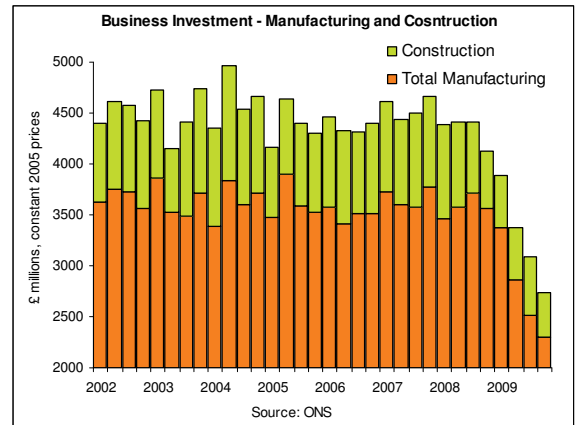
Nationwide House Price Index

According to the Nationwide, house prices fell by 1% in February, bringing to an end nine months of rising prices. The building society suggested that the drop could be a result of the cold weather. Furthermore, the recent end to the stamp duty holiday on homes costing less than £175,000 may have closed-off one source of demand. The three-month moving average, which is regarded as a better indicator than a single month's figures, still shows that prices grew by 1.6%, slightly down from 2% in January. The average UK house price is now £161,320.



Business Investment

The ONS has reported a sharp fall in business investment which was down by 5.8% in the 4th quarter of 2009 to £27.1 billion. On an annual basis, business investment fell by a record 24.1%, which was much deeper than the fall of 18.5% expected by analysts. This represents the steepest annual fall since records began in 1967. Like the GDP figures, estimates of industrial investment are subject to revision and this first estimate may be revised upwards later this spring. Record reductions in investment were seen in all sectors but manufacturing was particularly badly hit with a year on year fall of 35%. Falling investment has implications for growth in GDP as well as being a serious long-term threat to Britain's productive potential.



CBI Distributive Trade

According to the CBI's latest Distributive Trade survey, retail sales posted their strongest growth in volume for two years in February. According to the survey, around 46% of retailers saw their sales rise in February, while 23% of those surveyed said sales were down. The resultant 23% balance is the best reading since May 2007, and also beat retailers' own expectations of growth. Compared to 12 months ago, more retailers also expect there will be further growth next month.

Commodity Prices

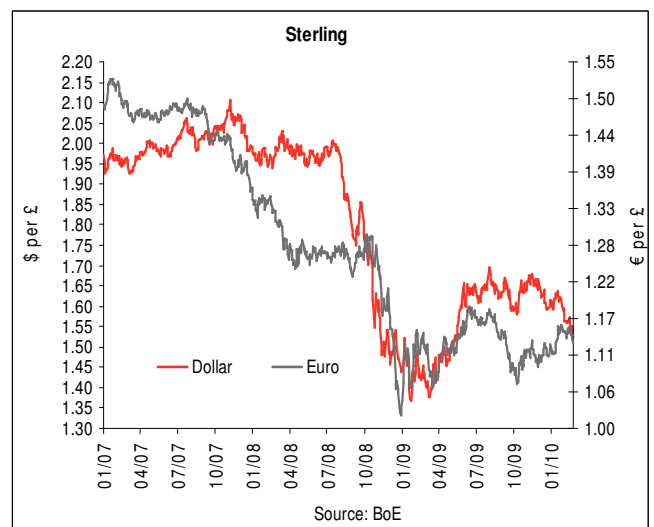
Commodity prices were slightly weaker last week, although Nickel continued its strong run during February, up nearly 12% over the month. The price of oil remained above \$77/barrel, consolidating previous price rises. Copper lost some of its recent gains, whereas aluminium and nickel consolidated their position. The Baltic Dry Index, the benchmark for freight costs for bulk commodities such as iron ore and coal rose by 1% to 2,738 points in the week to Friday.

| Commodity Prices (26th February 2010) | | | | |
|------------------------------------------|-------|---------------|----------------|---------------|
| | Price | Weekly Change | Monthly Change | Annual Change |
| "Brent" Oil (\$/barrel) | 77.7 | -0.14 | 7.2 | 70.2 |
| Copper (\$/tonne) | 7193 | -2.1 | 0.1 | n/a |
| Aluminium (\$/tonne) | 2062 | -0.5 | -3.0 | n/a |
| Nickel (\$/tonne) | 20270 | 0.3 | 11.8 | n/a |
| Global Steel Price (Index 04/1994 = 100) | 162.5 | 0.0 | 1.7 | 6.5 |

Source: FT, LME, Cruspi

Exchange Rates

This week's big story has been the Sterling's continuing decline against the Dollar and the Yen. Sterling fell by 2% to a nine month low against the Dollar, weighed down by concerns over a possible double-dip recession as well as the unfolding Greek crisis. Against the Yen, Sterling fell by 4.7% to an 11 month low. The Sterling also lost ground against the Euro, falling 1.7% over the week. Factors contributing to the Sterling's weakness this week include market reaction to the possible reintroduction of Quantitative Easing and polls suggesting a greater likelihood of a hung Parliament after the General Election. One Pound bought \$1.5148 and €1.1173 on Friday.



Looking ahead

The latest **Purchasing Managers' Indices** will be published this week by CIPS. Manufacturing PMI data is expected to have remained firmly in expansionary territory in February after hitting a 15-year high last month. The improvement is likely to have been largely due to firms ramping up production after a long period of de-stocking. The pound's weakness may also be giving a boost to exports. Services PMI is anticipated to have grown at a slightly quicker pace in February after the big drop in January which was probably caused by the bad weather. Continuing improvements in construction PMI would be a welcome sign of long-awaited recovery. The Bank of England's **Lending to Individuals Report** will show the latest statistics of consumer credit and mortgage. The number of approved mortgages is likely to have fallen in January, reflecting a reversal of a strong pick-up which took place at the end of 2009 as homebuyers sought to benefit from a stamp duty holiday which expired on 31st December. The MPC is also expected to hold **interest rates** at 0.5% and keep their asset purchase programme on hold as policymakers wait to gauge the effects of stimulus measures on the economy so far. A jump in oil prices drove up input costs significantly in January but the gain was not repeated this month so analysts forecast that producer **input prices** will have held broadly steady in February. **Output prices**, meanwhile, are seen to be picking up, and the trend is likely to continue during March also.

Market Watch

The **FTSE 100** was broadly stable last week, despite concerns early in the week about the continuing strength of recovery. The index fell on Thursday after poor data on UK investment expenditure, but then recovered strongly on Friday on the back of unexpectedly strong GDP figures.

Performance among **real estate companies** was subdued, falling in aggregate by 0.4%. Land Securities, British Land and Hammerson were amongst the leading losers during the week. Minerva grew by 0.6% after announcing a half year profit of £45.6 million

Contractors also issued interim statements this week, with Kier Group rising by 4.9% on the back of strong profits, up by 20%, albeit 6 month revenues were down by over 10%. By contrast, Morgan Sindall's share price was more subdued, up by 0.5%, following announcements that turnover had fallen by 13% and profits by 28%. Galliford Try also reported rising profit on the back of falling turnover.

Amongst House builders, Redrow reported half year revenues up by 25%, and Barrett cut its pre-tax loss to £127.4m in the second half of 2009, reporting an increased margin of 2.4%.

Looking ahead to this week Taylor Wimpey and Balfour Beatty will post their full year results, which are expected to reflect a good year for the contractor and tougher market conditions for the house builder.

| Share Prices | Friday 5 th February 20109 | | | |
|-----------------------------------------------------------------------------------|---------------------------------------|--------------|---------------|--------------|
| | Market Cap, £mn | Week | Month | Year |
| FTSE100 | | -0.1% | 1.5% | 36.8% |
| Real Estate | | | | |
| British Land | 3,810 | -2.1% | -1.7% | 17.6% |
| Hammerson | 2,625 | -2.0% | -1.5% | 65.8% |
| Land Securities | 4,680 | -1.9% | -4.2% | 28.7% |
| Liberty Intl. | 2,820 | -0.6% | 2.3% | 51.2% |
| Shaftesbury | 839.3 | -0.9% | -1.4% | 82.1% |
| Great Portland Est. | 880.1 | -1.1% | 0.4% | 78.2% |
| Derwent London | 1,330 | 0.7% | -3.1% | 134.4% |
| Segro | 2,210 | -1.3% | -1.4% | 65.5% |
| Quintain Estates & Development | 309.8 | -0.8% | 0.0% | 422.9% |
| St. Modwen Properties | 386.4 | 3.4% | -0.8% | 142.4% |
| TR Property Investment Trust | 545.8 | -1.3% | 1.3% | 47.1% |
| Unite Group | 453.9 | 0.8% | 2.3% | 621.9% |
| Workspace Group | 238.9 | -3.3% | 1.2% | 120.8% |
| Minerva | 128.0 | 0.6% | 15.1% | 700.0% |
| Average** | | -0.4% | -7.0% | 49.9% |
| Contractors | | | | |
| Balfour Beatty | 1,810 | 0.4% | 1.9% | -4.6% |
| Carillion | 1,110 | -1.5% | -5.9% | 30.4% |
| Morgan Sindall | 228.3 | 0.5% | 0.9% | 6.1% |
| Kier Group | 357.3 | 4.9% | -1.0% | 11.2% |
| Lend Lease Corp* | 2,280 | 6.4% | -0.2% | 91.1% |
| Average | | 2.8% | -0.6% | 41.9% |
| Material Suppliers | | | | |
| Wolseley | 4,120 | 7.7% | 8.0% | 95.3% |
| SIG | 691.6 | 3.6% | -3.3% | 2.7% |
| Marshalls | 159.4 | -3.8% | -3.5% | 37.4% |
| Kingspan | 715.7 | -15.5% | -17.6% | 133.4% |
| BSS | 310.7 | -5.7% | 0.5% | -4.4% |
| Average | | 3.5% | 3.1% | 83.3% |
| House Builders | | | | |
| Persimmon | 1,170 | -7.2% | -14.5% | 13.7% |
| Taylor Wimpey | 1,140 | -6.0% | -8.8% | 153.5% |
| Barratt | 1,060 | -3.3% | -9.4% | 100.6% |
| Bovis Homes | 496.5 | -5.1% | -11.3% | -8.3% |
| Bellway | 827.8 | -6.5% | -11.6% | 2.4% |
| Berkeley | 1,010 | -3.9% | -8.7% | -17.3% |
| Average | | -5.4% | -10.7% | 49.5% |
| *Lend Lease Corporation Limited is listed on the Australian and NZ stock exchange | | | | |
| **Sector averages are weighted according to current market capitalisations | | | | |