

Weekly Economic Update

6th June 2010

Summary

Statistics

Economy

UK Economy

Housing market

Consumer lending

PAGE 1

Exchange rates

Commodities

Construction

Construction activity

Building material

prices

Looking ahead

PAGE 2

Market Watch

PAGE 3

Summary

Uncertainty and risk aversion continues to dominate markets, impacting on equities, currencies and commodities alike. As in recent weeks, UK economic data are mixed. On the positive side, survey indicators for the construction, manufacturing and services sectors point to firming growth. However, latest housing market indicators are weaker and the consumer lending data show that households prefer to pay down debt and rebuild their balance sheet rather than borrow for consumption.

Statistics

Economy

UK activity

Manufacturing activity expanded solidly in May, according to the latest CIPS/Markit manufacturing purchasing managers' index (PMI). The index recorded a reading of 58, unchanged from April. Output remains below pre-crisis levels, but the sector is recovering, helped by stronger domestic and overseas demand, improved competitiveness from the weak pound and the re-stocking cycle.

Whether manufacturers will be able to sustain current growth is uncertain, given austerity measures announced in the UK and the prospect of weaker demand from the eurozone, hit by the sovereign debt crisis.

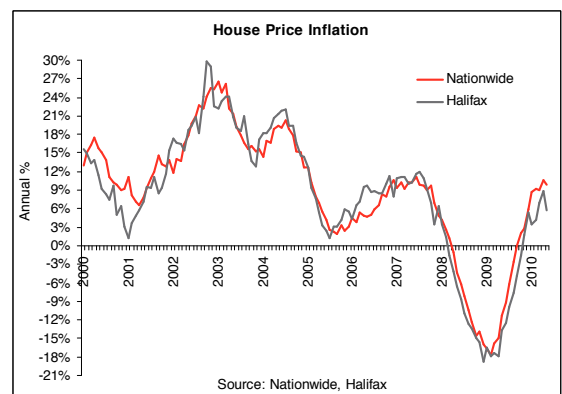
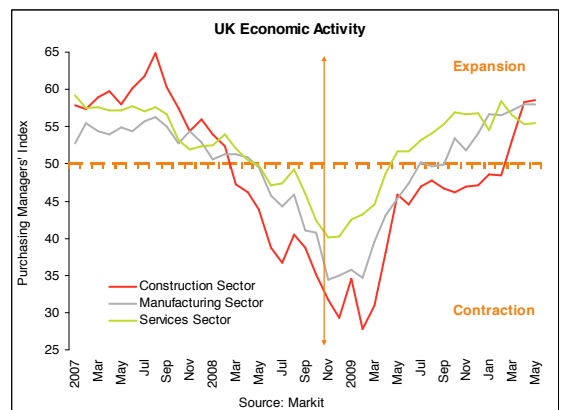
Services sector growth appears to lack behind the current expansion in manufacturing activity. The CIPS/ Markit services PMI recorded a reading of 55.4 in May, slightly up from 55.3 in April. According to the survey, the recent general election and worries over the strength of the economic recovery resulted in client uncertainty and the deferral of spending. Input costs continued to increase markedly in May.

Housing market

UK house prices rose by 0.5% in May, compared to 1.1% growth in April, according to the Nationwide. Annual house price inflation eased to 9.8%. In contrast, the Halifax recorded a 0.4% fall in house prices in May, the second consecutive monthly decline. The Halifax reports annual house price inflation of 5.7%.

Consumer lending

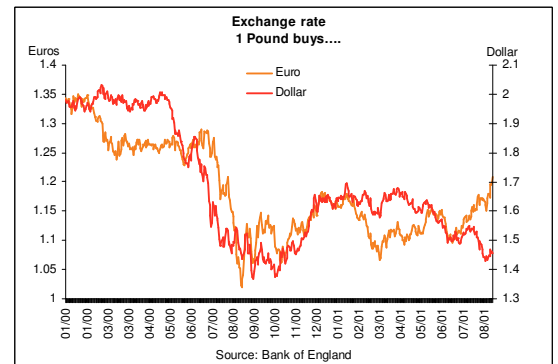
Total **net lending** to consumers rose by £0.4bn in April, £0.1bn stronger than the increase in March, but down £0.9bn compared to last year. **Mortgage approvals** for house purchases rose modestly to 49,900 in April, up from 49,000



in March. **Net consumer credit** fell £0.1bn in April, as households chose to pay down debt and rebuild balance sheets, rather than increase borrowing. At the same time, credit conditions remain relatively tight and there appears to be limited availability of unsecured credit from banks.

Exchange rates

The Dollar continues to strengthen due to its safe-haven status on the back of continued concern in the eurozone, which is impacting credit market liquidity. The Euro tumbled to a four-year low against the greenback, falling below the \$1.20-mark. The Pound rose 3% against the Euro last week to £/€1.2095 and gained 1% against the Dollar, rising to £/\$1.4558.



Commodities

Commodity prices continued to fall, due to investor risk aversion and uncertainty about global demand. Brent crude oil prices fell 2% to \$73.1/ barrel. Copper and aluminium dropped 7% and 6% respectively. Nickel prices fell sharpest due to lower demand from China. The global steel price index dropped 2% last week.

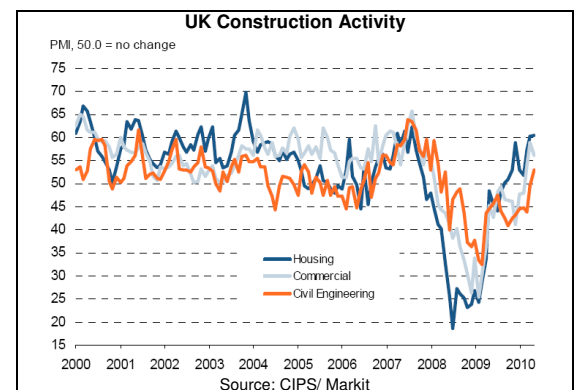
Commodity Prices (4th June 2010)				
	Price	Weekly change	Monthly change	Annual change
"Brent" Oil (\$/barrel)	73.1	-2%	-15%	7%
Copper (\$/tonne)	6,450	-7%	-10%	32%
Aluminium (\$/tonne)	1,915	-6%	-12%	33%
Nickel (\$/tonne)	18,300	-15%	-29%	32%
Global Steel Price (Index 04/1994=100)	200.4	-2%	-1%	52%

Source: FT, LME, Cruspi

Construction

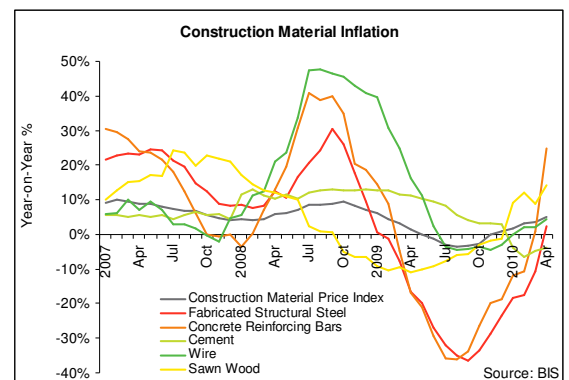
Construction activity

The May construction sector PMI shows that sector growth gathered pace last month. The index rose to 58.5, from 58.2 in April, with all sectors posting growth. New orders rose and employment increased for the first time in two years. Nervousness regarding the UK construction outlook remains and it appears unlikely that the current pace of expansion can be maintained, given the outlook of public spending cuts, which will be detailed in the emergency budget on 22 June.



Building material costs

Construction material prices rose by 0.9% in April month-on-month and up 5% on a year ago. This is the fastest increase since March 2009. The index is now back at October 2008 level. Concrete reinforcement rose 16% in April and up 25% on a year ago. Fabricated steel prices were up 8% during April and up 2.2% compared to a year ago. Sawn wood prices rose 3% in April and up 14% year-on-year. Plastic products were flat in April compared to March, but rose 3.7% on a year ago.



Looking ahead

The Bank of England is expected to keep **interest rates** at 0.5% during its June meeting, despite inflation surging to 3.7% in April, almost double the inflation target. The British Retail Consortium's **retail sales monitor** for May is expected to show that retail sales growth remained subdued, due to bad weather at the start of the month and the recent softening in housing market activity. **Manufacturing output** is expected to have expanded further in April. **Input cost** inflation is weighing on manufacturers' margins, although manufacturers are trying to take advantage of recently improved activity to push through some price increases.

Market Watch

Risk aversion continues to dominate asset markets, with mixed economic data, sovereign debt fears, the BP oil spill and the resignation of the Japanese PM all weighing on stock indices last week.

The **FTSE 100** ended the week down 1.3%. Listed property companies performed better on average. The **Workspace Group** gained 3.7% in the week to Friday, while **St. Modwen** added 2.2%. **Land Securities** was up 1.9% and **British Land** gained 0.9%.

In contrast, **Quintain Estates and Development** lost 6.4% last week. **Quintain Estates and Development** reported its results for the financial year to March 31, 2010. It made a pre-tax loss of £10.1 million, compared to a loss of £129.1 million the previous year. The loss was mainly due to the sales of investments at below book values. In 2009/10, Quintain re-capitalised via a £183.1 million rights issue. Adjusting for this, the diluted net asset value per share fell 1.5% to 133p, from 135p last year.

Building contractors had a mixed week. **Balfour Beatty** and **Carillion** rose, up 0.5% and 1.2%, respectively. **Lend Lease** was up 1.3%. In contrast, **Morgan Sindall** and the **Kier Group** fell back.

Building material suppliers and **housebuilders** lost across the board last week. Among material suppliers, **SIG** and **Kingspan** were the main losers, falling 6.5% and 6%, respectively. **Taylor Wimpey** and **Persimmon** performed worst among housebuilders.

Share Prices	Friday 4 th June 2010			
	Index	Week	Month	Year
FTSE100	5,126	-1.3%	-7.7%	16.9%
	Market Cap, £m	Week	Month	Year
Real Estate				
British Land	3,990	0.9%	-2.6%	24.9%
Hammerson	2,550	0.2%	-2.8%	19.1%
Land Securities	4,620	1.9%	-8.0%	27.4%
Capital & Counties	2,040.0	-0.9%		
Capital Shopping Centres	641.1	0.9%		
Shaftesbury	829.0	-2.4%	-5.5%	16.5%
Great Portland Est.	930.0	-2.3%	-5.4%	28.5%
Derwent London	1,350	0.6%	-7.7%	52.3%
Segro	2,040	-3.7%	-7.7%	10.0%
Quintain Estates & Development	229.0	-6.4%	-18.9%	66.7%
St. Modwen Properties	356.0	2.2%	-2.3%	0.9%
Unite Group	301.0	-3.6%	-14.0%	42.9%
Workspace Group	241.0	3.7%	-8.7%	44.8%
Minerva	182.0	0.2%	2.7%	822.5%
Average**		0.0%	-5.0%	29.3%
Building Contractors				
Balfour Beatty	1,750	0.5%	-7.8%	-14.9%
Carillion	1,270	1.2%	-5.7%	21.3%
Morgan Sindall	232.0	-1.5%	-2.4%	-20.6%
Kier Group	391.0	-1.3%	-5.8%	4.3%
Lend Lease Corp*	2,400	1.3%	-7.0%	7.1%
Average		0.8%	-6.7%	2.4%
Building material suppliers				
Wolseley	4,540	-3.0%	0.7%	50.2%
SIG	655.0	-6.5%	-10.9%	-13.9%
Marshalls	187.0	-2.1%	-7.5%	6.7%
Kingspan	945	-6.0%	-3.0%	46.1%
BSS	541.0	-0.4%	40.4%	58.3%
Average		-3.5%	2.0%	43.0%
Housebuilders				
Persimmon	1,170	-5.7%	-18.3%	-0.2%
Taylor Wimpey	1,030	-6.1%	-17.1%	-12.5%
Barratt	998	-4.3%	-13.5%	-11.3%
Bovis Homes	496.0	-3.5%	-9.7%	-9.9%
Bellway	820.0	-2.0%	-9.1%	3.1%
Berkeley	1,050	-3.4%	-6.8%	-13.1%
Average		-4.3%	-12.9%	-7.3%

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