theconstructionindex

Davis Langdon

Weekly Economic Update

8th August 2010

Summary

Business activity continues to expand, but leading indicators of economic growth suggest that the current strength of the UK recovery may not be sustained near term. Service sector activity is eased markedly, consumer confidence weakened and manufacturing export orders stalled in July.

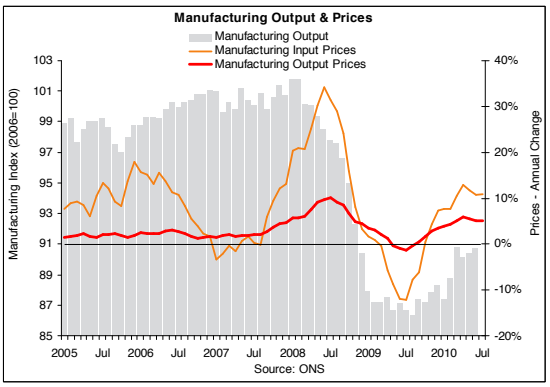
Economy

Interest rates

The Bank of England's Monetary Policy Committee kept interest rates unchanged at 0.5% and maintained the asset purchase programme at £200 billion during its August meeting. Insights as to how the Committee sees monetary policy developing will be revealed in this week's release of the Quarterly Inflation Report, which will include updated GDP and inflation projections.

Manufacturing activity and prices

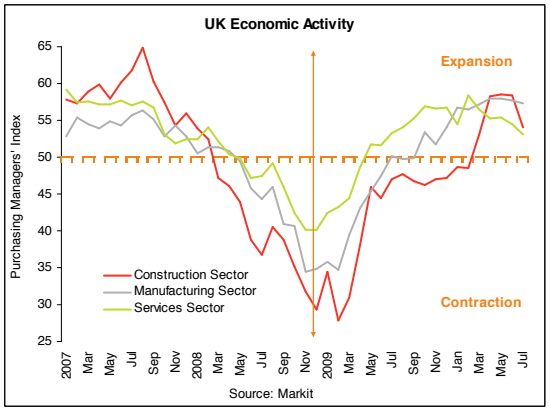
Manufacturing output rose by 0.3% in June compared to May and up 4.1% on a year ago. Manufacturers, in the first half of 2010, benefited from stronger domestic and overseas demand, and a more competitive exchange rate. Producer input prices fell 1% in July, though year-on-year input prices remain up 10.8%. During the first half of 2010, manufacturers took advantage of improved business activity to push through some price increases to support their margins in the face of rising costs. Output prices rose 0.1% in July and up 5% year-on-year.



Business activity

The PMI surveys for the construction, manufacturing and services sectors in July all point to slower UK growth ahead. Business confidence is falling, with companies' expectations about activity levels in the year ahead weakening. Lower confidence has been linked to concerns that the austerity measures announced by the government will dampen growth prospects.

Manufacturing activity continued to expand solidly in July, though the manufacturing PMI eased slightly to 57.3 from 57.6 in June. Companies reported fuller domestic order books, but overseas sales growth stagnated. Price pressures remained elevated in July, but they are easing. Companies reported a range of raw materials as up in price, including chemicals, electronic components, energy, food products, metals, packaging, paper and timber. Output prices also rose, as



manufacturers passed some of the increases in input costs to their clients. Services sector growth continued to lose momentum in July. Both activity and new business rose at their slowest pace in over a year. The PMI index dropped to 53.1, down from 54.4 in June. Weak demand from the public sector appears to have hit growth. Cost pressures continued to soften in July and strong competition ensured that output charges rose only slightly.

Commodities

Oil prices rose 5% in the week to Friday to $81 per barrel of Brent crude. Copper climbed comfortably back above $7,400, boosted by stronger equities. Nickel also bounced back, rising 7% to $22,085/ ton. Aluminium prices climbed above $2,200. However, steel prices continued to fall back, as demand from China is slowing. The global steel price index recorded a 3% decline last week.

Commodity Prices (6th Aug 2010)

	Price	Weekly change	Monthly change	Annual change
"Brent" Oil ($/ barrel)	81.0	5%	11%	9%
Copper ($/tonne)	7,420	3%	14%	23%
Aluminium ($/tonne)	2,217	4%	14%	11%
Nickel ($/tonne)	22,085	7%	17%	10%
Global Steel Price (Index 04/1994=100)	174.3	-3%	-4%	13%

Source: FT, LME, Cruspi

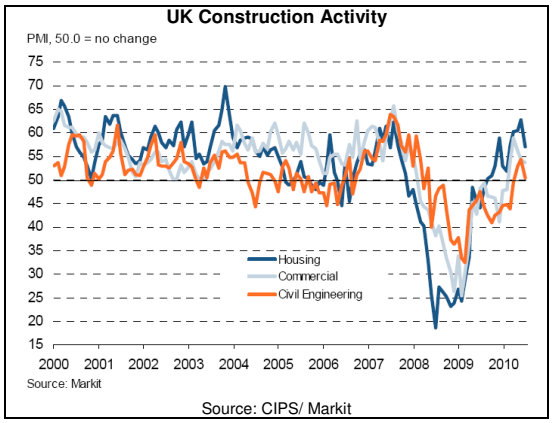
Exchange rates

The Pound strengthened against the Dollar last week, rising 2% to £/$1.597, mainly due to Dollar weakness rather than Sterling strength. The Pound held stable against the Euro at £/€1.2017.

Construction

Construction activity

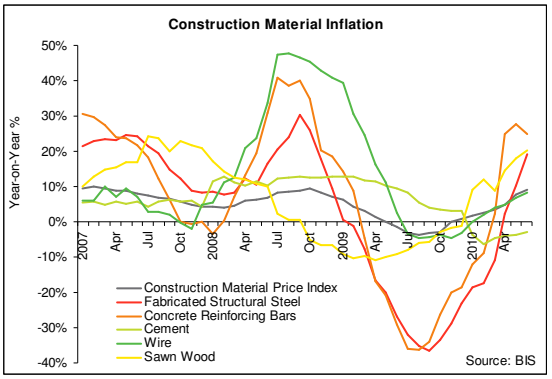
Construction activity continued to expand in July, but at a slower pace. The construction PMI eased to 54.1 from 58.4 in June. New orders continued to grow, but at a slower rate. Residential construction remains the strongest sector, while commercial construction increased at a faster pace than civil engineering. Employment fell despite increased output. Similarly, usage of sub-contractors by UK construction companies also decreased, with availability subsequently rising. Input prices increased substantially in July, due to higher raw material prices. Confidence in the sector weakened modestly, reflecting worries over public sector spending cuts.



Source: CIPS/ Markit

Construction materials

Construction material prices jumped 1.1% in June and up 9% on a year ago. This is the strongest annual increase since October 2008. Material costs rose sharpest for non-residential work, up 9.6% year-on-year. Fabricated structural steel prices jumped 5% during the month and up 19.2% compared to a year ago. Concrete reinforcing bars fell 3% in June, but were up 25% on last year. Precast concrete prices held stable in June, but were down by 1% on last year. Cement prices were also flat in June, but down 3% year-on-year. Sawn wood prices were up 2% during the month and rose 20.3% on last year.



Commercial property

The CBRE Monthly Index reveals that total returns for All Property in July rose by 0.9%, down from 1.1% growth in June. Capital growth eased to 0.4% in July, with property values now 7.2% up on a year ago. Offices remained the strongest performing sector, with total returns up 1.2% and capital growth of 0.7%. The sector was buoyed by Central London's performance, while outside of Central London markets were significantly weaker.Rents in the Central London

market continued to improve, rising 0.3% in July. Since the start of the year, Central London offices have seen growth of 0.8%, compared to a 1% fall in the wider market. Retail property total returns stood at 0.7% in July, with capital growth of 0.3%. Industrials capital values rose 0.2% in July and total returns were up 0.8%. Year to date industrials lag the other sectors, with total returns of 8% compared with 11.2% and 13.3% for All Retail and All Office respectively.

Looking ahead

The quarterly Inflation Report will contain the Bank of England's latest assessment of growth and inflation, and will give important insights into how monetary policy is likely to develop in the years ahead. The British Retail Consortium's retail sales monitor for July is expected to show that sales growth remained robust, supported by good weather and discounting. The RICS's July housing market survey is likely to show that housing market activity is relatively muted currently, as consumer confidence is weakening and credit conditions remain tight. The supply/demand balance continues to move more in favour of buyers, thereby limiting house price gains. Labour market data should show that unemployment fell further in July. Earnings growth is expected to remain subdued, given that companies still face a challenging business environment.

WEEKLY ECONOMIC UPDATE

Market Watch

Equity market gained last week amid firm corporate earnings results, with the FTSE 100 up 1.4% at 5,332.4. The real estate index underperformed the wider index, falling 0.7%.

British Land, in a trading update, reported results for the first quarter to end June 2010. It reported underlying profits before tax of £64m, 3.2% up on Q4 2009/10. Net asset value per share rose 2.2% to 515p. Occupancy increased to 97.8%. British Land is progressing over 600,000 sq ft of developments in the West End, with Regent's Place (500,000 sq ft) and 2-14 Baker Street (139,000 sq ft) scheduled for delivery in 2013. British Land and Blackstone Group have signed leases with UBS to develop a new 700,000 sq ft building on the site of 4 and 6 Broadgate, in the City.

Hammerson reported a 7% rise in half year profits, as occupancy levels and rental income improved, but cautioned that the outlook remains uncertain. Hammerson reported a pre-tax profit of £336m for the six months to end June, compared to a loss of £819m last year. Net asset value rose 7.8% to 454p.

Stock Market		Friday 6th August 2010			
Index	**Index**		**Week**	**Month**	**Year**
FTSE100	5,332.4	▲	1.4%	7.4%	13.7%
EPRA/NAREIT UK	349.5	▼	-0.7%	4.3%	-2.1%
Stocks	**Market Cap, £m**		**Share Prices**		
			Week	**Month**	**Year**
Real Estate					
British Land	3,930	▼	-2.6%	0.0%	-9.7%
Hammerson	2,660	▼	-3.2%	9.8%	-2.2%
Land Securities	4,700	▲	0.4%	9.2%	0.7%
Capital & Counties	703	▼	2.7%	5.1%	
Capital Shopping Centres	2,080	▼	-2.2%	9.4%	
Shaftesbury	919	▼	1.2%	12.6%	10.6%
Great Portland Est.	962	▼	2.2%	8.8%	18.8%
Derwent London	1,390	▼	2.8%	11.6%	34.3%
Segro	2,030	▲	-2.1%	4.7%	-15.9%
Quintain Estates & Development	208	▼	1.9%	-7.0%	-26.4%
St. Modwen Properties	347	▼	-0.5%	-3.4%	-29.9%
Unite Group	306	▲	0.6%	11.8%	11.0%
Workspace Group	236	▼	3.8%	-4.7%	9.3%
Minerva	164	▲	-0.7%	-4.0%	407.5%
Average*		▼	-0.8%	6.7%	-0.2%
Building Contractors					
Balfour Beatty	1,820	▲	6.5%	9.1%	-3.7%
Carillion	1,250	▲	3.9%	-0.4%	15.2%
Morgan Sindall	241	▲	2.3%	9.2%	-10.6%
Kier Group	389	▲	0.1%	12.3%	6.8%
Lend Lease Corp*	2,247	▲	0.0%	-1.9%	-10.2%
Average		▲	2.9%	3.2%	-1.8%
Building material suppliers					
Wolseley	4,180	▲	2.2%	7.9%	4.7%
SIG	585	▼	-2.2%	-4.2%	-23.7%
Marshalls	175	▼	-1.1%	-4.3%	-9.9%
Kingspan	804	▲	7.9%	-8.2%	15.7%
BSS	565	▲	1.5%	5.3%	55.5%
Average		▲	2.4%	4.2%	7.6%
Housebuilders					
Persimmon	1,160	▲	9.1%	4.0%	-21.3%
Taylor Wimpey	1,000	▲	18.4%	17.3%	-20.1%
Barratt	1,010	▲	8.7%	5.8%	-29.1%
Bovis Homes	485	▲	5.9%	7.6%	-27.7%
Bellway	762	▲	8.9%	5.7%	-19.6%
Berkeley	1,100	▲	1.8%	2.1%	-9.6%
Average		▲	8.9%	6.9%	-20.5%

**Sector averages are weighted according to current market capitalisations

Capital Shopping Centres, the shopping centre business spun off the de-merged Liberty International, reported that NAV per share rose 9% to 368p in the first half of the year, due to a 6% rise in the value of its £4.9bn portfolio. The company reported pre-tax profits of £291.2m, from a loss of £495.1m last year. Underlying earnings rose 28% to £43m.

Following the de-merger of Liberty Int'l, Capital & Counties Properties (Capco) also reported its first set of results. Its portfolio value increased by 5.3% in the first half of 2010. Capco reported a pre-tax profit of £54.8m, with a NAV of 138p, up 9% on the proforma NAV at flotation.

Taylor Wimpey's share price jumped 18.4% last week, after it reported a profit in the first half of 2010. The group posted a pre-tax profit of £19.6m in the six months to June, compared to a loss of £673m last year. Underlying profits rose to £79.3m from £2.8m, while sales rose to £1.23bn from £1.13bn. Taylor Wimpey reported further reductions in build cost, with the total build cost per square foot for private homes averaging £104 during H1 2010, compared to £114 in H1 2009.