

WEEKLY ECONOMIC UPDATE

29th November 2009

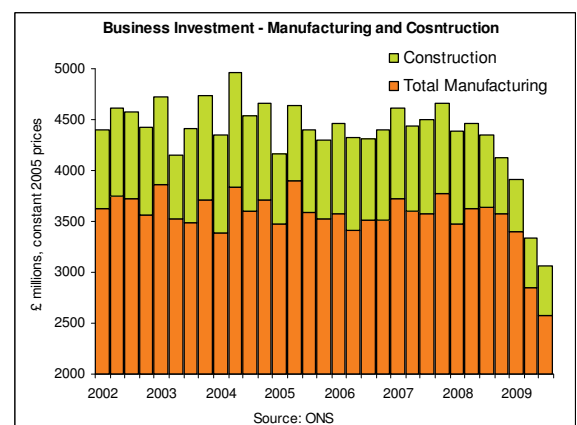
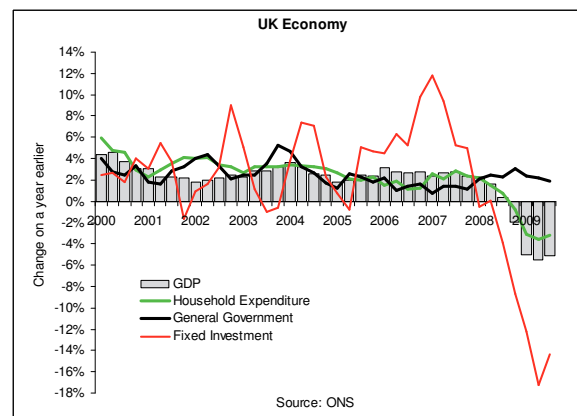
Summary

Third quarter UK GDP figures have been revised upward, but by less than some had hoped for. While policymakers and analysts are confident that the UK will be out of technical recession in the 4th quarter of 2009, this week's data are still painting a mixed picture of economic activity. Globally, markets plunged on news of Dubai's credit problems. Dubai stunned financial markets as it announced that Dubai World and its subsidiary Nakheel were seeking a debt standstill ahead of a re-structuring. Investors are particularly nervous about global banks' exposure to debt held by struggling state owned businesses in the Gulf. These include most of the big UK banks who have already suffered severely during the current global crisis.

Statistics

Economy

- According to the second reading of GDP, the **UK economy** shrank by 0.3% during the 3rd quarter, slightly less than the 0.4% decline previously estimated. The UK economy declined by 5.1% year-on-year. The slight upward revision stems from a smaller decline in services. The weakness in production and construction industries remains severe. Household spending was flat relative to the 2nd quarter but fell by 3.2% year-on-year, while government spending rose 0.2% during the quarter. Fixed capital investment fell 0.3% quarter-on-quarter and down 14.3% compared to last year. Inventories continued to fall, down £4.1 billion on the quarter. Whilst a return to growth is widely expected for the 4th quarter of 2009, concerns remain regarding the composition of growth. In particular despite the needed rebalancing, consumer spending is holding stable, while net exports continue to decline. The Bank of England also remains cautious about the strength of the UK recovery, with Governor King indicating that further asset purchases may be needed to support growth.
- **Business investment** continued to fall in the 3rd quarter, down 3% on the previous quarter and 21.7% lower year-on-year. Declines occurred in most industries. During the quarter, manufacturing investment fell 10.1%, while construction investment as down 0.6%. The financial sector stepped up investment after a pick-up in profits. Investment in this sector rose by 27.1% during the quarter.
- Retail sales rose at the fastest pace in two years in November as shoppers rushed to take advantage of the VAT holiday. According to the **CBI's latest Distributive Trade** survey, around 40% of retailers saw their sales rise in November, while 28% of those surveyed said sales were down. The resultant 12% balance is the best reading since November 2007. Retailers also managed to raise their selling prices in November and prices are expected to increase further in December. The encouraging figures were



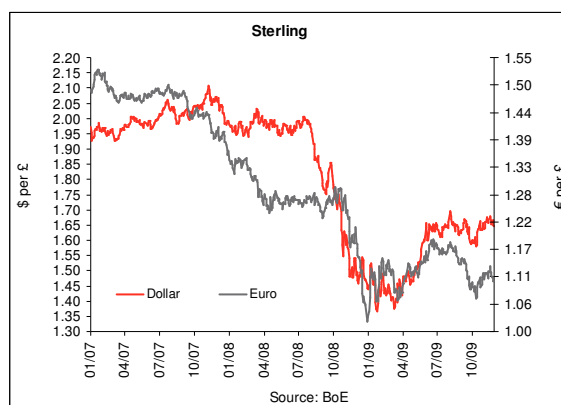
consistent with hopes that the economy will finally return to growth in the 4th quarter. However a full recovery will take some time, as higher unemployment will continue to dent consumer confidence.

- **Oil prices** fell last week as concern about the prospects for global economic recovery lead to a sell-off. The decline extended further after the news of Dubai's request to delay repayment on multi-billions worth of debt broke out. The spread between US crude prices (WTI) and the Brent benchmark jumped on Friday, due to rising US stock levels, which sent the WTI down sharper than the Brent. Other commodity prices, including aluminium and nickel also fell, while copper held stable.

Commodity Prices (27 th November 2009)				
	Price	Weekly change	Monthly change	Annual change
"Brent" Oil (\$/barrel)	77.1	0%	-1%	53%
Copper (\$/tonne)	6,755	0%	3%	84%
Aluminium (\$/tonne)	1,957	-1%	-1%	14%
Nickel (\$/tonne)	16,125	-3%	-15%	59%
Global Steel Price (Index 04/1994=100)	148.87	0%	-4%	-19%

Source: FT, LME, Cruspi

- The **Sterling** was negatively affected by speculation that Dubai investors may be forced into a fire sale of their UK property assets. At the same time, the Dollar benefited as investors looked to revert to its safe haven status. Pound fell from \$1.651/£ to \$1.647/£, and from €1.111/£ to €1.101/£ against Euro.



Construction

- According to the **RICS Global Distressed Property Monitor**, distressed commercial property sales rose in more countries during the 3rd quarter. Out of 25 countries surveyed, 21 reported that distressed sales rose; this compares to 18 out of 27 countries during the 2nd quarter. However the pace of increase in distressed properties moderated across the majority of markets. The biggest rise in distressed properties being put on the market were in South Africa, the US, Portugal and France. China, Hong Kong and Brazil reported that the number of distressed property sales declined during the quarter. A distressed property is defined as having a foreclosure order or being advertised for sale by their mortgagee, and which are being sold at a lower price than their market value. Looking ahead, real estate professionals continue to expect a rise in distressed properties hitting the market into the 4th quarter of 2009, across 19 of the 25 countries surveyed, in particular as banks seek to reduce their property loan exposure. Russia, the US, Spain and Ireland are expected to see the biggest rise in distressed sales in the 4th quarter. Brazil, Hong Kong and India are more optimistic expecting fewer distressed listings.

Looking ahead

- The Nationwide and Halifax are expected to report that **house prices** rose further in November. Housing market activity has picked up on the back of lower house prices and low mortgage interest rates, but activity is set to be limited by higher and still rising unemployment, lower earnings growth and persistent tighter credit conditions. **Consumer confidence** is expected to have improved further in November, but will remain in negative territory. A lack of credit and greater unwillingness by consumers to pile up debt is likely to have resulted in a further **net repayment of debt** by consumers in October. **Mortgage lending and approvals**, however, should have picked up slightly, reflecting a gradual recovery in the housing market. The **manufacturing purchasing managers' index** is likely to show that sector activity has expanded modestly in November, helped by the weak pound and a pick-up in the economies of most of the UK's trading partners. The **construction PMI** is likely to show that the sector is still contracting. The **service sector PMI** should show that activity expanded further in November.

Market Watch

Friday 27 th November 2009				
Share prices	Market Cap, £	Week	Month	Year
FTSE100		-0.1%	0.9%	24.1%
Real Estate				
British Land	3.97	-3.4%	-4.4%	7.2%
Hammerson	2.89	-3.5%	-2.3%	17.8%
Land Securities	5.07	-2.0%	1.1%	-20.2%
Liberty Intl.	3.00	-0.4%	0.4%	-6.4%
Shaftesbury	875.5	-4.7%	-2.5%	70.9%
Great Portland Est.	877.1	0.2%	9.7%	58.5%
Derwent London	1.31	0.0%	4.3%	92.8%
Segro	2.40	-4.3%	-7.0%	-9.5%
Quintain Estates & Development	355.1	-14.8%	-19.6%	296.7%
St. Modwen Properties	425.4	-4.8%	-9.9%	101.2%
TR Property Investment Trust	609.9	-4.0%	-4.2%	53.7%
Unite Group	434.5	-1.5%	-4.5%	228.2%
Workspace Group	219.7	6.1%	8.1%	-70.5%
Minerva	89.5	-3.1%	57.5%	282.8%
Average**	3.97	-2.6%	-1.4%	20.5%
Contractors				
Balfour Beatty	1.76	-4.5%	-6.7%	-2.6%
Carillion	1.15	-3.4%	-3.7%	33.9%
Morgan Sindall	233.6	-4.2%	-6.0%	10.1%
Kier Group	335.6	-5.2%	-7.2%	0.3%
Lend Lease Corp*	2.04	-5.7%	-9.1%	12.3%
Average		-4.9%	-7.5%	11.5%
Material Suppliers				
Wolseley	3.38	-4.7%	-12.8%	-4.4%
SIG	665.9	-5.3%	-4.8%	-12.5%
Marshalls	186.3	5.1%	-10.4%	48.3%
Kingspan	867.5	4.9%	-4.3%	77.5%
BSS	320.7	1.6%	-1.9%	4.7%
Average		-2.4%	-9.6%	11.1%
House Builders				
Persimmon	1.29	-2.0%	1.2%	87.3%
Taylor Wimpey	1.18	-1.9%	-7.4%	386.3%
Barratt	1.16	-4.1%	-13.3%	267.5%
Bovis Homes	533.9	-5.5%	-3.7%	28.5%
Bellway	897.4	-2.2%	-2.5%	48.6%
Berkeley Group	1.14	3.4%	-3.7%	1.2%
Average		-1.7%	-5.0%	151.4%

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

Global equity markets plunged last week on news that conglomerate Dubai World asked for a freeze of their debt repayments – viewed by many as a technical default - which shook investor confidence and sent asset prices down.

In particular, **international banks** were in the spotlight as investors raised concerns about their loan exposure to the region's trading hub. In particular there are fears that if major banks suffer renewed heavy losses, this will again cause a slowdown in the flow of credit to other economies, including the US, Eurozone and the UK. The loss of investor confidence has hit global economic recovery prospects and threatens new instability into the just slowly recovering financial system. The global financial crisis is certainly far from over.

The **FTSE100** was relatively unchanged overall in the week to Friday, while the real estate index slipped 2.1%. Property firms continued their slide. Among the biggest losers were **Quintain Estates & Developments** (-14.8%), St Modwen (-4.8%) and Shaftesbury (-4.7%). The **Unite Group** bucked the trend, rising 6% last week.

