



Weekly Economic Update

16th January 2009

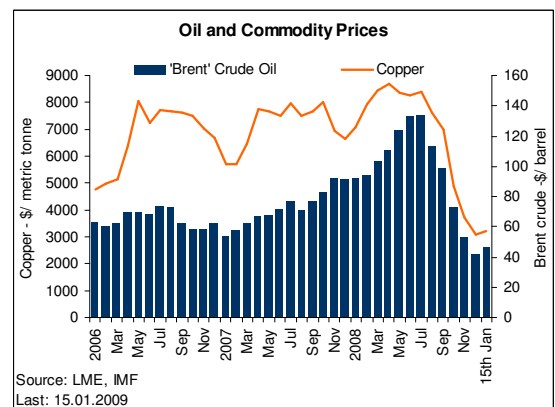
Summary

The flow of construction new orders continues to slow sharply, pointing to a weak year ahead for the industry. Forecasts for the construction industry expect a fall of between 6.7 and 8.5% in output this year. However opinions diverge over the industry's fortunes in the subsequent two years, with some anticipating an industry rebound in 2010 – led by the public sector, while others predict a three year decline in industry activity, with a rebound only in 2012, as the private sector recovers.

Statistics

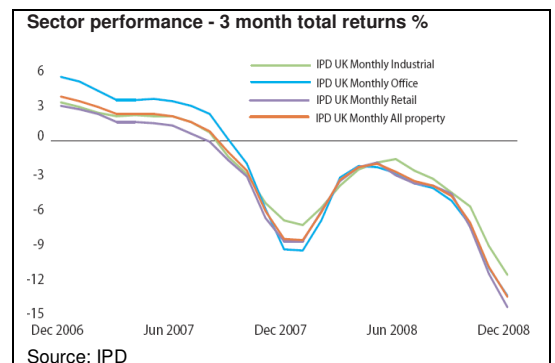
1. Economy

- The **Sterling** gained against the Euro this week, after the European Central Bank cut its base rate by 0.5% to 2%, a move that was widely anticipated. One Pound bought €1.12 this week; 1% up compared to last week and 10% up on the trough at the end of December 2008. Against the Dollar, the Pound edged down to \$1.49 this week; this compares to \$1.52 last week.
- Retailers'** performance was mixed over the Christmas period, according to the British Retail Consortium, though overall sales figures were bleak. Retail sales in December fell by 3.3% compared to a year earlier on a like-for-like basis. In the 4th quarter retail sales were down 2.7% compared to last year. The food sector was again one of the only segments reporting an increase in sales values in December. Non-food retailers saw their sales decline heavily, as despite massive discounts nervous consumers could not be encouraged to spend.
- After losses earlier in the week, the "Brent" crude oil price edge up to \$46.5; this is 4% higher than last week. **Copper** prices increased by 1% to \$3,210 per tonne, though prices are expected to fall back near term, given the weak global demand outlook. **Aluminium** prices continued their slide, down by 6% this week to \$1,430 per tonne.
- There is no light at the end of the tunnel for the beleaguered UK housing market. The latest RICS's **housing market survey** reveals that the vast majority of surveyors continue to report house price falls and very low numbers of property transactions. The main reason for price falls still appears to be the large stock of property on estate agents books relative to the pool of buyers rather than a surge in distressed selling - despite new selling instruction edging up. New buyer enquiries increased slightly, but remain low overall. Looking ahead, surveyors remain heavily pessimistic over the outlook for both house prices and sales.



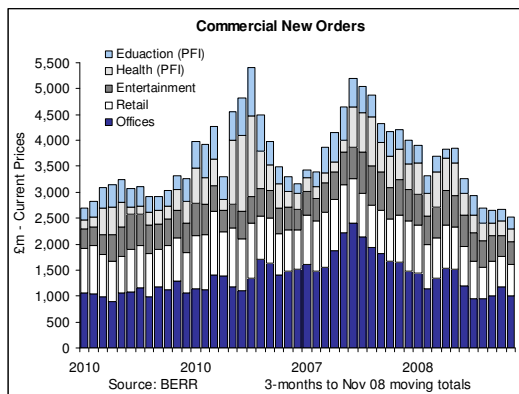
2. Construction

- The decline in **UK commercial property returns** continued to accelerate in December 2008, according to the IPD. Total returns were down 5.3% during the months and down 22.5% in 2008 as a whole. Overall property equities were the worst performing asset class last year, with total returns down 46.6%. Equities fell 29.9%, while bonds gained 15%. Within the commercial sector, retail performed worse, with capital values in December down 6.3% and overall returns falling by 5.7%. For 2008 as a whole, retail property capital values fell by 28% compared to 2007. Offices capital values decreased by 5.6% and total returns were down 5% during the last month of 2009. Capital values for 2008 as a whole were 27.2% down. The decline in industrial capital values also accelerated, dropping 5.2% in December, while total returns were 4.6% lower.
- Despite sharp falls in fuel and commodity prices, the official statistics report that **UK construction materials price inflation** remains high. The construction material price index for all works in November recorded a 9.5% increase on a year ago. However, the underlying trend points to an easing in material price increases. In the three months to November, material prices were 3% up on the preceding three months; this compares to a 3.8% increase in October.





- The flow of **construction new orders** continues to slow sharply, with order volumes in the three months to November down 9% on the preceding three months and 27% lower compared to the same period last year. Five out of six sectors saw a decline in new orders, with the public non-residential sector the only bright spot. Public non-housing work in the three months to November rose by 9% on the preceding three months and up 43% on last year, due to a sharp rise in Olympic-related projects, as well as education and health work. Private new housing remains particularly weak, with order volumes down 3% on the previous three months and 55% lower compared to last year. With the public housing sector depending on private developers, the sector saw a further decline in the flow of projects coming through. Commercial order volumes also remain weak, unsurprisingly given the subdued state of the offices, retail and private entertainment sector. There is also a virtual absence in PFI education and health related work. Worryingly, after months of firm growth, infrastructure new orders stalled in the three months to November, falling nearly 50% on the preceding three months and two fifth down compared to last year.



	Value, current prices		
	constant 2000 prices		
		% change on previous 3 months	% change on year
Public Housing	519.9	-20%	-15%
Private Housing	1397.4	-3%	-55%
Public Non-Residential	2380.3	9%	43%
Industrial	491.8	-28%	-39%
Commercial	3001.9	9%	-29%
Infrastructure	772.3	-48%	-40%
Total New Work	8563.7	-9%	-27%

Source: ONS

Construction Industry Forecast

Both, the Construction Products Association and Experian published their forecasts for the UK construction industry between 2009 and 2013. Whilst their assessments for the industry are in line for 2009, there are marked divergences for 2010 and 2011. Construction has been one of the sectors most severely hit by the storm in global financial markets and the subsequent downturn in the real economy. Experian and the CPA both predict that the industry will see a sharp drop in activity this year, with Experian expecting a 6.7% fall and CPA anticipating a decline of 8.5% in construction output. However, Experian then expects the industry to recover in 2010, as the housing market rebounds and infrastructure work accelerates, due to increased Government investment. In contrast, the CPA does not expect a recovery in the private housing market until 2011. In addition, their forecast for an increase in infrastructure work in 2010 is much lower, with growth of just 3.3% expected. Looking further ahead, Experian expects a market rebound in construction in 2011, predicting that all sectors will see an increase. The CPA does not expect such speedy recovery, predicting that the return of the private sector will take longer. *A more detailed breakdown of sub-sector forecasts will be circulated next week.*

	2007	2008e	2009f	2010f	2011f	2012f	2013f
£m, 2000 prices							
Annual % Change							
Public Housing	2,576 15.1	CPA -6.6 Experian -6	6.7 -8	9.4 25	3.7 10	-2.1	-7
Private Housing	11,273 -1.4	CPA -20 Experian -20	-34 -30	-5 5	10 15	17	8.5
Public Non-Residential	6,629 -4.9	CPA 20.2 Experian 18	17.5 17	4.1 7	-2.4 1	-7	-8.6
Infrastructure	5,069 2.8	CPA 21.1 Experian 23	7.6 8	3.3 22	4.6 6	10.8	10.1
Industrial	3,996 0.4	CPA -18.3 Experian -20	-19 -16	-5.5 -1	4.3 5	5	5
Commercial	16,458 12.6	CPA 3.9 Experian 2	-17 -14	-14.8 -9	-1.4 2	1.6	4.1
Total New Work	46,001	CPA -0.2 Experian -1.1	-10 -8.6	-4.1 4	1.7 5.2	3.5	2.6
Total Repair & Maintenance	36,474 0.6	CPA 2.5 Experian 3.6	-6.7 -4.3	-3.8 -0.6	-2.3 1.4	1.3	1.6
Total Construction Work	82,474	CPA 1 Experian 1	-8.5 -6.7	-4 1.8	-0.1 3.5	2.5	2.2

Source: ONS, Experian, CPA



Market Watch

Thursday 15 th January 2008				
Share prices	Market Cap, £	Week	Month	Year
FTSE100		-8.5%	-4.4%	-30.7%
Real Estate				
British Land	2.55bn	-17.1%	-8.9%	-46.9%
Hammerson	1.43bn	-21.0%	-6.5%	-54.1%
Land Securities	3.78bn	-22.3%	-16.2%	-49.8%
Liberty Intl.	1.66bn	-15.6%	-10.0%	-54.3%
Shaftesbury	417.0m	-17.5%	-19.9%	-40.8%
Brixton	376.9m	-19.8%	-7.9%	-58.8%
Great Portland Est.	425.0m	-17.5%	-8.2%	-52.0%
Derwent London	695.6m	-19.5%	-9.4%	-51.5%
Segro	983.7m	-25.6%	-12.7%	-56.8%
Quintain Estates & Development	42.2m	-7.0%	2.6%	-93.1%
St. Modwen Properties	142.4m	-23.5%	-13.3%	-73.6%
TR Property Investment Trust	444.6m	-10.0%	2.1%	-36.9%
Unite Group	146.7m	-34.0%	-29.9%	-69.1%
Workspace Group	88.9m	-32.9%	-28.2%	-81.7%
Minerva	41.1m	7.9%	100.0%	-84.5%
Average**		-19.7%	-11.1%	-51.4%
Contractors				
Balfour Beatty	1.67bn	-9.0%	1.9%	-22.2%
Carillion	1.05bn	-3.4%	3.2%	-21.1%
Morgan Sindall	245.1m	-5.7%	8.8%	-43.7%
Kier Group	309.1m	-8.8%	-3.6%	-36.0%
Lend Lease Corp*	1.19bn	-2.4%	-0.6%	-52.1%
Average		-5.7%	1.5%	-32.0%
Material Suppliers				
Wolseley	2.29bn	-16.6%	-9.4%	-50.8%
SIG	232.3m	-26.1%	-3.0%	-79.6%
Marshalls	113.1m	-11.9%	-12.1%	-71.0%
Kingspan	481.5m	-7.2%	-9.1%	-70.7%
BSS	321.7	2.0%	2.8%	-26.2%
Average		-14.0%	-7.9%	-53.9%
House Builders				
Persimmon	880.3m	0.4%	22.9%	-59.7%
Taylor Wimpey	202.5m	-7.1%	65.8%	-90.1%
Barratt	283.4m	-11.2%	30.1%	-77.7%
Bovis Homes	119.8m	-9.0%	5.5%	-31.6%
Bellway	658.7m	-7.9%	-2.5%	-27.2%
Average		-4.9%	19.1%	-53.4%

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

Stock prices drop over banking woes

Stock markets in the UK, Europe and the US saw heavy losses this week, reversing gains made since the start of this year. Fears over a renewed worsening of the banking crisis dragged share prices down. Bank shares fell heaviest, but commodities, real estate and construction sector suffered alongside.

The **FTSE Real Estate** index lost a massive 18% in the week to Thursday, as concerns over fundraising issues led to a heavy sell off of stocks. According to Merrill Lynch the sector could require some £14bn of new equity this year to rebuild loan-to-value ratios, while Citigroup estimates that the sector needs to raise more than £2bn in capital to avoid breaching banking covenants.

Segro, **Land Securities** and **Hammerson** were among the biggest losers this week, shedding 26%, 22% and 21% of their share prices this week. Moody's cut Hammerson's debt rating outlook to "negative". **Derwent** and **Brixton** lost 20% and **British Land** was down 17% this week. The only exception was Minerva, which ended this week in the plus, gaining 8%.

Building contractors and **construction material suppliers** also had a bad week, after industry forecasts pointed to a weak years ahead. Balfour Beatty and the Kier Group fell by 9% this week. Balfour Beatty will replace HBOS in the FTSE100 index from next week, after the bank's takeover by Lloyds TSB.

Among material suppliers, SIG and Wolseley were the biggest losers, falling 26% and 17% in the week to Thursday.

