UK Economic and Construction Update

LATEST INFORMATION

1) IHS Markit/CIPS UK Flash Composite PMI (January 2021):

The IHS Markit/CIPS UK Flash Composite PMI is an early indicator for UK economic activity in the month, covering the services and manufacturing sectors, based on 85% of results for the month. 50 = no change and the Flash PMI in January 2021 was 40.6 compared with 50.4 in December, indicating the UK economy is on course for another significant contraction during 2021 Q1 as anticipated in the CPA’s latest Scenarios. The comparable figure for the Eurozone was 47.5 with figures of 50.8 in Germany and 47.0 in France.

Manufacturing output (50.3) continued to outperform service sector activity (38.8) during January, unsurprisingly, given that the third lockdown led to large parts of non-essential retail and leisure whilst manufacturing was permitted to remain open.

Higher levels of manufacturing production mostly reflected a strong increase in new orders during the final quarter of 2020 and subsequent efforts to work through backlogs in the New Year. However, the overall rate of growth was the slowest since the recovery from the initial lockdown in June 2020. There were reports citing shortages of manufacturing inputs as a factor holding back growth in January. More than half of the survey panel (55%) reported a deterioration in supplier performance, while only 1% noted an improvement. This was almost exclusively linked to both Brexit disruption and a severe lack of international shipping availability. Latest data meanwhile signalled a renewed drop in orders from abroad, following the surge in export sales as clients sought to beat the Brexit transition deadline in December 2020. The decline in new work from overseas was the fastest for seven months.

The downturn in service sector output stretched to a third consecutive month during January. At 38.8, down sharply from 49.4 in December, the UK Services PMI signalled a steep and accelerated fall that was the fastest since May 2020. Lower levels of activity reflected cutbacks to both business and consumer spending at the start of 2021. Outside of the leisure, travel and hospitality sectors, survey respondents often noted that they had avoided temporary business closures during the third national lockdown, but client demand had softened considerably and new projects were delayed as a result.
2) **ONS/Land Registry UK House Prices (November 2020):**

UK average house prices increased 7.6% in the year to November 2020, up from 5.9% in October 2020 according to the ONS/Land Registry, the highest annual UK house price inflation since June 2016. London and Yorkshire and The Humber had the highest annual house price growth (9.7%) in the year to November 2020 according to the ONS/Land Registry, up from 4.6% (London) and 6.7% (Yorkshire and The Humber) in the year to October 2020.

The increases in house prices in value in the year to November 2020 according to the ONS/Land Registry show a £45,240 increase in London house prices compared with a relative low point in November 2019, which was due to political (Brexit and General Election) uncertainty. However, the extent of rise in the ONS/Land Registry house prices compared with a year ago also suggests that there is also a potential mix-adjustment issue in the data and that a shift in the proportion of transactions away from flats towards higher value houses with more space has also increased the average price of homes, alongside strong consumer demand.
3) **HMRC UK Property Transactions (December 2020):**

There were 129,400 property transactions in the UK during December 2020, 13.1% higher than November 2020 and 31.5% higher than December 2019 and excluding the spike in property transactions in March 2016 prior to the Stamp Duty reform, UK property transactions in December 2020 were at their highest level since September 2007, prior to the financial crisis.

![UK Residential Property Transactions Graph](image)

UK property transactions overall in 2020 were 11.5% lower than in 2019 after the sharp fall during the initial lockdown and rapid recovery, boosted by low unemployment (sustained by company loans and grants, furloughing and the self-employment income support), strong buyer demand for additional space, Stamp Duty holiday and Help to Buy.
EXISTING INFORMATION – UK Economy

**ONS GDP (November 2020):** Following six monthly increases, UK GDP fell by 2.6% in November 2020 and was 8.5% lower than the pre-pandemic level in February 2020. Restrictions were in place in November, primarily affecting services (which accounts for 81% of the UK economy) as in the CPA ‘W-shaped’ scenarios for the economy as anticipated and the lockdown in January will lead to a further fall in UK GDP in 2021 Q1.

![Graph showing UK GDP trends](image1)

Source: Office for National Statistics – GDP monthly estimate

Services output fell by 3.4% in November 2020 and was 9.9% below the level of February 2020. The production sector also fell marginally, by 0.1%, in November 2020, remaining 4.7% below the February 2020 level. It is worth noting that construction tends to move with UK GDP but the impact of the second lockdown between 5 November and 2 December (during which construction, product manufacturing and builders merchants remained open but non-essential retail and leisure were forced to close) means that there has been a break between the usual UK economic activity and construction activity relationship, which will also be the case during the current third lockdown.

![Graph showing monthly index](image2)

Source: Office for National Statistics – GDP monthly estimate
**UK and EU Free Trade Agreement (December 2020):** The UK and EU agreed a Free Trade Agreement at the top level (see link above) on 24 December 2020, prior to the end of the implementation period with some changes still to occur over the next 12 months. This was the assumption in the CPA Autumn scenarios. The agreement involves no quotas and no tariffs for trade in goods. However, there is still anticipated to be disruption when trade increases in mid-January 2021 due to the increased admin and certifications that will be needed at ports. This will also raise costs. Several issues are still to be resolved. In particular, trade in services, which will be part of ongoing discussion with the EU in 2021 H1. In addition, there remain issues on rules of origin (and whether manufactured goods qualify as locally sourced) as well as the mutual recognition of conformity assessment or test results in which the changes will occur on 1 January 2022. Whilst imperfect, the Free Trade Agreement does at least mean that the UK avoids the more damaging ‘No Deal’ scenario and, as a result, this will be removed from the next set of CPA scenarios that will be published on 20 January.

**National Lockdowns and Government Policy Mitigation (January 2021):** The UK government announced a national lockdown for **England** on 4 January 2021 although similar restrictions apply in Wales and Scotland. The lockdown focuses on closing schools until mid-February and the closure of non-essential retail, leisure facilities etc. although strong social distancing restrictions are likely to stay in place until at least the end of March. The guidance states that construction, manufacturing and builders merchants may remain open. Also, tradespeople working in people’s homes are permitted to do so. Construction and manufacturing as well as repair, maintenance and improvements work are also permitted in **Wales**, which is in Alert Level 4. However, this does not mean industry activity in England will remain unaffected. Productivity in some areas may be affected for those needing to also look after children as well as work. In addition, tighter protocols on site may also impact on productivity. In **Scotland**, there is different guidance for its lockdown, that states “Tradespeople should only go into a house to carry out or deliver essential work or services to carry out utility (electricity, gas, water, telephone, broadband) safety checks, repairs, maintenance and installations or to carry out repairs and maintenance that would otherwise threaten the household’s health and safety”, which implies that residential improvements work is not permitted for the duration of the lockdown in Scotland.

Given that non-essential retail and many other leisure facilities are not permitted to remain open, the UK government announced additional financial assistance. This includes top-up grants to closed businesses: £4,000 for businesses with a rateable value of £15,000 or under; £6,000 for businesses with a rateable value between £15,000 and £51,000; £9,000 for businesses with a rateable value of over £51,000. However, this is likely to be insufficient to sustain firms that have been forced to close given than the majority of these will have substantial ongoing costs such as pensions and National Insurance contributions. In addition, firms that utilised the government’s loans schemes in 2020 will be due to start repaying the loans this year. As a result, it is likely that further support will be needed in the Chancellor’s Budget on 3 March 2021 in the form of grants and extensions to business support loan terms.
IHS Markit/CIPS UK Purchasing Managers Indices for Manufacturing, Services and Construction (December 2020):

The IHS Markit/CIPS UK Manufacturing Purchasing Managers’ Index (PMI) was 57.5 in December, up from 55.6 in November. 50=no change so December’s index represents further strong growth in both November and December despite the second lockdown and subsequent tier system of social distancing restrictions. The growth was mainly attributed to a substantial increase in stocks of purchases as part of preparations before the end of the transition period. December’s rise was the seventh consecutive monthly rise for manufacturing output. Growth was registered across the consumer, intermediate and investment goods sectors. December also saw new orders rise at the quickest pace since August 2020 due to clients bringing forward orders to guard against potential disruption caused by the end of the Brexit transition period including delays at ports. Respondents reported that there was substantial disruption to supply chains was experienced by manufacturers in December. Raw material shortages, port delays, freight capacity issues (air, sea and land) and Brexit concerns all contributed to supply-chain disruption.

Average input costs in December rose at the quickest rate in 2.5 years. This reflected input shortages and cost rises, increasing transportation costs, Brexit uncertainty and exchange rate factors. Business optimism eased in December but remained positive with 56% of manufacturers forecasting output to rise over the next 12 months compared to 61% in November. The positive manufacturing sentiment was linked to ongoing economic recoveries, hopes of a lesser impact from Covid-19, reduced uncertainty following the completion of Brexit and planned strategic investments. However, job cuts were made for the eleventh consecutive month.
The IHS Markit/CIPS UK Services PMI was 49.4 in December, up from 47.6 in November, during which the UK was in its second lockdown, but December's figure was still below the 50.0 no-change threshold, so it indicates a contraction in services activity once again. In addition, the downturn in service sector output recorded on average in the final quarter of 2020 (49.5) contrasted sharply with the strong recovery during the third quarter of 2020 (57.1). Firms reported that the decline in business activity in December was due to falls in client demand and restrictions on trade due to the coronavirus. Where growth was reported, this was mostly confined to residential property, business-to-business services and in particular e-commerce as well as providers of digital consumer services. December data indicated a fall in total new business across the UK service sector for the third consecutive month reflecting a general reluctance to spend among clients. Export sales remained a weak spot, with new business from abroad decreasing sharply in December due to restrictions on international travel and heightened Brexit uncertainty.

Input price inflation accelerated sharply since November and reached a ten-month high. This was linked to rising charges by suppliers amid higher freight costs and transport shortages. However, expectations for business activity growth meanwhile rose to the highest since March 2015 due to survey respondent hopes that the pandemic will be brought under control, leading to a strong rebound in UK economic conditions in the second half of 2021.
The IHS Markit/CIPS UK Construction PMI was 54.6 in December, broadly similar to the 54.7 in November. 50=no change representing further growth for the construction industry during December and there was growth in two of the three construction sectors that IHS Markit/CIPS cover.

In December, housing (61.9) continued to be the key driver of growth in the IHS Markit/CIPS UK Construction PMI as it has done ever since the initial lockdown eased in mid-May 2020, due to strong demand (transactions, prices) in the general housing market and assisted by policy maker stimulus for the housing and house building markets through Stamp Duty, Help to Buy etc. plus strong buyer demand for additional space from especially from those working from home that may be further away from work than pre-Covid-19.

Commercial activity in the IHS Markit/CIPS UK Construction PMI (51.2) in December was slightly higher than in November but this is largely work on offices delayed in the initial lockdown that were to finish in by Autumn 2020 but will now finish in 2021 H1 and commercial growth in the IHS Markit/CIPS UK Construction PMI has been slowing in the last few months so work on these delayed projects finishes then activity is likely to fall with fewer projects in the pipeline to replace them in the new year.

Civil engineering activity in the IHS Markit/CIPS UK Construction PMI fell in December (48.0) and has fallen for 4 of the last 5 months. There is still a lot of work on major infrastructure existing projects and frameworks and firms have not reported to the CPA that there have been significant falls in activity during the second half of 2020. However, there are indications that new civils projects (to replace finishing projects) have been slow to come through Stage 2 procurement plus activity has been falling in council local infrastructure (resource constrained councils) and airports construction (that are retrenching on expansion plans).

IHS Markit/CIPS also reported in December that purchasing prices rose at their steepest rate for almost two years, reflecting supply shortages and strong demand for inputs, particularly timber and steel. Higher levels of construction demand also led to a slight rise in employment numbers and greater demand for construction inputs in December. However, stretched supply chains and delays at UK ports resulted in longer delivery times and the fastest rate of input cost inflation since April 2019.
**Government Extension of the Furlough Scheme (December 2020):** The government announced that the Coronavirus Job Retention Scheme (furloughing) has been extended until the end of April 2021 under the original terms with the government continuing to contribute 80% towards wages. It was due to end on 31 March 2021. However, at this stage, the Self Employment Income Support (SEISS) has not been extended beyond March. In addition, the government announced that businesses will also be given until the end of March to access the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, and the Coronavirus Large Business Interruption Loan Scheme. These had been due to close at the end of January.

**Latest UK Economic Forecasts:** The HM Treasury consensus of UK economic forecasts in November illustrates the latest forecasts from the main City and non-City forecasters. The range of forecasts became considerably narrower in August and September but has since increased in line with uncertainty regarding the impacts of the lockdown. In addition, it is worth noting that some of the forecasts reported were determined in October before it was clear that there would be a second lockdown (and macroeconomic forecasters had previously been assuming there would be no second lockdown) and even some of the more pessimistic forecasts estimated in early November did not have enough detail to fully take into account the extent of the second lockdown.

The average of the latest forecasts anticipates an 11.0% fall in UK GDP during 2020 and a 4.8% rise in 2021. The CPA’s ‘W’-shaped scenario from the Autumn scenarios estimates a 13.0% fall in UK GDP during 2020 due to the impacts of the second lockdown on person-to-person interaction services such as food and accommodation, hospitality and tourism before growth of 4.0% in 2021. However, it should be noted that this was published before the Chancellor extended the furlough scheme and self-employment income support, under the original terms from April, until the end of March 2021. As a result, unemployment is likely to be lower and consumer spending higher than we would have estimated for both 2020 Q4 and 2021 Q1.
**Bank of England Monetary Policy Report**: The Bank of England maintained the Bank Rate at 0.1% but increased Quantitative Easing (QE) by £150 billion to total £875 billion. It also published its Monetary Policy report in which it revised down its GDP forecast and now anticipates a fall of 2% in GDP in Q4 compared with a rise of 5.5% three months ago. As a result, the Bank has moved to a 'W'-shape recovery from previous 'V'-shape. It estimates that GDP in 2020 will fall by 11%. It also stated the extension of the furlough scheme would help limit the increase in unemployment caused by a weaker economy but that the unemployment rate will still peak at 7.75% in the summer of 2021 and it anticipates GDP returning to pre-Covid-19 levels with 12 months.

Construction: Agents reported activity picked up in most areas except for commercial development, with output mostly supported by infrastructure projects. Contacts reported that public sector repair and maintenance work was holding up, and demand for household repair and maintenance work was strong. This had resulted in shortages of some materials, constraining output.

Construction of private new build housing was reported to be close to normal levels, driven in part by strong consumer demand. However, contacts said they expected demand to slow in the coming months when government support measures, such as the temporary reduction in stamp duty and the current form of the Help to Buy scheme, come to an end. And construction of social housing was weaker than for private housing due to the postponement of projects.

Contacts expressed concerns about the weak pipeline of commercial projects, such as office and retail development, which could weigh on output in 2021. There was also some concern that public projects could be delayed due to budget constraints. However, there were hopes that investment in green projects would support activity further out.

Housing Market: Following several months of buoyant housing market activity, contacts reported a modest slowdown in November. This was mainly due to Covid-related restrictions introduced in various parts of the UK. However, demand was supported by buyers wanting to agree house purchases in order to complete transactions before the temporary cut in stamp duty ends in March 2021.

Contacts reported an increase in mortgage rates and said furloughed workers continued to have difficulty getting mortgages from some lenders. However, there were also some signs of mortgage conditions becoming slightly easier, with some lenders extending mortgage offers to the end of 2021 to accommodate longer completion times. There were reports of some high loan to value loans being made available again.

Demand for rental property remained strong in most parts of the UK, though rents were reported to have weakened in London and other large cities due to a lack of demand from students and increased demand for larger properties and outdoor space.

Commercial Market: Investor appetite for commercial real estate remained below its pre-pandemic level, though there were some reports of interest from overseas and UK investors in industrial and distribution property.

In the retail sector, rental income continued to be significantly lower than normal. Contacts said that new leases were increasingly being linked to turnover so that landlords and tenants each bear a portion of risk, and there were reports of newly negotiated contracts resulting in significantly lower rents than before. Expectations of lower rental income was leading to a fall in retail property values.

Rental returns in the office market were reported to be just a little below normal. However, there was significant uncertainty over the outlook for demand, as a large proportion of contacts expect to reduce their office space as more staff work remotely on a permanent basis.

Demand for industrial space remained strong, particularly for distribution and logistics premises, supported by the shift towards online retail.
EXISTING INFORMATION – Construction

EU Construction Output (September 2020): Construction output in September fell by 2.5% in the EU 27 (excluding the UK) and output was 5% lower than in January 2020, pre-Covid-19. Construction output in Germany during September remained 3% lower than in January whilst output in Spain and France in September was still 6% and 7% lower than in January respectively. UK construction output rose by 3% in September but remained 9% lower than in January 2020.

As a reference point for construction output forecasts for 2020, if UK construction output were to remain at September 2020’s level for the rest of the year then UK construction output in 2020 would be still be 16% lower than in 2019, which compares with implied falls of 11% in Spain and 15% in France but contrasts sharply with a 1.9% rise in Germany.
ONS Construction Output (November 2020): It has been V-shaped recovery so far for construction output. Construction output in November 2020 was 1.9% higher than in October according to the ONS despite the second lockdown as construction, product manufacturing and builders merchants remained open. Output in November 2020 was 'only' 1.4% lower than a year earlier, a substantial recovery compared with the nadir in April 2020 during which construction output was 45% lower than a year earlier during the initial lockdown (23 March to mid-May).

![Monthly Construction Output](image)

The 1.9% growth in construction output in November 2020 was driven primarily by infrastructure (9.6%), private housing (4.7%) and public housing rm&i (5.7%), the latter of which is focused on cladding remediation (partially at the expense of public spending on standard residential rm&i) whilst output in November 2020 remained 1.4% lower than a year ago but the sector breakdown highlights that infrastructure (10.6%) was higher than a year earlier but public housing (-28.6%), industrial (-16.2%) and commercial (-15.2%) were considerably lower.

![ONS Construction Output (November 2020 vs October 2020)](image)
Year to date (January-November) construction output in 2020 was 13.3% lower than a year ago due to the falls in the initial lockdown. The largest falls were in public housing (-28.4%), private housing (-19.5%), industrial (-18.0%) and commercial (-17.6%) whilst the lowest falls in construction output year to date (January-November) in 2020 compared with a year ago were in infrastructure (-4.5%) and public non-housing (-7.4%), the latter being primarily schools work whilst schools were shut and work on the Nightingale hospitals.

Looking at the key sectors the construction recovery has been highly skewed towards private housing repair, maintenance and improvement (note this is contracted out activity only, if it included DIY it would be even higher), infrastructure and private housing whilst construction activity has been considerably slower to recover in the commercial (offices, retail, leisure) and industrial (factories) sectors, in which output in November remained more than 15% lower than a year earlier, pre-Covid-19.
ONS Construction Employment, Average Weekly Hours and Wages and in Q3: Employment in UK construction during 2020 Q3 was 142,000 lower than 2019 Q4, pre-Covid-19, and 258,035 lower than the recent peak of 2019 Q1 according to the ONS. The falls since 2019 Q1 indicate that this is not solely due to the pandemic and clearly employment will vary considerably by occupation and by sector.

Average hours worked in construction in 2020 Q3 rose by 15.4% compared with Q2 but were still 17.1% lower than a year ago according to the ONS but it will vary by sector and occupation.

In September 2020, UK construction regular pay was 1.2% lower than a year ago whilst total pay (inc. bonuses) was 3.9% lower than a year ago as the larger impacts continue to be on bonuses as expected.
ONS Construction Furloughs and Cash Flow: 32.9% of construction firms reported (21 September to 4 October 2020) cash reserves lasting 3 months or fewer, lower than 36.1% a month ago according to the ONS but 21.4% of firms were unsure how long their reserves will last vs 18.4% a month ago.

Construction firms reported (21 September to 4 October) only 6.4% of the workforce was on furlough compared with 9.1% a month ago and 46.9% at the height of the social distancing restrictions back in May according to the ONS.
ONS Business Survey – Contractor Stockpiling (December 2020): 96% of construction firms were not stockpiling any goods or materials between 30 November and 13 December 2020 according to the Office for National Statistics Business survey. The lack of stockpiling by construction firms isn’t a surprise for 2 key reasons. Firstly, contractors generally tend to expect the builders merchants and product manufacturers to keep stocks on their behalf rather than stockpiling themselves. Secondly, demand already exceeds supply for some products in house building and DIY/refurb such as timber, roofing, PVC and white goods so firms cannot stockpile currently and that is where the issues are likely to occur with further ports disruption in January.

Arcadis Tender Price Forecasts (Autumn 2020): Arcadis’s Autumn 2020 forecasts indicate that outside of infrastructure, it anticipates falling tender prices in both 2020 and 2021. This is mainly driven by an uncertain new work pipeline, the timescales needed to mobilise public sector investment and weak risk appetite from the private sector. It anticipates that these conditions will, in the short-term, help to offset inflation caused by lower productivity and Brexit. In the long-term however, it still predicts the return of above-trend inflation from 2023, likely driven by the return of demand in combination with a slightly constrained labour market. Conversely, it anticipates that infrastructure activity and tender prices will be underpinned by a number of cyclical investments coming to fruition, such as AMP7 in the water sector, CP6 in rail and RIS2 for highways.
**MHCLG Starts and Completions (2020 Q3):** It has been a "V"-shape house building recovery in England so far according to the official MHCLG data. In 2020 Q3 completions were 1.1% lower than a year ago compared with 2020 Q2 completions which were 64.6% lower than a year ago. Starts in 2020 Q3 were 8.2% lower than a year ago compared with 2020 Q2 starts which were 56.4% lower than a year ago.

As a reference point for the year overall, if housing starts in England during 2020 Q4 are at the same level as in Q3 then overall in 2020 housing completions would still be 17.7% lower than in 2019 and starts would still be 19.1% lower than in 2019. However, it is worth noting house building tends to slow in Q4 particularly given that construction largely shuts down between Christmas and New Year, which affects starts more than completions. As a result, starts and completions in 2020 are likely to be slightly lower than the implied figures for 2020.
**UK Brick Sales (October 2020):** UK brick sales (a useful proxy for house building) in October 2020 were 1.0% higher than in September but still 7.9% lower than a year ago although sales were only 1.0% lower than the monthly average 2018-19. Speaking to firms in the supply chain, house building activity continued to pick up in October and is particularly buoyant compared where firms thought it would end up when they were in the initial lockdown, 23 March to mid-May. Firms also stated that house building continued to remain strong in November. As a reference point for house building forecasts, if brick sales remain at October’s levels for the rest of the year then overall in 2020 brick sales will be 20.9% lower than in 2019. However, note house building historically slows in November and December (although not necessarily this year given disruption in Q2 and current high demand) but if November and December slow to the extent they have in the last 2 years, 2020 bricks sales would be 24.0% lower than 2019.

![UK Monthly Brick Sales](chart.png)

**Rightmove House Price Index and Forecast (December 2020):** Rightmove forecasts a robust 4% national average house price growth in 2021 as there is strong evidence that people will continue to have their reprioritised housing needs high on their life agendas. The unexpected market momentum of 2020 overcame the unknowns of the pandemic and associated economic fallout, and though headwinds and uncertainties remain, demand for housing and buyer affordability appear to be strong enough to outweigh some of these dampening effects. Rightmove does however predict that the price rises will be at a slower pace than this year, which finished up by 6.6% (up by £19,920 to £319,945) despite a small monthly fall of 0.6% (-£2,080). The stamp duty holiday has added extra momentum, but buyer demand was already very high prior to its announcement in July, and remains remarkably resilient at 53% higher than this time a year ago, despite the decreasing likelihood of completing a purchase by 31st March if it is agreed now. Rightmove anticipates a busy Q1 as stamp duty deadline approaches, with a logjam of 650,000 properties currently changing hands. It also anticipates a slower Q2 as average tax saving of 1.9% of purchase price in Great Britain due to end, but ongoing demand and cheap mortgage rates available for some will help to support continued modest price growth.

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**RICS Residential Survey (November 2020):** RICS reported that house price growth and buyer demand remained high in the three months to November 2020. Respondents continued to report a significant degree of upward pressure currently to house prices, with the latest net balance coming in at +66% at the national level (broadly unchanged from +67% in October). Strong momentum behind house price inflation was cited across almost all parts of the UK, led by especially strong feedback in Wales and the South West of England. Although prices are reported to be rising marginally in London, the capital does stand out as having the softest net balance by some margin. Indeed, the latest figure across the capital stands at +9% compared to a national net balance of +76% when London is excluded. At the national level, a net balance of +27% of respondents cited a rise in new buyer enquiries in November. Whilst still positive, this is down from +42% in October and has now eased in 4 consecutive months following the recent high of +75% in July.

Near term price expectations continued to signal a more moderate pace of price growth coming through over the next three months, with the latest net balance standing at +13%. That said, expectations strengthened slightly regarding the outlook for the year ahead, as a net balance of +20% of respondents now envisage prices rising over the next twelve months (up from +8% in previously). Near term sales expectations have now turned broadly neutral at the national level. The headline net balance slipped from +15% in October to -4% in the latest returns, pointing to a levelling out in sales over the coming three months.

Further ahead, at the 12-month horizon, sales expectations remain negative, with a net balance of -21% of respondents foreseeing weaker sales volumes next year. Comments left by contributors suggest this downbeat assessment is attributable to the negative employment outlook as well as the withdrawal of the Stamp Duty holiday after March 2021.
Office for Budget Responsibility Housing Forecasts (November 2020): The Office for Budget Responsibility (OBR) forecasts for the UK economy that were published in line with the Government’s Spending Review were included in the CPA Weekly Notes Special (also enclosed) but it is worth highlighting the OBR housing forecasts. Based on its assumption that the stamp duty holiday and furloughing schemes end on 31 March, it estimates that UK house prices will rise by 2.6% in 2020 before falls of -3.5% in 2021 and -2.6% in 2022 before a rise of 5.8% in 2023. This is a substantial revision compared with its March forecast and its Summer FSR central scenario.

The OBR also estimates UK property transactions will fall by 16.8% during 2020, which is slightly pessimistic given data the data so far from January to October suggests a 10-12% fall this year, before a 39.7% rise in 2021 which appears optimistic, despite the high levels of transactions anticipated in Q1, given the end of the stamp duty holiday.
Barratt Developments Half Year Trading Update (January 2021): House builder Barratt reported of the half year ended 31 December 2020 continued strong customer demand with a sales rate up 11.6% at 0.771 (2019: 0.692) net private reservations per active outlet per week. It operated an average of 342 (2019: 372) active outlets, a reduction of 8.1% reflecting the delay to site starts created by the initial national lockdown period.

It launched 63 (2019: 45) new outlets (including JVs), above expectations. It reported that it had delivered 9,077 (2019: 8,314) home completions (including JVs of 378 (2019: 314)), up 9.2% on last year. Its total average selling price increased by 1.1% to £283,000 (2019: £279,800), with private average selling prices up 2.2% to £319,000 (2019: £312,000), reflecting both a mix impact and underlying house price inflation. Total forward sales (including JVs) as at 31 December 2020 increased by 14.3% to 13,588 homes (2019: 11,885 homes) at a value of £3,212.1 million (2019: £2,691.0 million), 19.4% up on last year and it reported that it is now over 90% forward sold for this financial year.

Bellway Trading Statement (11 December 2020): Bellway reported today that there was still a strong underlying demand for new homes, with a 6% increase in the reservation rate to 210 per week (1 August 2019 to 24 November 2019 – 199 per week). It also stated that its forward sales position is substantial, with an order book comprising 6,186 homes (24 November 2019 – 5,770 homes) and a value of £1,766.7 million (24 November 2019 – £1,488.6 million). In addition, housing completions for the full year to 31 July 2021 are now expected to increase by around 25% (31 July 2020 – 7,522). However, as would be expected, it also highlighted “risks remain with regards to the change in Help-to-Buy and stamp duty rules, together with the potential for ongoing economic uncertainty, both as a result of the disruption caused by COVID-19, together with the expiry of the ‘Brexit’ transition period on 31 December 2020.”
Persimmon Trading Update (January 2021): Persimmon, the third largest UK housebuilder by volume reported for the year ended 31 December 2020 group revenues of £3.33 billion (2019: £3.65 billion), with new housing revenues of £3.13 billion (2019: £3.42 billion). Completions were 13,575, (2019: 15,855) and the average selling price increased by around 7% to £230,500, due to the 6% higher proportion of new homes delivered to owner occupiers. The average selling price of new homes sold to owner occupiers increased by 3.7% to around £250,900 (2019: £241,985), largely reflecting year on year changes in the mix of active sales outlets and homes sold. The forward sales value was £1.689 billion at 31 December 2020 (2019: £1.356 billion) and it currently has around 300 active sales outlets (2019: around 350 outlets). Its work in progress of 5,600 units at 31 December 2020 was 8% lower than last year (2019: 6,100 units).

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>New home completions</td>
<td>13,575</td>
<td>15,855</td>
</tr>
<tr>
<td>Average selling price</td>
<td>£230,500</td>
<td>£215,709</td>
</tr>
<tr>
<td>Total Group revenues</td>
<td>£3.33bn</td>
<td>£3.65bn</td>
</tr>
<tr>
<td>New housing revenues</td>
<td>£3.13bn</td>
<td>£3.42bn</td>
</tr>
<tr>
<td>Cash at 31 December</td>
<td>£1,234m</td>
<td>£944m</td>
</tr>
<tr>
<td>Current forward sales</td>
<td>£1.689bn</td>
<td>£1.356bn</td>
</tr>
<tr>
<td>Dividend paid in the year</td>
<td>110p per share</td>
<td>230p per share</td>
</tr>
</tbody>
</table>

Vistry Group (Trading Update January 2021): Vistry Group, which was the former Bovis Homes and housebuilding divisions of Galliford Try, reported for the year to 31 December 2020 that Vistry Housebuilding delivered a total of 4,652 (FY19: 6,884) completions, including 820 (FY19: 946) from JVs. Private units in the year totalled 3,668 (FY19 proforma: 4,775) with 984 (FY19 proforma: 2,109) affordable units. The total housebuilding average selling price for FY20 was around £302,000 with a private average selling price of around £344,000. Vistry Housebuilding stated it was operating from 146 active sites and it expects the average for FY21 to be around 150 sites. Vistry Partnerships mixed tenure completions increased by 28% in FY20 to 1,479 (FY19: 1,158) units, with completions in the second half up 70% year on year to 990 (H2 2019: 584) units. The average selling price of mixed tenure units in the year was £218,000. It also highlighted market uncertainties including the potential implications of the most recent lockdown as well as the changes from an end to the stamp duty holiday and existing Help to Buy scheme at the end of Q1.

Taylor Wimpey (Trading Update January 2021): In the year to 31 December 2020, Taylor Wimpey reported total UK home completions (including joint ventures) decreased by around 39% to 9,609 in 2020, due primarily to the impact on production capacity during the second quarter shutdown (2019: 15,719) and it delivered 1,904 affordable homes (2019: 3,548), including joint ventures, equating to 20% of total completions (2019: 23%). Its net private reservation rate for 2020 was 0.76 homes per outlet per week (2019: 0.96). Cancellation rates for the full year were above normal levels at 20% (2019: 15%), but normalised in the final quarter, at 16%, (2019: 16%). Average selling prices on private completions increased by 6% to £323,000 (2019: £305,000), with the overall average selling price increasing to £288,000 (2019: £269,000), driven mostly by change in mix. It also reported that as it entered this year more than 50% of its 2021 private completions were forward sold.