

Winter 2018/19

## Headlines

Brexit blamed for causing slowdown in UK Construction PMI Index

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Scottish housing completion figures show positive trend

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Housebuilders start year with share price rally

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## Key Findings

The MARKIT / Cips UK Construction Purchasing Managers' Index (PMI) reported a weakening outlook in the sector, with growth slowing in the December 2018 figures.

Scottish Government figures for housing completions show a positive trend in delivery with over 18,000 homes delivered in the year to Q2 2018, with a 4% increase on national delivery compared to the year before.

Housebuilders' share prices have started the year with a positive bounce following falls in the second half of 2018 ahead of Brexit concerns.

## Themes & Trend Analysis

UK Construction Purchasing Managers' Index (PMI) for December showed weakening growth in the construction sector amid Brexit concerns.

The UK PMI fell from 53.4 in November to 52.8 in December. While still representing growth by remaining above 50, rising concerns surrounding a 'no-deal' Brexit, commercial demand, and the landscape of employment and materials, all contributed to weakening figures. Civil engineering figures saw a positive upturn, but commercial and residential sectors weakened.

Positive housing completions rise but need to be further stimulated to meet demand.

The positive trend in new housing completions in Scotland saw H1 2018 record the highest first half year of completions in the past decade, however, this remains 26% down on peak levels in 2007. While this is positive news, there are industry calls for the Government to enable further development, e.g. through the encouragement of more SME builders into the sector.

Recent positive announcements by housebuilders have comforted investors.

Taylor Wimpey has reported it is on track to meet trading expectations for 2018 despite concerns in the market that Brexit uncertainty would negatively impact the sector. Brexit uncertainty had seen the major PLC housebuilders' share prices slide over the course of 2018. The most recent figures from Taylor Wimpey have sales up 3% on last year, with its average house price remaining flat at £264,000.

## Housing Market Statistics (All Sectors - Rolling 4 Quarters to Latest Quarter)

Area	All Sector Starts				All Sector Completions			
	Year to Q2 2017	Year to Q2 2018	Y-on-Y Δ	Y-on-Y Δ%	Year to Q2 2017	Year to Q2 2018	Y-on-Y Δ	Y-on-Y Δ%
Scotland	20,591	19,289	-1,302	-6%	17,482	18,147	665	4%
Edinburgh	2,482	2,539	57	2%	2,132	2,126	-6	0%
East Lothian	641	856	215	34%	670	1,095	425	63%
Glasgow	1,744	1,088	-656	-38%	1,453	1,316	-137	-9%
Midlothian	679	519	-160	-24%	585	595	10	2%
Perth & Kinross	644	880	236	37%	452	701	249	55%
East Dunbartonshire	404	347	-57	-14%	443	312	-131	-30%
Scottish Borders	354	309	-45	-13%	296	238	-58	-20%
Stirling	223	133	-90	-40%	254	145	-109	-43%
West Lothian	554	1,046	492	89%	473	731	258	55%
Aberdeen	1,420	720	-700	-49%	905	1,064	159	18%

Source: Scottish Government 12 Month Period to Q2

## Housing Market Indicators

New Homes Construction Material Price Index (2010=100)							Area	Commission of Housing & Wellbeing 2015 Min. 23,000 units pa	Last 4 Quarters All Sector Completions to Q2 2018	Current Annual Balance
2013	2014	2015	2016	2017	2018					
Annual Average	108.1	110.0	109.2	109.5	115.2	120.4	Scotland	23,000	18,147	-4,853
							City of Edinburgh	2,179	2,126	-53
							East Lothian	423	1,095	672
							Glasgow City	2,718	1,316	-1,402
							Midlothian	360	595	235
							Perth & Kinross	631	701	70
							East Dunbartonshire	427	312	-115
							Scottish Borders	507	238	-269
							Stirling	367	145	-222
							West Lothian	722	731	9
							Aberdeen	1,005	1,064	59

Source: HM Revenue & Customs

## Number of Mortgage Advances and Values

	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1
Scottish First Time Buyers (FTB)	9,600	9,400	8,500	6,800	9,200	8,900
	£1.070m	£1.050m	£980m	£780m	£1.080m	£1.040m
Scottish Movers	9,400	9,600	8,800	6,500	9,100	9,500
	£1.460m	£1.530m	£1.370m	£1.030m	£1.440m	£1.530m

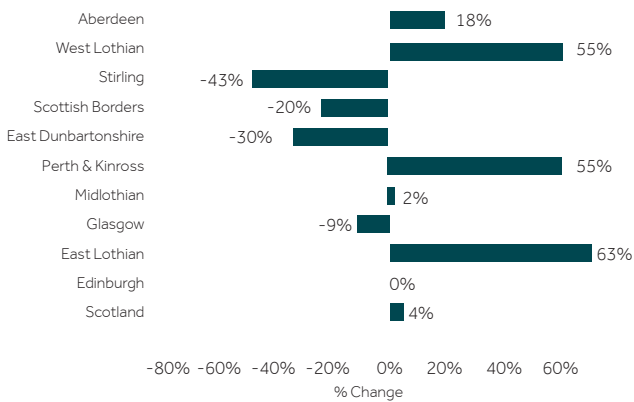
Source: Council of Mortgage Lenders

Source: NRS & Scottish Government \*12 month period to Q1 & Commission of Housing & Wellbeing: A blueprint for Scotland's Future 2015. Target allocated by 2017 distribution of households by Council Area.

### Housing completions led by the regions

A strong level of delivery across Scotland has delivered the highest level of completions in a single quarter from over the past decade. With ambitious Scottish Government housing targets, there is pressure on councils to ensure sufficient land allocation, as well as delivery. In the past year, it has been the wider regions, rather than the cities, that have seen the greatest increase in recorded completions.

Year-on-year change in housing completions Year to Q2 2018 vs 2017

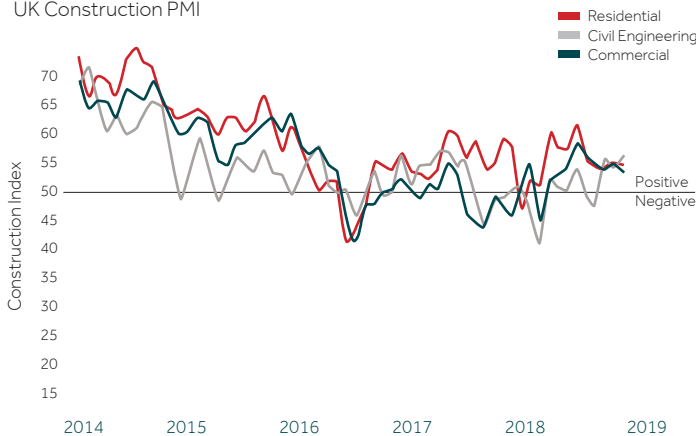


Source: Scottish Government

### Weak end to 2018 for UK Construction PMI

The end of 2018 saw a weak close to the year as residential and commercial activity dropped in the Construction Purchasing Managers Index. The residential sector has reported a softening over 2018. Brexit concerns are believed to be at the heart of these figures.

#### UK Construction PMI

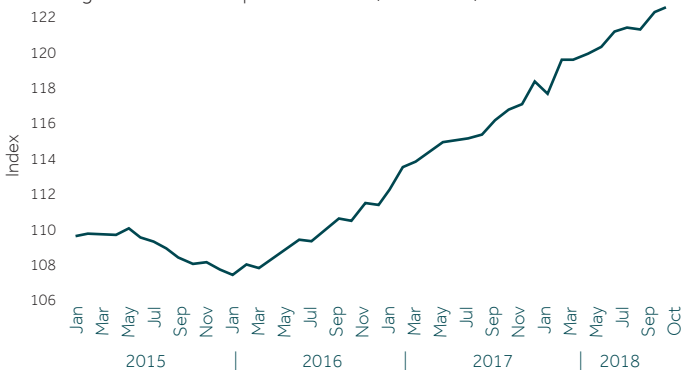


Source: Markit/CIPS

### Building material prices still rising

The building material price index has continued its upward trend, reaching a new high point in the index. The cost of materials remains one of the core issues that is undermining confidence in the housebuilding sector.

#### Building Materials & Components Index (100=2010) to October 2018

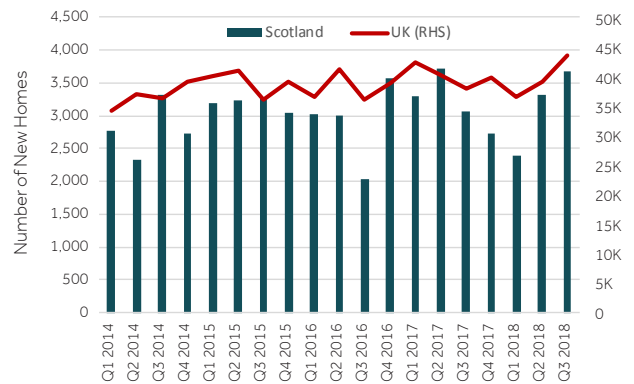


Source: ONS

### Mixed picture on New Home registrations

Based on figures from NHBC, Scottish New Home Registrations in Q3 2018 were up 20% year-on-year, and higher than the UK increase of 15%. However, over Q1 to Q3 2018, the total number of new home registrations was down around -7% down compared to the same period in 2017. This was due to a weak start to the year. It should be noted that NHBC figures are not representative of the new build sector as a whole.

New Home Registrations (UK=RHS)

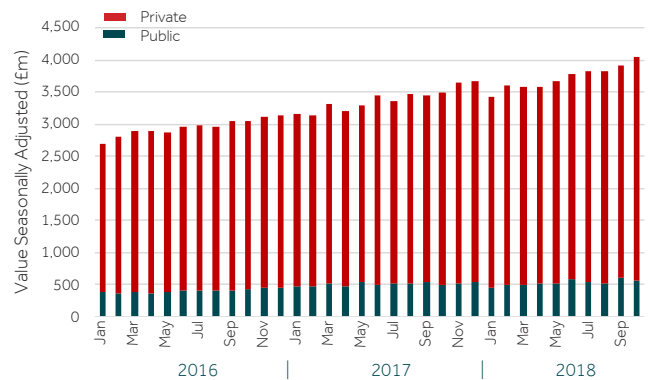


Source: NHBC

### UK New Housing output continued to rise into Q4 2018

Figures from the Office of National Statistics to October 2018 show a continuing rise in the total housing output in the UK, with figures for September and October up around 15% year-on-year for both private and public housing output.

#### New Housing Output (UK)



Source: Scottish Government

### Housebuilders' share prices tumbled in 2018

Housebuilders share prices have been under pressure, as Brexit-related concerns have influenced the stock market. Exposure to issues surrounding labour supply, building costs and the South East of England's deflating housing market have negatively impacted sentiment. At the start of 2019, share prices have rallied but still remain 20-35% below levels a year ago.

#### Comparison of PLC Housebuilders share price over past year



Source: Google Finance