UK Housebuilding Sector: Q2 2017

Summer 2017

"The Peak District"

Source: Creative Commons

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Prologue - The Peak District

Peak District

Source: Creatotive Commons

The Peak District became the UK's first national park on 17 April 1951; albeit the National Trust owns a 12% minority. Geographically, it forms the southern end of the Pennines and much of the area is uplands above 300 metres (984 feet) with a high point on Kinder Scout of 636 metres.

It is an area of great diversity, too, and is split into the northern Dark Peak, where most of the moorland is found and the geology is gritstone, and the southern White Peak, where most of the population lives and, here, the geology is mainly limestone.

The Park is also startlingly beautiful and attracts more than 10 million visitors per year. But it can also be dangerous climate-wise and physically taxing - with a dramatic terrestrial rise and fall. Thus, judgment, prudence, being fit - and an accurate weather forecast - are essentials for survival; and, yet, the local Edale Mountain Rescue Team is called out, on average, 120 times a year.

In Q2, the UK Housebuilding Sector conjured up its own Peak District and broke to new higher ground on no less than eight climbs. These day-time expeditions are included in the 61% of Q2 trading days when the value of the Housebuilders shares rose. Axiomatically, this means that on 39% of Q2 days, stocks fell (the 16 never stand still at the one time). In fact the best and worst trading days followed each other in Q2: 14 June with +2.3%; and then minus 2.9% on 15 June.

Similarly, Mounts April and May also rose in value by 7 and 3% respectively but June valleyed 6%.

At the same time, of the six companies reporting figures in the period, three were fit and three were slower walkers. In some of the statements, too, there was a more wary foot fall and Berkeley spoke about a whirl of topographic headwinds.

Consensus earnings forecasts also map out double digit gains but we don't believe them.

TSR or Total Shareholder Return coordinates for the past 12 months and in the year to date are at 43% - Brexit valley and hill top - and 20% respectively; but these won't be repeated.

But don't be caught out in the cold. Hardman offers a fine line in metaphorical bad weather garb. Call us for a fitting.

Happy hiking.

Share prices in Q2 2017

Housebuilders' share prices rose by an average 6.1% in Q2 2017 on an actual basis and 4.3% walking-boot-weighted by market capitalisation (in Q1 these sizes were +13% and +17% respectively).

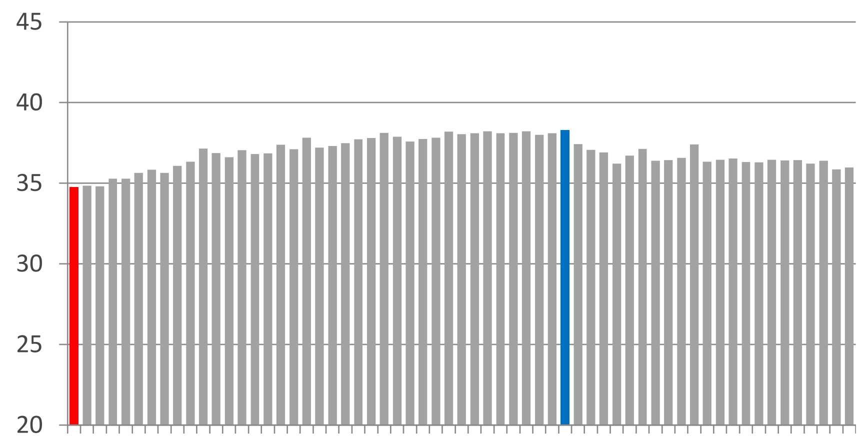
The Countryside (+41%) and Watkin Jones (+32%) were conspicuously strong; and without these performances, the average rise in Q2 was just 1.4%.

At the same time, four stocks saw share prices go downhill i.e. Crest, Taylor Wimpey, Gleeson and McCarthy & Stone (which was the worst with a 12.9% incline).

The remaining 10 stocks were all positive/positive-*ish*.

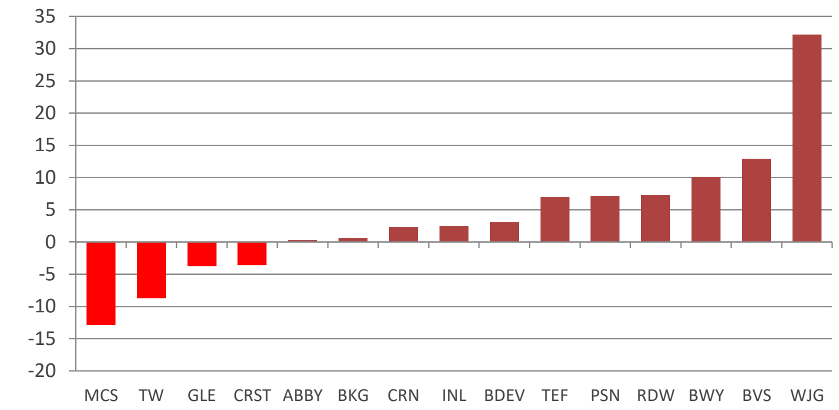
Q2 2016 also marks the 22nd quarter from the last 30 that has climbed.

Housebuilding Sector Stock Market value - daily - Q2 2017 (£ bn)



Source: Hardman & Co Research

Share prices in Q2 2017 vs Q1 2017 (% change)



Source: Hardman & Co Research

In Q2 2017, there were 61 rambling and trading days and on three-score-plus-one percent of them, the Sector rose in value (in Pound notes) versus 39% when it fell.

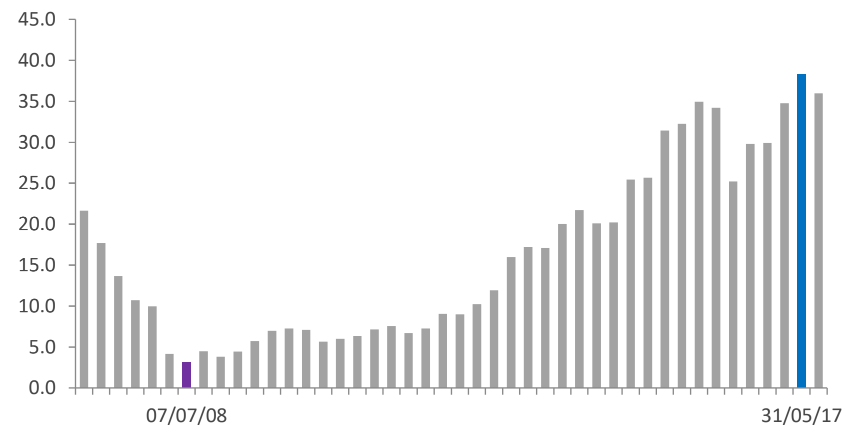
The best daily performance was +2.3% on 14 June - and the worst a day later with minus 2.9%.

Week 15 (+2.3%) saw the best five day gain with Week 22 worst (minus 2.5%).

Month by month, April (+6.7%) and May (+3.2%) were positive but June was sharply negative (-6.1%).

The lowest Sector value in Q2 was recorded on the first day (3 April with £34.7 billion). It then went on to break new ground on eight occasions and a new all-time peak of £38.3 billion on 31 May.

UK Housebuilding Sector: Market value (£ billion): Q1 2007 to Q2 2017 *



**Low was 7 July 2008 and (purple) and high on 31 May 2017 (blue)*
Source: Hardman & Co Research

Year-to-date and year-on-year

In the year-to-date, share prices rose 20% between 1 January and 30 June and +44% weighted.

Once more, too, the Countryside (+37%) and Watkin Jones (+68%) led from the front. However, three stocks were only marginally positive: Abbey; Inland; and McCarthy & Stone.

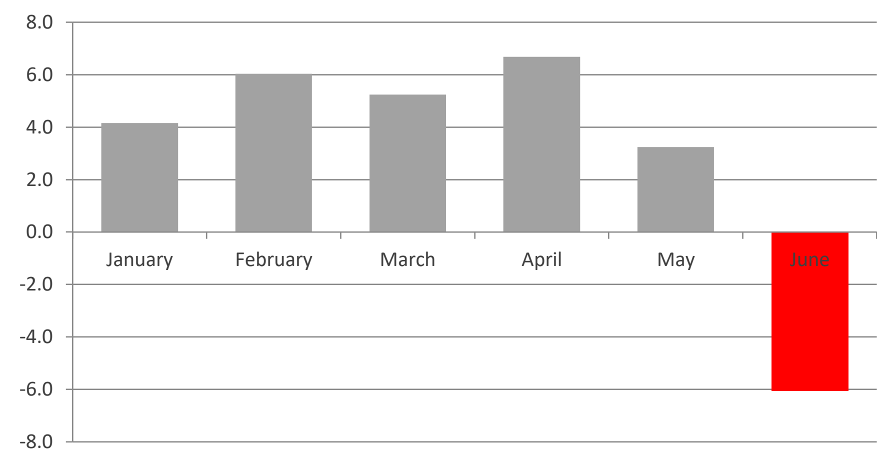
Unsurprisingly, the year-on-year movement in share prices is a spectacular view given that 30 June 2016 was just seven days after the Brexit votes - and the Housebuilders had fallen off a near 40% cliff.

The annualised Sector gain (end-June 2017 on end-June 2016) is also +40% (and +44% weighted) with Redrow (+74%) and Watkin Jones (+85%) truly outstanding; plus three other stocks scaling more than 50% (Cairn, Bellway, and Persimmon), with McCarthy & Stone the tail end Charlie and minus 4.0%.

The Housebuilders also left all other equity strollers for dead across all measurement paths i.e. on a weighted value basis (i.e. Pound notes) the Sector rose 44% year-on-year, 21% in 2017 to date and almost 5% in Q2.

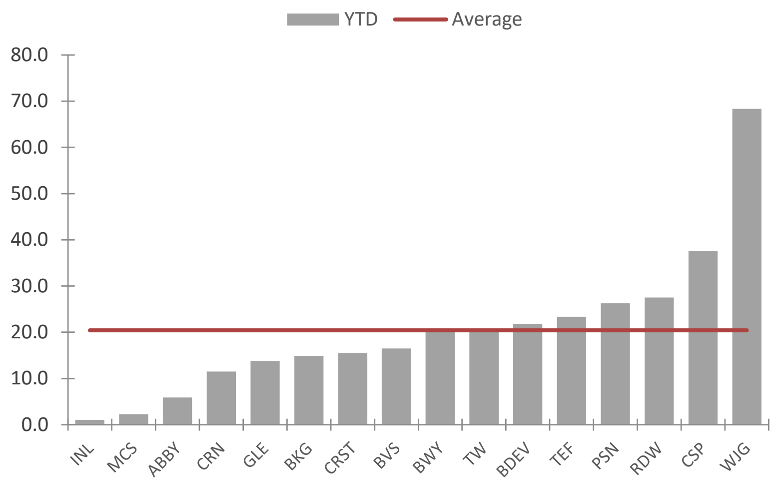
At the same time, a number of the UK equity market's principal indices wandered onto new ground in early June but their Q2 gains, in sum, were pedestrian; and not a patch on the Housebuilders. Similarly, neither the Construction or Real Estate Sectors enjoyed a clear view in Q2.

UK Housebuilding Sector: month-by-month 2017 YTD (% change)



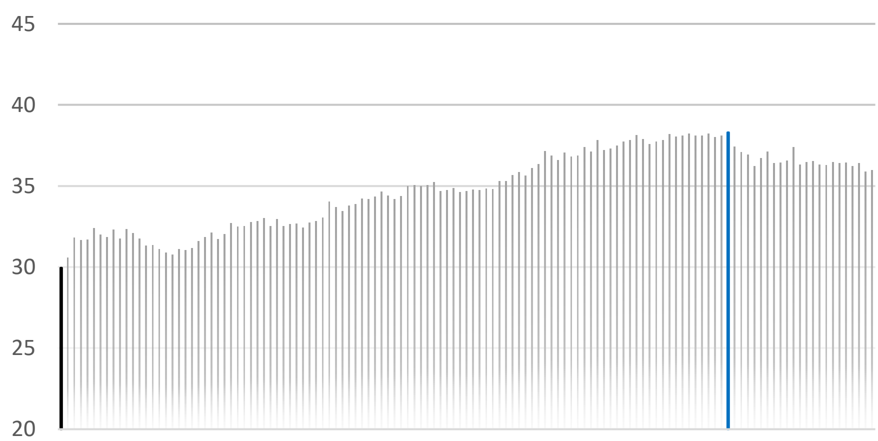
Source: Hardman & Co Research

Share prices in year-to-date (YTD) to 30 June 2017 (% change)



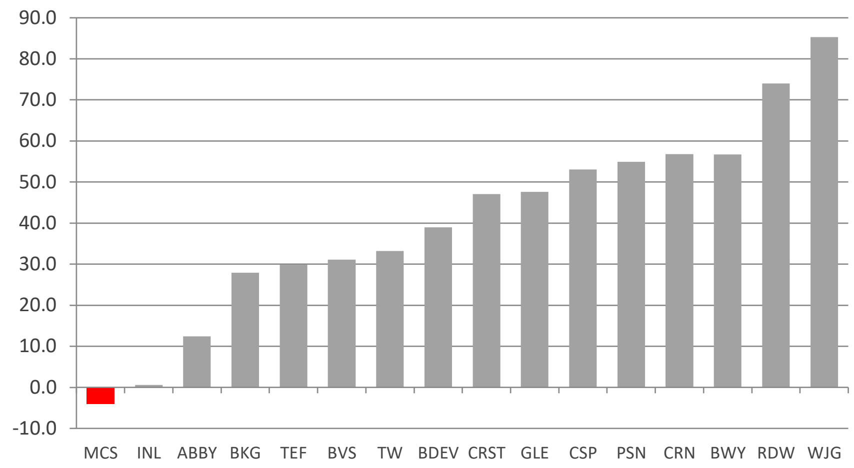
Source: Hardman & Co Research

Housebuilding Sector daily stock market value in 2017 YTD (£bn)



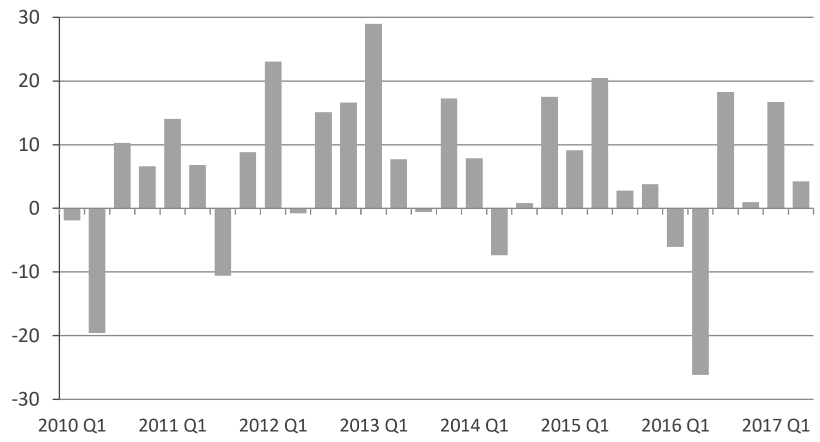
Source: Hardman & Co Research

Share prices year-on-year: at 30/06/17 vs 30/06/16 (% change)



Source: Hardman & Co Research

UK Housebuilding Sector share prices: Q1 2010 thru Q2 2017* % change



**weighted % change in share prices quarter by quarter*
Source: Hardman & Co Research

Peaks and values

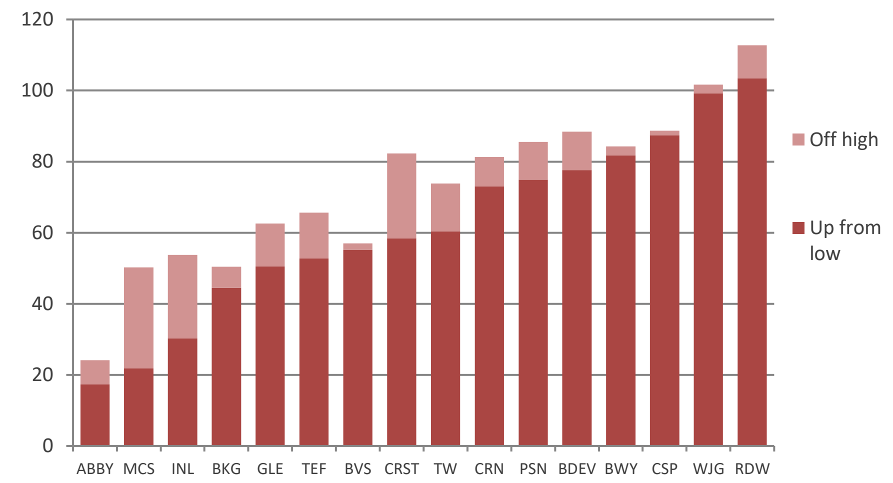
Housebuilders' share prices are, on average, 17 times above the lows of 2008; and 62% up on more recent 52 week lows (weighted these numbers are 24 times and 69% respectively).

But they are also some 17% below their 2007 peaks (20% weighted); and 9% off 52 week highs (9% weighted too).

Three household members continue to be very comfortably constituents of the FTSE 100 yurt: Barratt (78 at 30 June); Taylor Wimpey (74); and Persimmon (59).

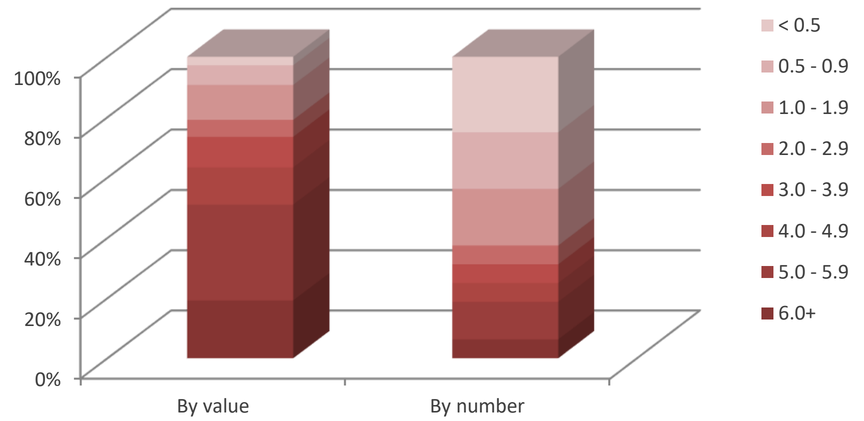
Together, these three FTSE stocks account for 51% of the UK Housebuilding Sector value.

Movement against 52 week lows and highs (% change)



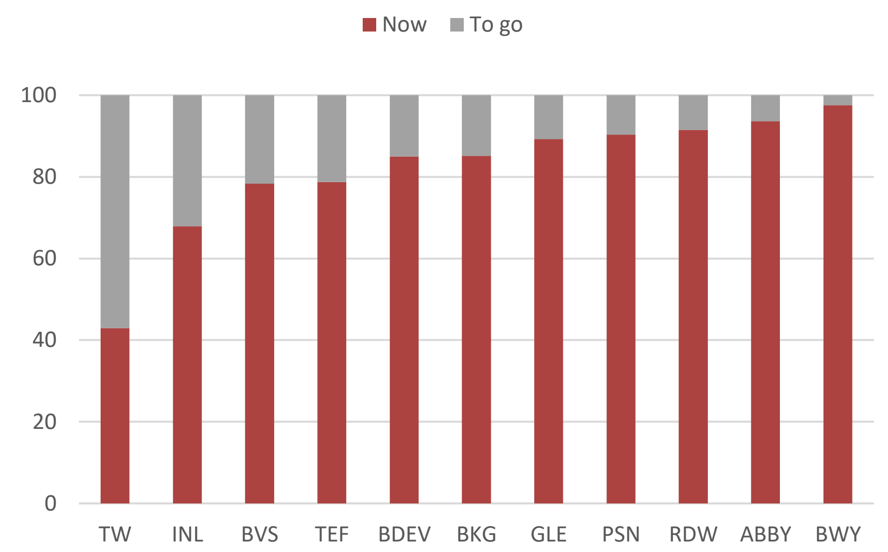
Source: Hardman & Co Research

Sector structure by stock market value: 16 firms worth £36 billion at 30/06/17*



**Legend is in £bn*
Source: Hardman & Co Research

Current share price as % of all-time peak level at 30/06/17 (in dark red)



**except Abbey in Euro cents; and ex Cairn, Crest, McCarthy & Stone, Countryside & Watkin Jones*
Source: Hardman & Co Research

Price-to-book and Total Return

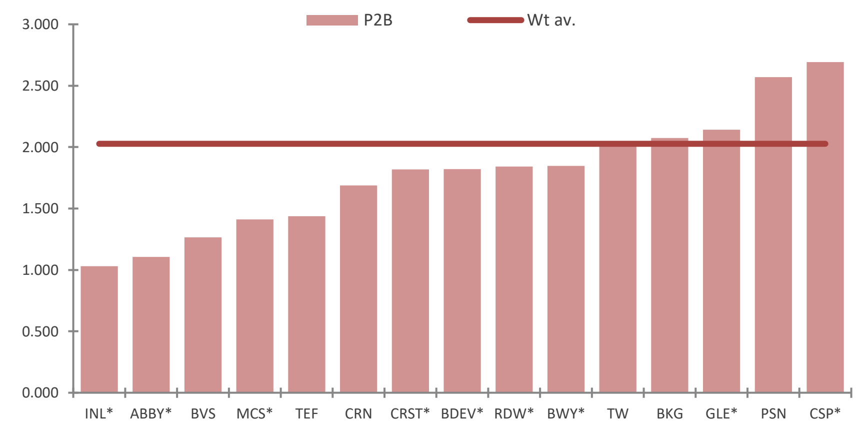
The Housebuilders' latest average Price-to-Book map valuation was 1.78 at 30 June 2017 and 2.03 weighted (a year ago they were 1.46 and 1.53 respectively).

Five out of 15 companies are at 2.0 or better (with Watkin Jones at 4.48 excluded from the averages and the chart).

Total Shareholder Return (TSR) for the Sector in the year-to-date (i.e. to 30 June 2017) was a knapsack 20.4%. However, the annualised TSR of 43.0% was the whole sporting goods store.

Watkin Jones year-on-year very nearly orienteered a 100% TSR with support, once more, from team members Redrow and Countryside; as noted this comparison comes with a Brexit blush.

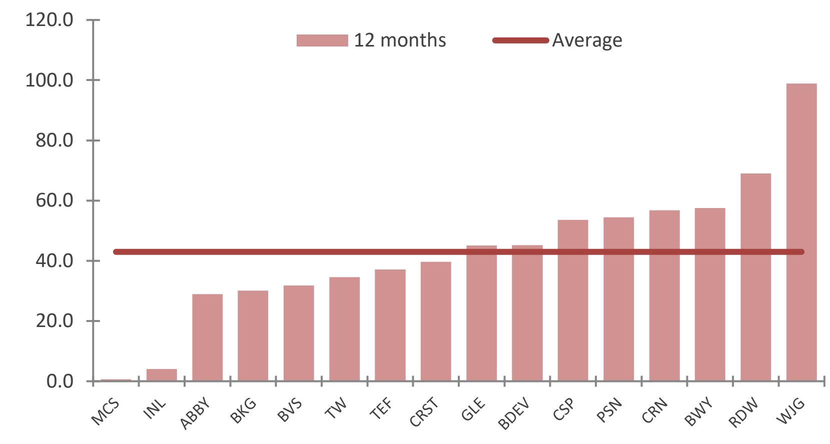
Price-to-Book-Value at year end/latest interim * & priced at 30/06/17



**denotes interims; weighted av. is 2.03 is shown as a line; actual av. is 1.78; & ex-Watkin Jones (4.48)*

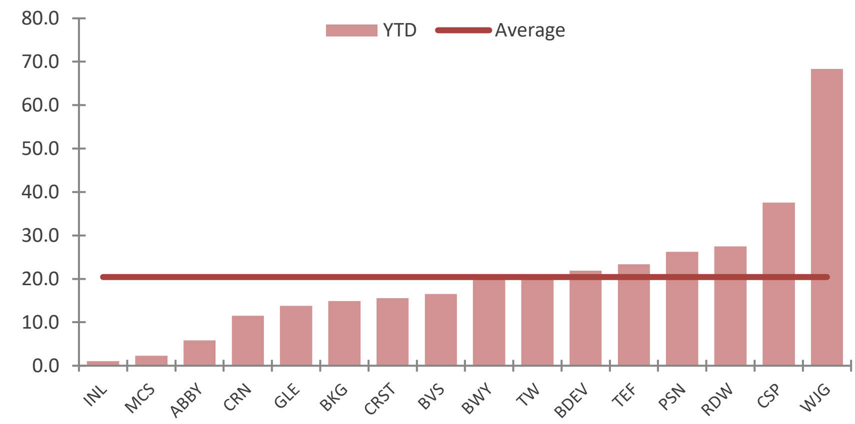
Source: Hardman & Co Research

Housebuilders TSR in 12 months to 30 June 2017 (%)



Source: Bloomberg

Housebuilders TSR in year-to-date to 30 June 2017 (%)



Source: Hardman & Co Research

Valuation

The Sector's PER for 2016 is a trailing 12 month 11.1x with a prospective 10.1x in 2017 (including two historic co-ordinates) and 8.8x in 2018 based on consensus atlas forecasts (15 companies are included in all years i.e. ex-Cairn which is currently loss-making).

After earnings growth of 35% in 2015, last year was at +5% followed by an estimated +9% in 2017 and +13% in 2018 respectively; that said an early look at 2019 sees forecast growth slow to +3%.

Consensus forecasts show 5 from 15 companies set to see earnings dip in 2017 and one in 2018; and we believe these are lofty expectations

For the record, trailing 12 month PERs for the UK equity market principal indices range from 22 to 29x.

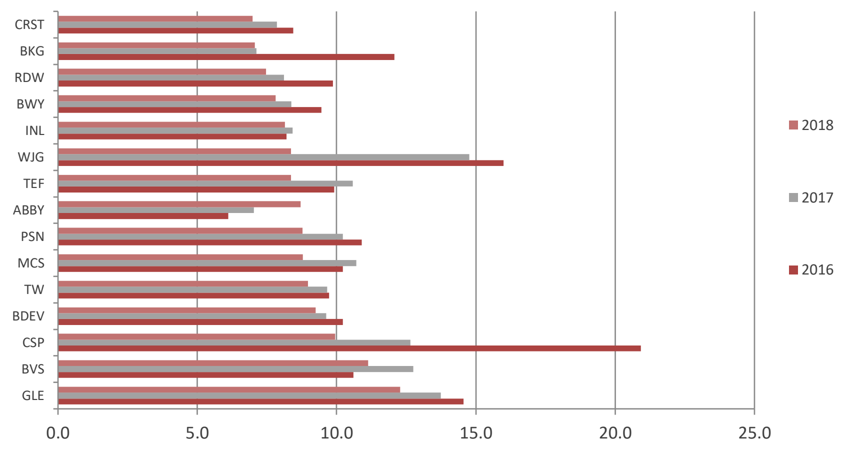
Turning to Dividends, the Housebuilding Sector (including specials) had a historic average yield of 3.6% in 2016 and ground covered 3.9 times (15 stocks ex-Cairn which pays no dividend yet).

In 2017 and 2018, the prospective yield is 4.3% (including two historic strollers) and 4.6% respectively which is covered 3.3 and 3.0 times respectively.

Similarly, a number of companies has committed to paying enhanced dividends which mean Crest, Barratt, Berkeley and Taylor Wimpey are yielding 5 to 8% across the uplands.

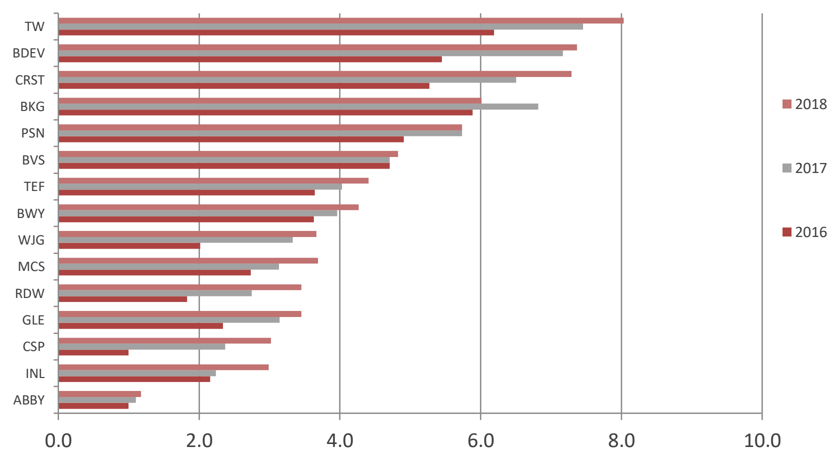
For the record, the UK equity market principal indices yield between 2.7 and 3.7% historic with lean average cover of 1.2x; all calculations are made at the London Stock Exchange close on 30 June 2017.

PER: 2016 (av. 11.4x); 2017 (10.1x); and 2018 (8.8x) at 30 June 2017



Source: consensus forecasts from Digital Look; Hardman & Co Research

Yield: 2016 (av. 3.5%); 2017 (4.3%); and 2018 (4.6%) at 30 June 2017



Source: consensus forecasts from Digital Look; Hardman & Co Research

Results and trading in Q2

In Q2 there were four sets of interim results, two finals plus 40 (yes 40) other trading related Sector announcements.

Average individual pretax profits for the six reportees in Q2 rose 15% whilst EBIT margins nudged ahead from 16.6 to 16.8% on revenue larger by 26% at £4.2 billion.

EPS also rose 10% on average (ex-the Countryside's +258%) and, with them, dividends were scaled by an average 19%; in turn, average individual cover dipped from 3.7 to 2.7x.

The average increase in orders was minus 5% and, again, this is ex-Countryside (+69%); and, with this snow-capped bonanza included, the average change in orders is +10%.

Average individual ROCE or Return on Capital Employed dipped from 20.9 to 20.8% with Capital Turn little changed at 1.27 (versus 1.36).

Profit & Loss

Date	Company	Event	Period ending	Pretax profit (£m)		PBT *(% chge)*	EBIT margins		*Revenue % chge*	*Orders % chge*	*DPS % chge*	DPS cover (x)	
				Old	New		*Old (%)*	*New (%)*				*Old*	*New*
05-Apr	McCarthy & Stone	Half Year	28-Feb	29	23	-21	16.1	10.2	-5	-1	25	7.6	3.4
17-May	Countryside	Half Year	31-Mar	27	62	127	16.2	16.2	39	69	-	-	3.3
31-May	Telford	Full Year	31-Mar	32	35	8	14.1	12.6	19	-6	11	2.8	2.3
01-Jun	Watkin Jones	Half Year	31-Mar	17	20	22	11.7	15.6	-8	-	65	3.9	3.0
13-Jun	Crest	Half Year	30-Apr	73	76	5	19.1	19.2	3	4	23	2.6	2.2
21-Jun	Berkeley	Full Year	30-Apr	480	786	64	22.6	27.1	35	-16	16	1.4	2.1
TOTAL (£m) ex-Inland				658	1002								
Individual average change (%)/Cover (x)							15			9	-5	18.6	3.7
Sector average change (%)							52			26			
Individual average margin (%)								16.6	16.8				
Sector average margin (%)								20.0	22.8				

Source: Company announcements and Hardman & Co Research

Notes:

(i) Pretax profit (PBT) numbers are adjusted where necessary and are net of exceptional items

(ii) Individual average change (%) for PBT, Revenue & Dividends exclude Countryside

(iii) DPS is dividend per share and average excludes Watkin Jones

(iv) Berkeley data exclude Ground Rents

Balance Sheets

Date	Company	Event	Period ending	Net Assets (£m)		Net (Debt)/Cash (£m)		*Gearing*	*Gearing*	*ROCE Old %*	*ROCE New %*	*Capital Turn (x)*
				Old	New	Old	New	*Old %*	*New %*			
05-Apr	McCarthy & St.	Half Year	28-Feb	579	627	-22	-28	4	4	11.7	7.1	0.7
17-May	Countryside	Half Year	31-Mar	487	570	-5	-35	1	6	19.0	23.1	1.4
31-May	Telford	Full Year	31-Mar	187	204	-17	-14	9	7	15.4	14.3	1.1
01-Jun	Watkin Jones	Half Year	31-Mar	89	113	15	12	-17	-10	36.7	34.2	2.4
13-Jun	Crest	Half Year	30-Apr	654	736	-26	-35	4	5	18.6	17.5	0.9
21-Jun	Berkeley	Full Year	30-Apr	1,813	2,137	107	286	-6	-13	23.7	28.8	1.1
TOTAL (£m) ex-Inland				3809	4387	52	185					
Individual average change (%)					15							
Sector average change (%)					15							
Individual average ROCE (%)+Turn (ex-WJG)										20.9	20.8	1.3
Sector average ROCE (%)+ Turn (ex-WJG)										*15.6*	*18.8*	
Individual average gearing (%)								-1	0			
Sector average gearing (%)								-1	-4			

Source: Hardman & Co Research

Notes: ROCE is return on capital employed; and adjusted where required for half years where appropriate

Performance and outlook

McCarthy & Stone (Interims - 5 April; and Trading Update 5 July)

McCarthy & Stone is the UK's leading retirement housebuilder but experienced a pretty bumpy H1 trek and laid the blame at the legacy of the Brexit vote.

Revenue was off 5% at £238 million but underlying operating margins inclined from 16.1 to 10.1% while underlying pretax ran down a 42% prominence to £22.8 million. However, it also said that "sales momentum has increased over the last five weeks" with total forward orders off just 1% at £496 million at Week 30 (at end March 2017).

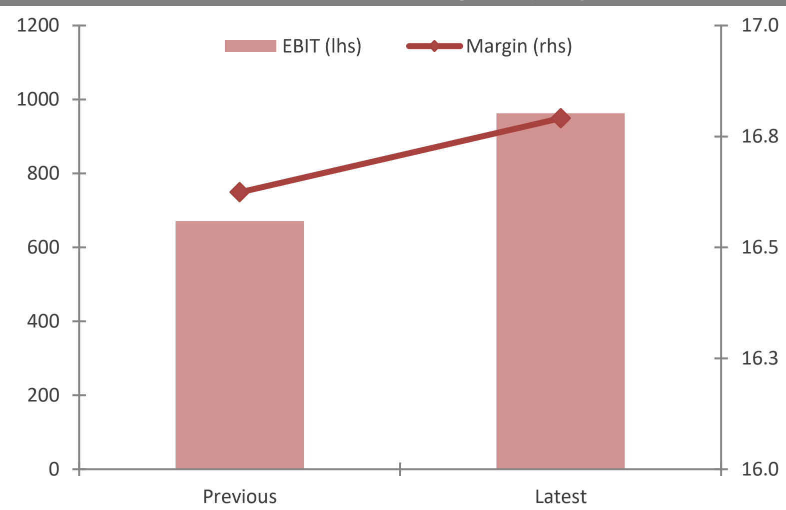
Finally, in April, it said "the Group remains confident of delivering its strategic growth objective of building and selling more than 3,000 units per annum" (fiscal 2016: 2,696 net).

This was followed in the first week of July with a Trading Update in which it said that "underlying trading conditions remained stable during the period with some slowing of sales momentum experienced in recent weeks due to the uncertainty created by the General Election. Notwithstanding this, the Group has continued to make steady progress in increasing its forward order book and reservation rates have remained broadly in line with the prior year"; and this is an improvement.

The Group added that average selling prices and margins, since 1 March, have improved total forward sales (including legal completions to date) are now in line with the prior year at £659 million (2016: £659m); again this is better.

"Throughout the year, the Group has been making good progress in rebuilding the forward order book to address the shortfall brought into the year following the EU Referendum. In light of the current uncertainty in the market however, it is possible that there may be a modest impact on the timing of conversion of existing reservations into completions".

Sector Revenue (£million) and EBIT Margin (%): reported in Q2 2017



Source: Hardman & Co Research

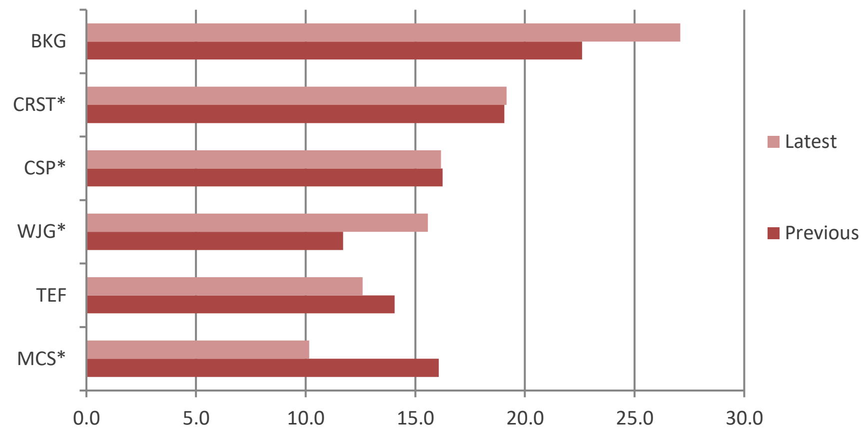
The Countryside (Interims - 17 May)

The consummate Alan Cherry (1933-2010), Countryside's founder in 1958 is smiling down from developers' heaven at his protégé.

Now in its second year as a returning listed company, it produced a barn-storming set of half year results with gross revenue (£323 million) and EBIT (£70.4 million) ahead 39%. At the same time, much better expedition Associates and JVs plus a steeply lower interest debit also saw pretax profit more than double to £61.9 million.

The Company builds houses for sale to private buyers (450 units in H1 and +54%) and in partnership (987 +23%) in the public sector. Note, too, that the private order book was 69% ahead at the end of H1 at £347 million.

EBIT profit margins (%) reported in Q2 2017 *



**denotes interim results*
Source: Hardman & Co Research

Telford Homes (Finals - 31 May)

The Company turned in a good year. However, it is the future which is really exciting i.e. this London-centric business holds a forward sales book worth £546 million and has 80 and 60% of its "anticipated gross margin" secured in fiscal 2018 and 2019 respectively.

In the year to 31 March 2016, the Company also generated record revenue of £220 million (+19%) and a 7% rise in pretax profit to £34.6 million. It is also "on track" to exceed £40 million of pretax profit in the year to 2018 and £50 million in 2019.

Being picky, though, we do not like the dip in margins at the gross (from 25.2 to 19.5%) or EBIT levels (see chart); and, while orders are super, they are downhill 6% year on year

Note, too, that in the year under review, 77% of Telford sales were to institutional build-to-rent investors (2016: 24%).

Watkin Jones (Interims – 1 June)

The Company is a major developer of student residential property and debuted on the public markets in March last year at £1 per share; since then its share price has broadly doubled.

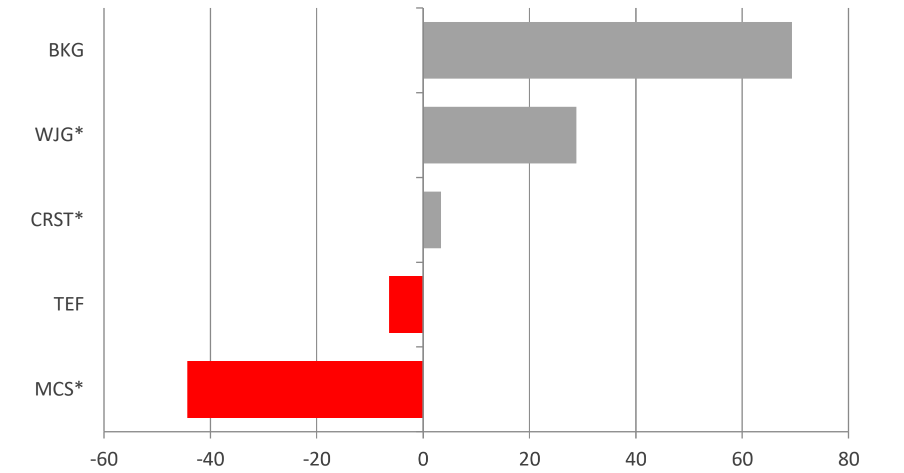
In its latest half year to end March, EBITDA (its choice of metric) rose 27% to £21.9 million on revenue of £134 million i.e. a margin of 16.4% (2016: 11.9%).

At the same time, the development pipeline includes over 11,200 student beds across 31 sites, with 15 forward sold and nine more in legals.

The build-to-rent development elevation is also growing and the Group will have more than 12,000 student beds under management at the end of the current fiscal year, with a target of circa 19.500 by fiscal 2020.

Talk about "excellent visibility on earnings and cash flow"……….

EPS growth* (% change) reported in Q2 2017 (ex-Countryside's +278%)



**denotes interim results*
Source: Hardman & Co Research

Crest Nicholson (Interims - 13 June)

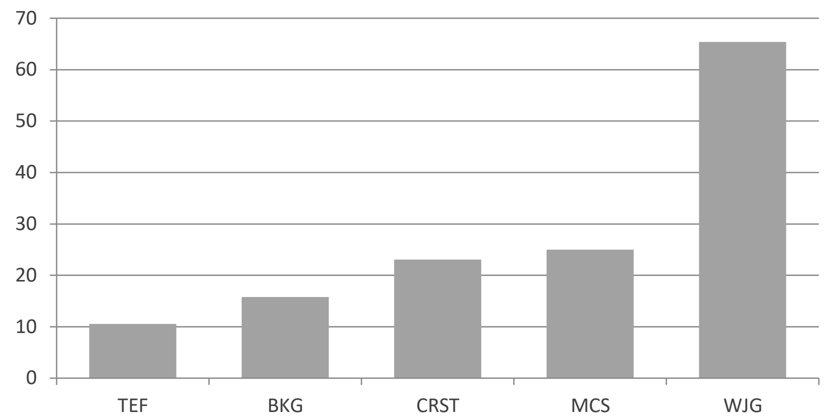
Crest saw gross revenue rise just 3% to £420 million and gross profit flat which meant a dip in gross margins: 27.1 to 26.3%. Similarly, EBIT margins were static at 19.1% with pretax profit up just 5% to £72.2 million.

Unit completions, including PRS, slipped 12% to 1,064 and forward sales at mid-June showed just +4% to £540.4 million.

Whilst flagging some concern about uncertainty (including the General Election), Crest expects the new build housing market to remain robust. It went on to say, too, that "we are on track to deliver growth in revenue this year" (albeit there was no mention of profit).

"Addressing production capacity, clearance of planning conditions and the shortage of skilled labour continue to be the key areas of focus for the sector" for volume and growth, it said.

Dividends per share reported in Q2 2017* (% change)



**denotes interims*
Source: Hardman & Co Research

Bellway (Trading Update - 14 June)

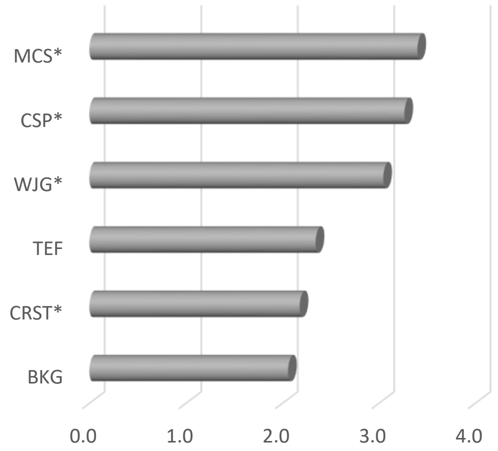
The increase in units sold for the full year to 31 July 2017 is now expected to approach a 10% gradient to circa 9,590 i.e. it is steeper than expected.

And, the value of orders for units due to complete beyond the current year is ahead at +6.4% to £900 million.

The Board also expects the operating margin for the current fiscal year to be slightly in excess of 22% (2016: 22%).

"Whilst the outcome of the General Election has provided a degree of instability with regards to future Government policy, all political parties recognise the need for increased housing output. The Board also remains mindful of the wider uncertainty as negotiations to leave the EU commence, however……..[Bellway] is well placed to continue its strategy of disciplined volume growth".

Dividend Cover (x) reported in Q2 2017*



**denotes interims*
Source: Hardman & Co

Berkeley (Finals - 21 June)

It was another outstanding year for the Group in a series of outstanding years with revenue up 35% at £2.7 billion with EBIT margins widening from 22.6 to 27.1%.

Pretax profit, including JVs, was struck at £786 million which was a huge increase of 64% (all metrics exclude ground rents). Turning to the balance sheet, ROCE was breath-taking at 28.8% (2016: 23.7%).

It said that the housing market in London and the South East has stabilised, albeit forward sales were off 16% at £2.74 million as at the end of April.

Similarly, "while Berkeley is in excellent shape with further additions to our unrivalled land bank….it is an inescapable fact that we are facing a number of headwinds and a period of prolonged uncertainty. Brexit and wider global macro instability impact both confidence and sentiment and will result in constrained investment levels".

At the same time, it spoke of other headwinds such as changes to planning and mortgage interest deductibility which are resulting in reduced levels of new housing starts in London.

Nonetheless, Berkeley reiterated its previous guidance of delivering at least £3.0 billion of pretax profit in the five years beginning 1 May 2016; and, additionally, has sagely suffixed the words: "assuming prevailing market conditions persist".

Persimmon (Trading Update - 5 July)

"The Group's trading performance in the first half of the year has been excellent" and it has increased legal completions 8% to 7,794 UK; with average selling prices ahead 3.5% at circa £213,000.

"We have continued to experience good levels of customer demand since the Group's AGM trading update on 27 April 2017, with the market taking the snap UK General Election in its stride. Consumer confidence remains resilient and compelling mortgage rates continue to offer good support to new home buyers".

Persimmon also expects strong trading in H2 with total forward sales as at 30 June 2017 ahead 18% year-on-year at £1.6 billion. Profitability is also expected to increase in H2 from last year's EBIT margin of 25.7%.

This is assured and classy from Persimmon; and welcomingly succinct.

Gleeson (Trading Update and site visit - 5 July)

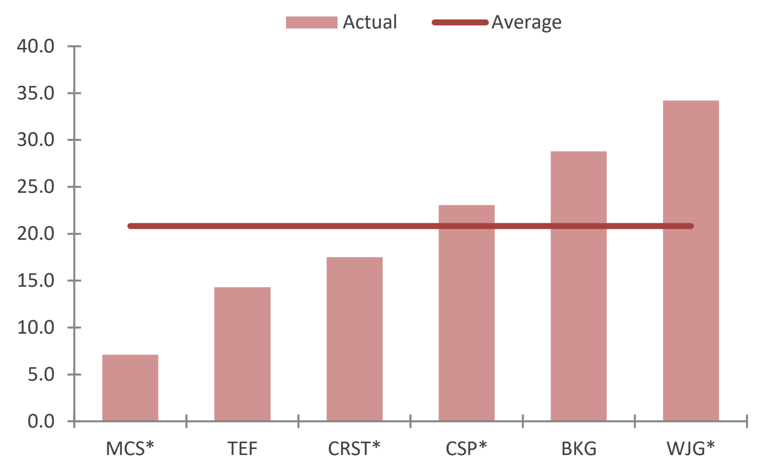
The Group is in fine fettle and as its ebullient CEO Jolyon Harrison said: "Gleeson Homes begins the current financial year in its strongest ever position, demand remains strong as is evidenced by the queues forming at site openings and reservations are at record levels. We ended the financial year having achieved our interim target of building 1,000 homes per year and are setting a new target of doubling that number within five years"

In the year, the Group sold 1,013 units, a tally which is up 12% annualised. However, reservations did way, way better i.e. during the last six months were 45% higher. Exclamation mark.

At the same time, Gleeson Strategic Land sold eight land interests comprising 126 acres with the potential to deliver 841 plots for housing development; and it has commenced the current financial on 11 sites with planning permission potential for 2,353 plots and a 60 bed care home. Note, too, that four of these sites are in a legal process for sale.

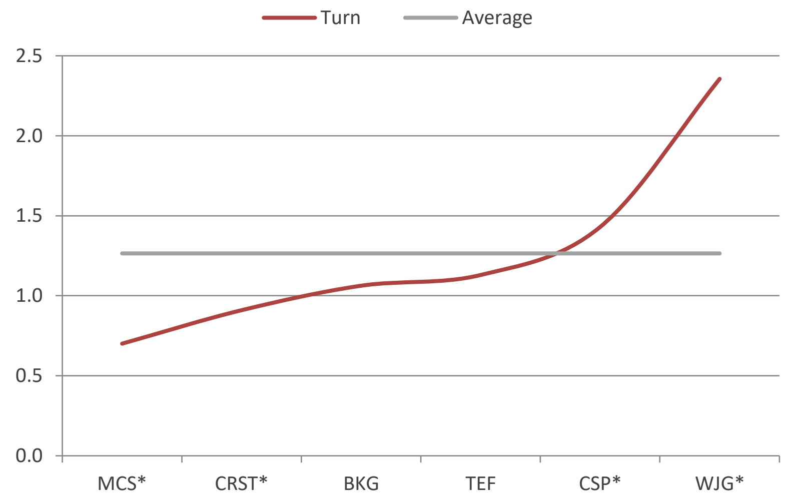
"As a result of the strong performance in the financial year, the Board is confident that the results for the financial year will exceed the top end of expectations". No surprise then that Gleeson shares jumped 5% (to 655 pence) on the announcement.

Latest reported and average ROCE (%) reported in Q2 2017*



**denotes interims; ROCE is return on capital employed*
Source: Hardman & Co Research

Capital Turn (x) reported in Q2 2017*



**denotes interims; Capital Turn is revenue divided by capital employed*
Source: Hardman & Co Research

Macroeconomics

GDP growth slowed to 0.2% in Q1 2017 (vs Q4 2016) as consumer facing industries fell and household spending slowed. This was partly due to rising prices. But neither did Construction or manufacturing show much growth, whilst business services and finance did.

CPI or the Consumer Price Index continues to rise and, at 2.7% annualised in May, was the highest inflation rate since April 2012.

Meantime, Unemployment was a slim 4.6% in the April quarter and the joint lowest since 1975 albeit London, in April 2017, was the highest UK region at 6.0% says the Office of National Statistics (ONS).

Finally, Retail Sales in May, by volume, increased just 0.9% year-on-year (the lowest since April 2013) and actually dipped 1.2% month-on-month. "Increased retail prices across all sectors seem to be a significant factor in slowing growth".

Mortgages

CML (Council of Mortgage Lenders): gross mortgage lending in May was £20.2 billion, which was up 12% both on April - and May last year. That said, the Council is more cautious on buy-to-let activity and says that lending is likely to be blunted by less favourable economic conditions.

BBA (British Bankers Association): mortgage approvals in May of 40,347 were off 3.3% year-on-year and slightly down on the monthly average of 41,923 over the previous six months (data are ex-building societies i.e. almost a third of all mortgages).

BoE (The Bank of England): mortgage approvals in May (65,202) dipped 0.2% on April and were also 1.9% lower than May 2016.

Volumes and prices

At Experian (where I am an advisor), the forecasts for Private Housing Output growth are 6, 4 and 3% in 2017, 18 and 19 respectively (in real terms).

On the subject of house prices, the Nationwide reported +1.3% in June which pushed up the annualised rates to 3.1% (May: 2.1%). However, its comments were circumspect with a focus on the push/pull of a squeeze on household incomes versus a shortage of houses.

Elsewhere, at Rightmove, it said that there was a dip in the national average asking price of 0.4% (i.e. £1,172) in June which was the first June fall since 2009; albeit the annualised rise was +1.8% (with first-time buyer newly-listed prices up 5.5% year-on-year).

Then, the Halifax said that prices rose 0.2% in May (3.3% annualised). However, the quarterly trend was at minus 0.2%.

Finally, there is the Reuters Housing Market Poll (which I contribute to) which expects a median +2.1% for UK house price inflation in 2017 (including 0% in London) with +2.0% set for both 2018 and 2019 (with London at 0% and +1.9% respectively).

Peak District conclusion

Bloomberg

Sourece: Shutterstocks

Berkeley was refreshingly pragmatic about the direction of travel in its full year announcement (21 June) when it spoke about "a number of headwinds and a period of prolonged uncertainty".

"Brexit and wider global macro instability impact both confidence and sentiment and will result in constrained investment levels".

In addition, there were "other headwinds" at the micro level in planning, mortgage interest and the like. And, while the Group reiterated its previous guidance of delivering at least £3.0 billion of pretax profit in the five years beginning 1 May 2016, it has added "assuming prevailing market conditions persist".

We noted earlier, too, when one is outdoors in potentially inclement climes, an accurate weather forecast is essential. And, for its part, Bloomberg publishes a 'Brexit Barometer' every day.

Here, the higher the number, the better the climate/the healthier the economy - and vice versa; and, on 3 July, it sank to its lowest level since the aftermath of the June 2016 referendum i.e. to 8 from 27.8 a month ago and 51.6 in early September last year. "Policy uncertainty remained elevated in the wake of last month's election. Manufacturing also slowed more than forecast in June as uncertainty hit demand"; and this means that the UK remains in "windy" territory.

More broadly, Q1 2017 GDP growth was also just 0.2% against 0.7% in Q4 last year and inflation is nudging 3%.

Simultaneously, the proportion of UK residents disposable income which goes to savings also fell to a record low in Q1 i.e. a savings ratio of 1.7% (Q4 2016: 3.3%).

And, again in Q1, Real Household Disposable Income dropped 1.4% (the largest slide for four years); and it completed a hat trick of declines for the first time since the turn of the year 1976-77.

Household spending and retail sales are also softening as the domestic economic stalwart that is the UK consumer goes hiking less often. Okay, unemployment remains spartan at 4.6% in April; but it is a lagging indicator.

Q2 was a Peak District for Housebuilders share prices with eight new value summits. It finished the period, however, 6% off the new record high from 31 May (£38.3 billion) i.e. June trod a bumpy path.

The average gain in share prices in Q2, ex-the exemplary guides Countryside and Watkin Jones, was also just +1.4%; and, in due course, we expect earnings forecasts to be revised downwards.

TSR or Total Shareholder Return coordinates for the past 12 months and in the year to date are at 43% - Brexit valley and hill top - and 20% respectively; but these won't be repeated.

Quote:

"When the peaks come, we realise the troughs were nothing. When we get to the troughs though, we forget all that we learned in the peaks"

Source: C S Lewis

Glossary

Abbey (ABBY)

Barratt Developments (BDEV)

Bellway (BWY)

Berkeley Group Holdings (BKG)

Bovis Homes Group (BVS)

Cairn Homes (CRN)

Countryside Properties (CSP)

Crest Nicholson Holdings (CRST)

M J Gleeson (GLE)

Inland Homes (INL)

McCarthy & Stone (MCS)

Persimmon (PSN)

Redrow (RDW)

Taylor Wimpey (TW)

Telford Homes (TEF)

Watkin Jones Group (WJG)

Note: Share prices at 30 June 2017
Adjustments have been made to share prices where required
Selected stocks are excluded from charts and Sector averages due to extreme movements or for structural reasons

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