

“one **industry**
one **voice**”

Builders Merchant Building Index



Q3 2016

Building the Industry & Building Brands from Knowledge



Introduction

John Newcomb, Managing Director BMF



This Builders Merchant Building Index (BMFI) report contains data from GfK's ground-breaking Builders Merchants Panel, which analyses data from over 80% of generalist builders' merchants' sales throughout Great Britain.

Trend data in the BMFI is indexed on the 12 month period July 2014 to June 2015. The monthly series tracks what is happening in the market month by month and includes an in-depth review every quarter. This trend series gives our industry access to far more accurate and comprehensive data than that available to other construction sectors.

GfK's Builders Merchant Point of Sale Tracking Data is setting a new standard to give us a reliable market picture. Unlike data from sources based on estimates, or sales from suppliers to the supply chain, this up-to-date data is based on actual sales from merchants to builders and other trades.

Measuring the level of Repair Maintenance & Improvement (RMI) work in the economy is hugely important to everyone including Government. Yet until now there has not been any decent measure of RMI, or even an approximation of it. The Builders Merchant Point of Sale Tracking Data provides a reliable measure on a national scale.

We recognise the importance of sharing this data. In this spirit, MRA Marketing produces the Builders Merchant Building Index to communicate to the wider market as the voice of the industry as well as the voice of individual Expert Brands. This quarter Ibstock and Heatrae Sadia join the existing nine Expert Brands: Crystal Direct, Keylite Roof Windows, Timbmet, Alumasc Water Management Solutions, Hanson Cement, IKO PLC, Keystone Lintels, Knauf Insulation and Encon Insulation providing valuable commentary on market trends and influences.

GfK insights go deeper than the category sectors contained in this document. They can trace product group performance and track features that are relevant to you. GfK can also produce robust like-for-like market comparability tailored to the requirements of an individual business. As more merchants join to submit their monthly sales-out data the quality of this information can only become more extensive and rigorous. Merchants or Suppliers who are interested in getting involved should contact Ricky Coombes at Ricky.Coombes@gfk.com

The BMFI website enables you to compare Landscaping with Heavy Building Materials, or Kitchens with Timber on our interactive charts. Download the latest report, read the news or search through comments or blogs at www.bmbi.co.uk. Follow us and the Experts [@theBMBI](https://twitter.com/theBMBI).

Monthly: Index and Categories

July 2015 – September 2016 (Indexed on monthly average, July 2014 – June 2015)

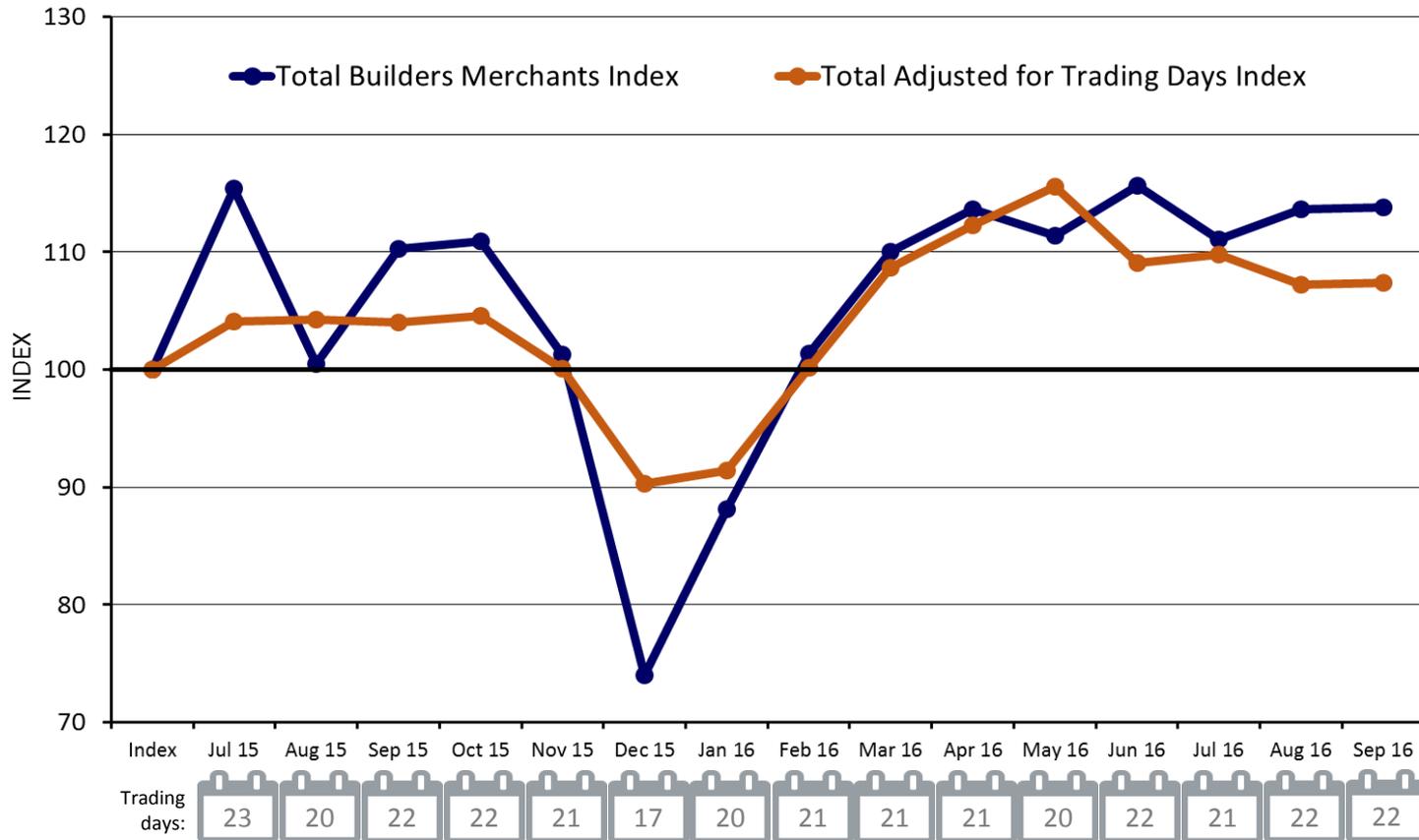
VALUE EX VAT £	Index	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16
Total Builders Merchants	100	115.4	100.5	110.3	110.9	101.3	74.0	88.2	101.3	110.0	113.6	111.4	115.7	111.1	113.7	113.8
Timber & Joinery Products	100	113.8	100.4	110.6	112.1	102.9	74.7	91.3	101.6	107.1	108.9	106.0	112.1	107.8	112.2	113.3
Heavy Building Materials	100	115.6	100.3	110.8	111.1	100.2	72.2	87.1	100.8	110.1	114.3	111.7	116.2	111.9	114.4	114.6
Decorating	100	114.8	104.6	111.9	112.7	103.2	78.4	90.9	101.3	106.6	107.5	105.4	108.1	107.8	112.5	109.8
Tools	100	107.9	94.4	105.1	105.7	103.7	75.9	89.6	99.7	104.1	106.9	99.8	104.0	101.5	102.4	104.6
Workwear & Safetywear	100	105.9	98.0	120.1	119.4	119.6	75.7	112.6	106.5	105.5	96.3	96.5	107.6	98.5	98.6	101.0
Ironmongery	100	114.1	101.5	111.7	112.3	108.1	84.3	100.5	108.9	113.0	112.8	110.9	112.8	111.0	115.8	119.8
Landscaping	100	132.4	108.4	107.0	101.7	83.2	59.0	65.2	88.9	115.7	137.7	144.2	144.7	132.0	129.2	119.9
Plumbing, Heating & Electrical	100	107.3	93.6	111.4	119.1	118.3	89.6	106.3	114.6	115.2	110.8	101.4	103.3	100.5	103.6	111.7
Renewables & Water Saving	100	75.7	67.7	104.0	99.6	95.9	76.0	78.1	71.8	72.5	67.1	64.8	75.5	63.7	63.1	72.8
Kitchens & Bathrooms	100	112.4	97.0	110.3	109.6	108.6	77.5	91.6	109.0	110.5	106.7	98.0	107.6	101.7	105.3	111.4
Miscellaneous	100	106.3	96.6	107.1	110.1	103.3	83.7	104.0	107.4	112.9	113.1	107.4	113.3	115.3	114.5	115.7
Services	100	112.7	102.5	108.4	111.4	102.4	83.1	86.2	102.3	114.6	111.3	116.7	116.1	115.5	115.2	111.1

Monthly Index

Adjusted for Trading Days



Total Builders Merchants Index v Total Adjusted for Trading Days Index

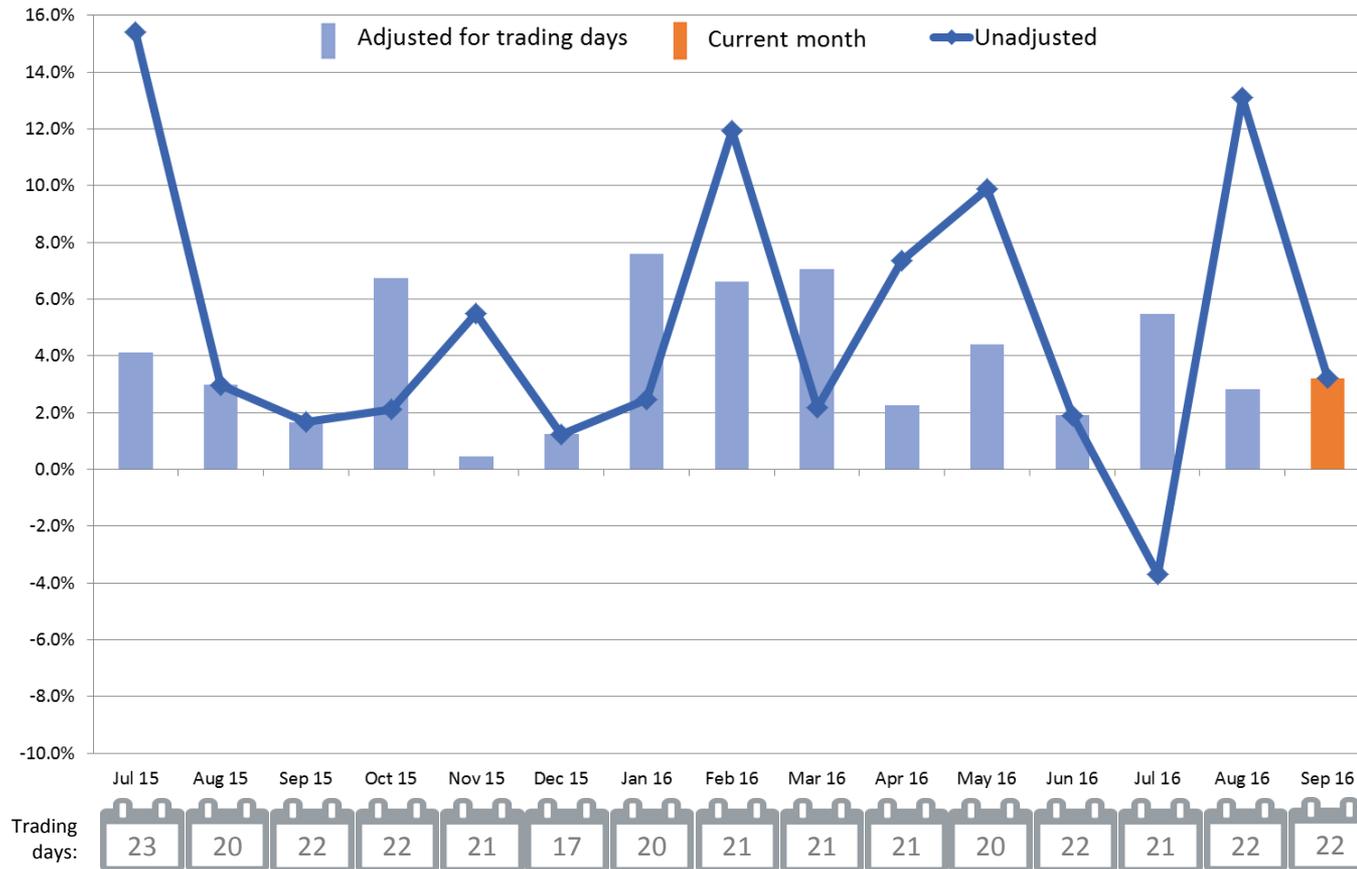


Monthly Sales

Adjusted and Unadjusted for Trading Days



Year on Year

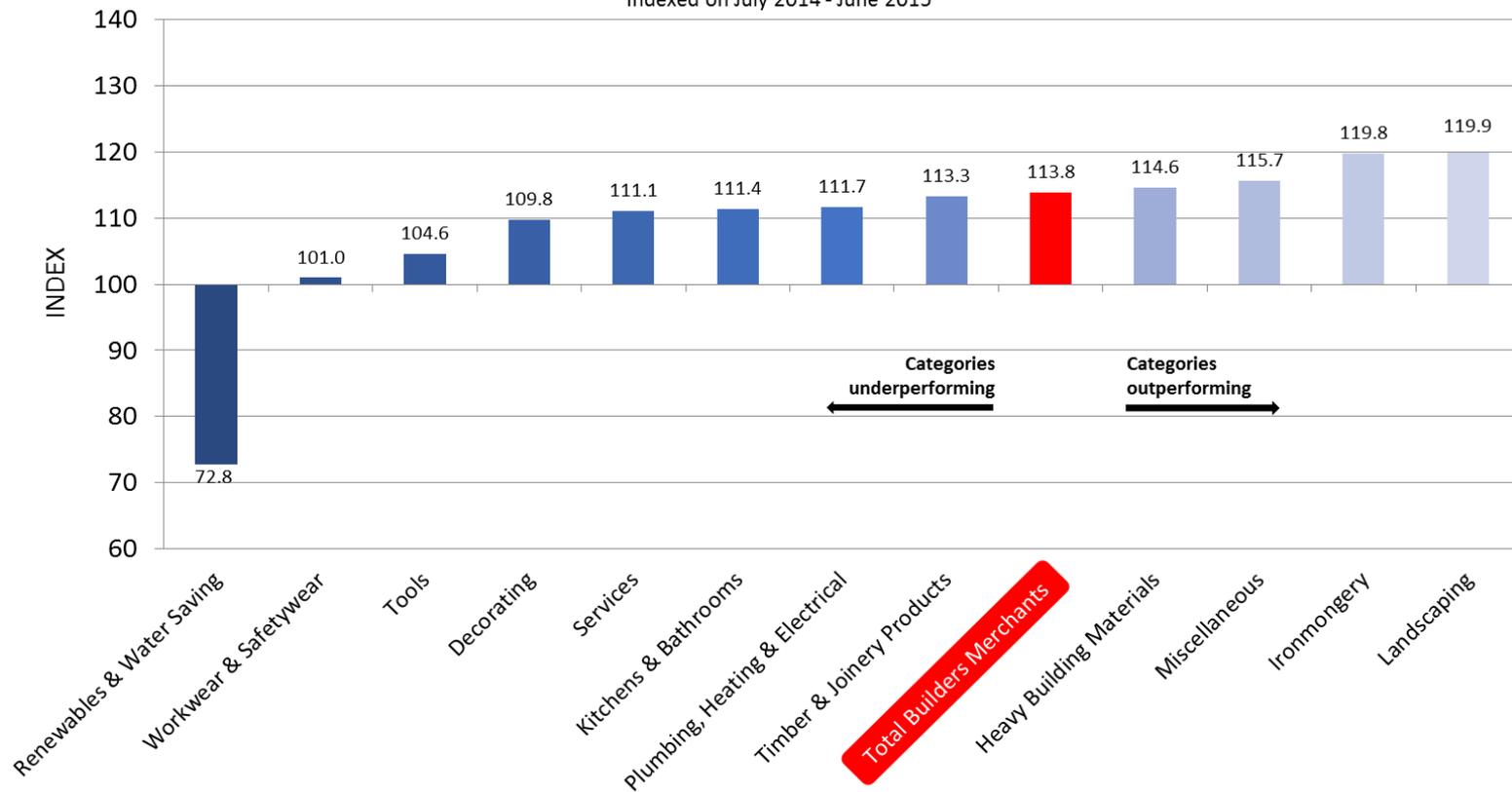


Monthly: Index and Categories

September 2016

September 2016

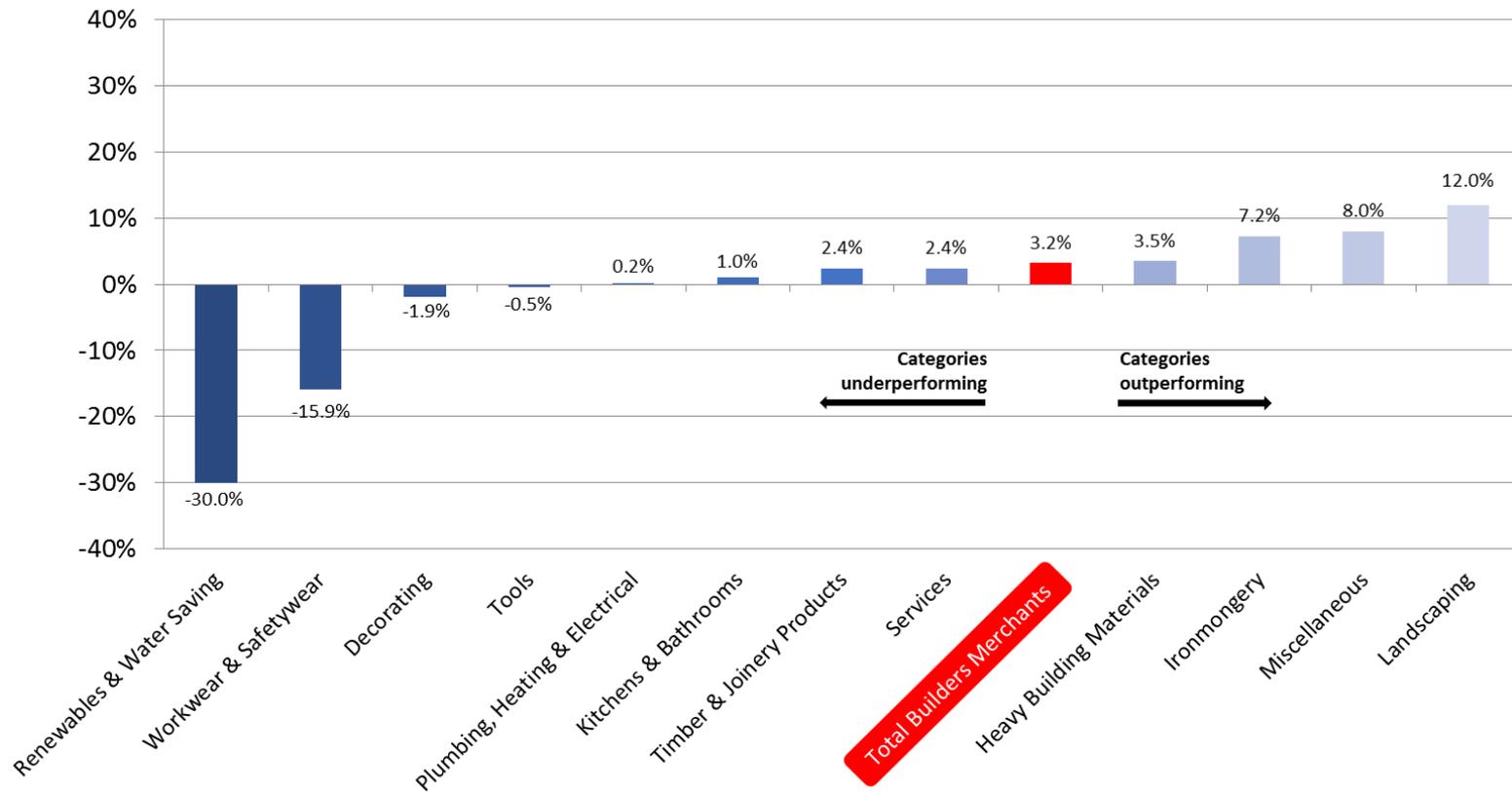
Indexed on July 2014 - June 2015



Monthly: this year v last year

September 2016

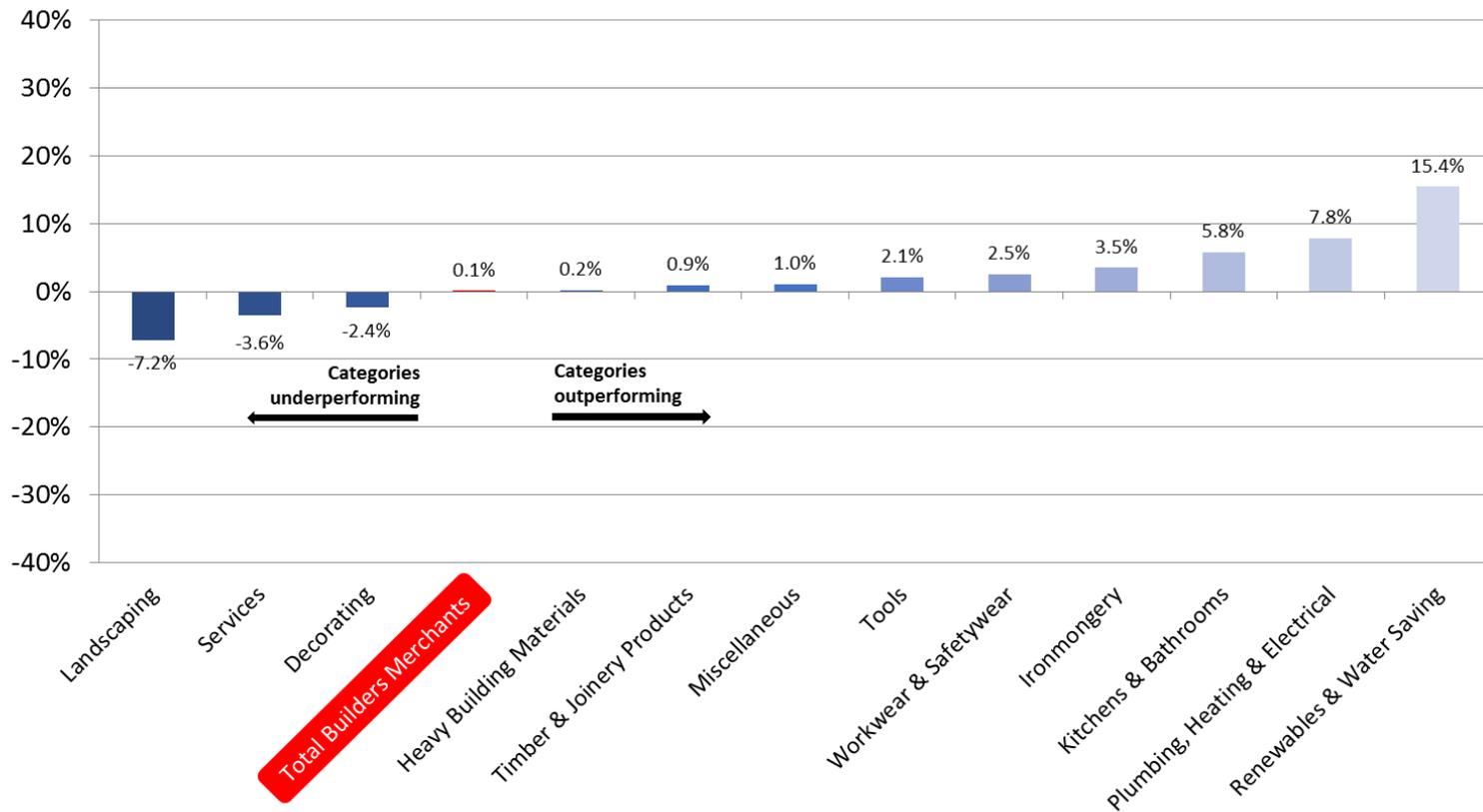
September 2016 v September 2015



Monthly: this month v last month

September 2016

September 2016 v August 2016



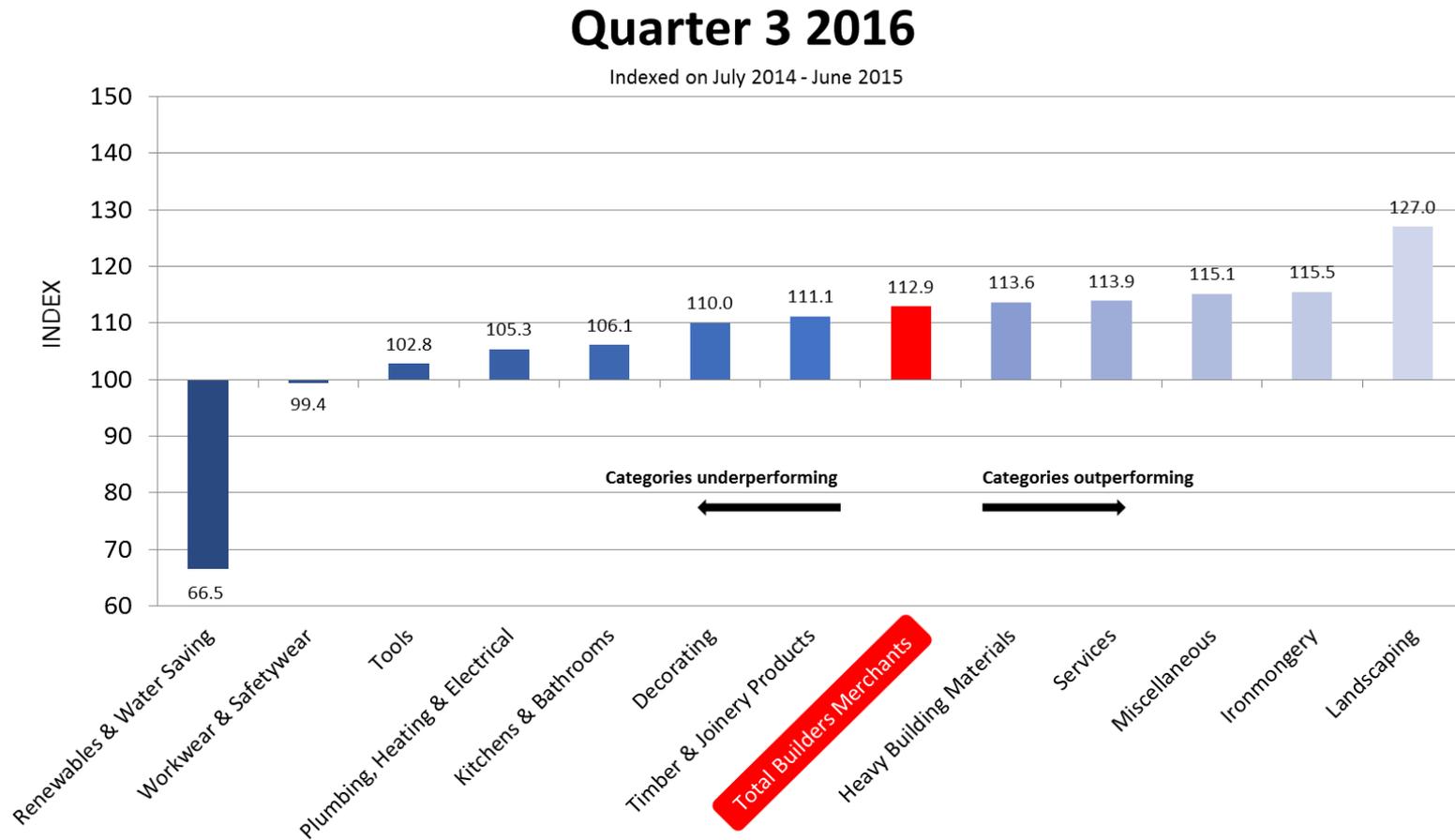
Quarterly: Index and Categories

Quarterly (Indexed on July 2014 to June 2015)

VALUE EX VAT £	Index	Q3, 2015	Q4, 2015	Q1, 2016	Q2, 2016	Q3, 2016
Total Builders Merchants	100	108.7	95.4	99.8	113.6	112.9
Timber & Joinery Products	100	108.3	96.6	100.0	109.0	111.1
Heavy Building Materials	100	108.9	94.5	99.3	114.1	113.6
Decorating	100	110.4	98.1	99.6	107.0	110.0
Tools	100	102.5	95.1	97.8	103.5	102.8
Workwear & Safetywear	100	108.0	104.9	108.2	100.1	99.4
Ironmongery	100	109.1	101.6	107.5	112.2	115.5
Landscaping	100	115.9	81.3	89.9	142.2	127.0
Plumbing, Heating & Electrical	100	104.1	109.0	112.0	105.2	105.3
Renewables & Water Saving	100	82.5	90.5	74.1	69.1	66.5
Kitchens & Bathrooms	100	106.6	98.5	103.7	104.1	106.1
Miscellaneous	100	103.4	99.0	108.1	111.3	115.1
Services	100	107.9	99.0	101.0	114.7	113.9

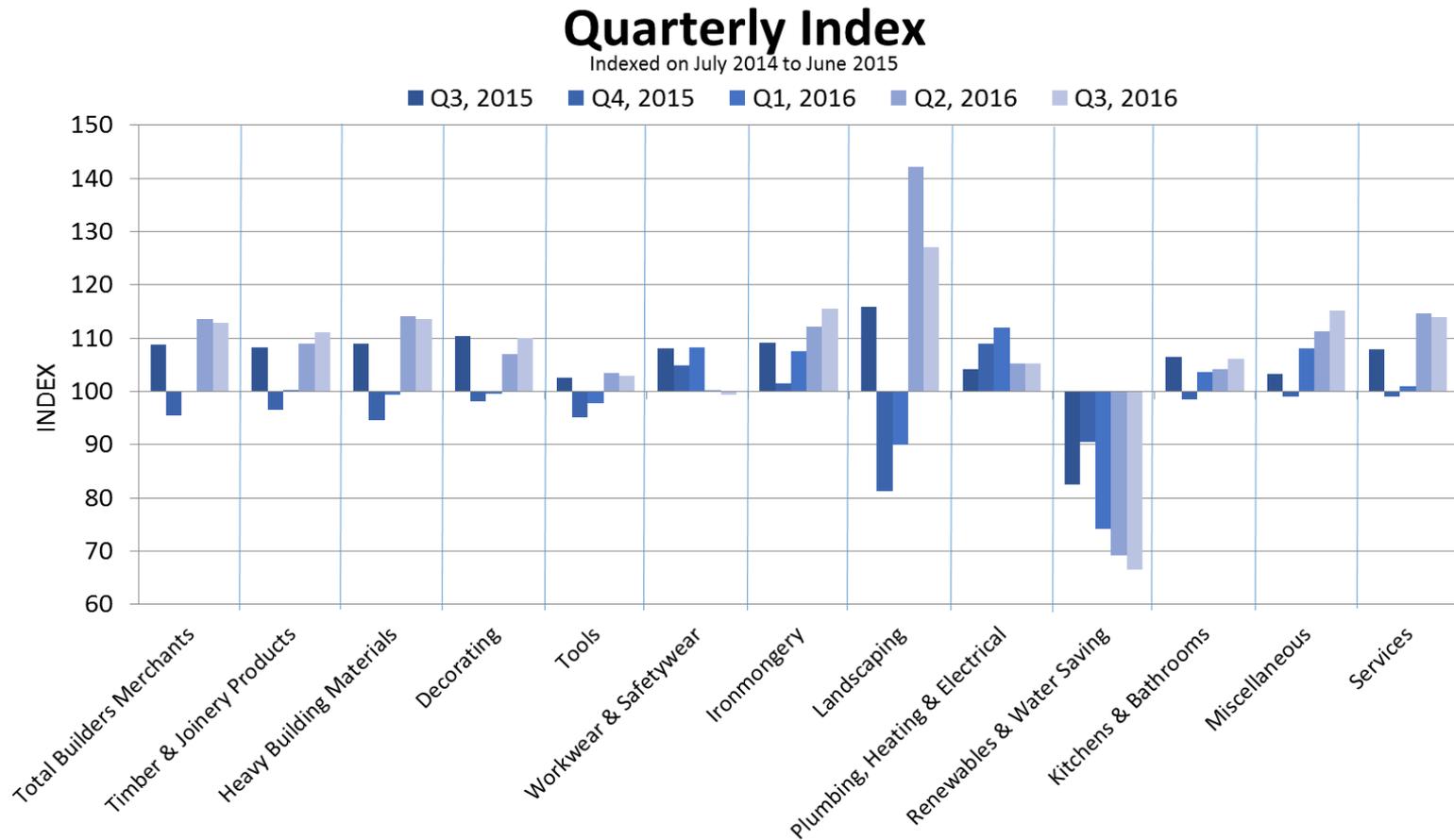
Quarterly: Index and Categories

Q3, 2016



Quarterly: Indices and categories

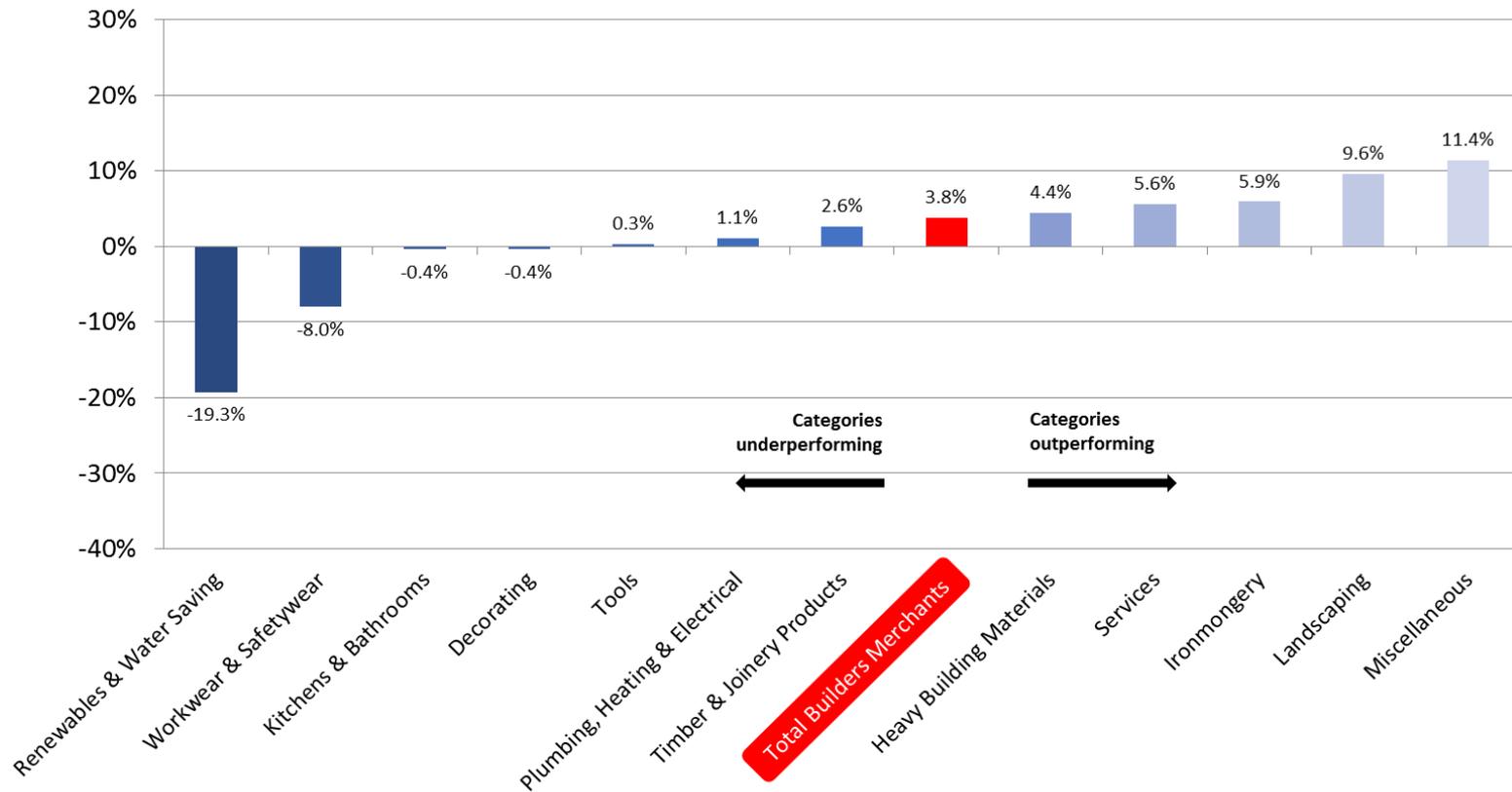
Q3, 2016



Quarterly: this year v last year

Q3, 2016

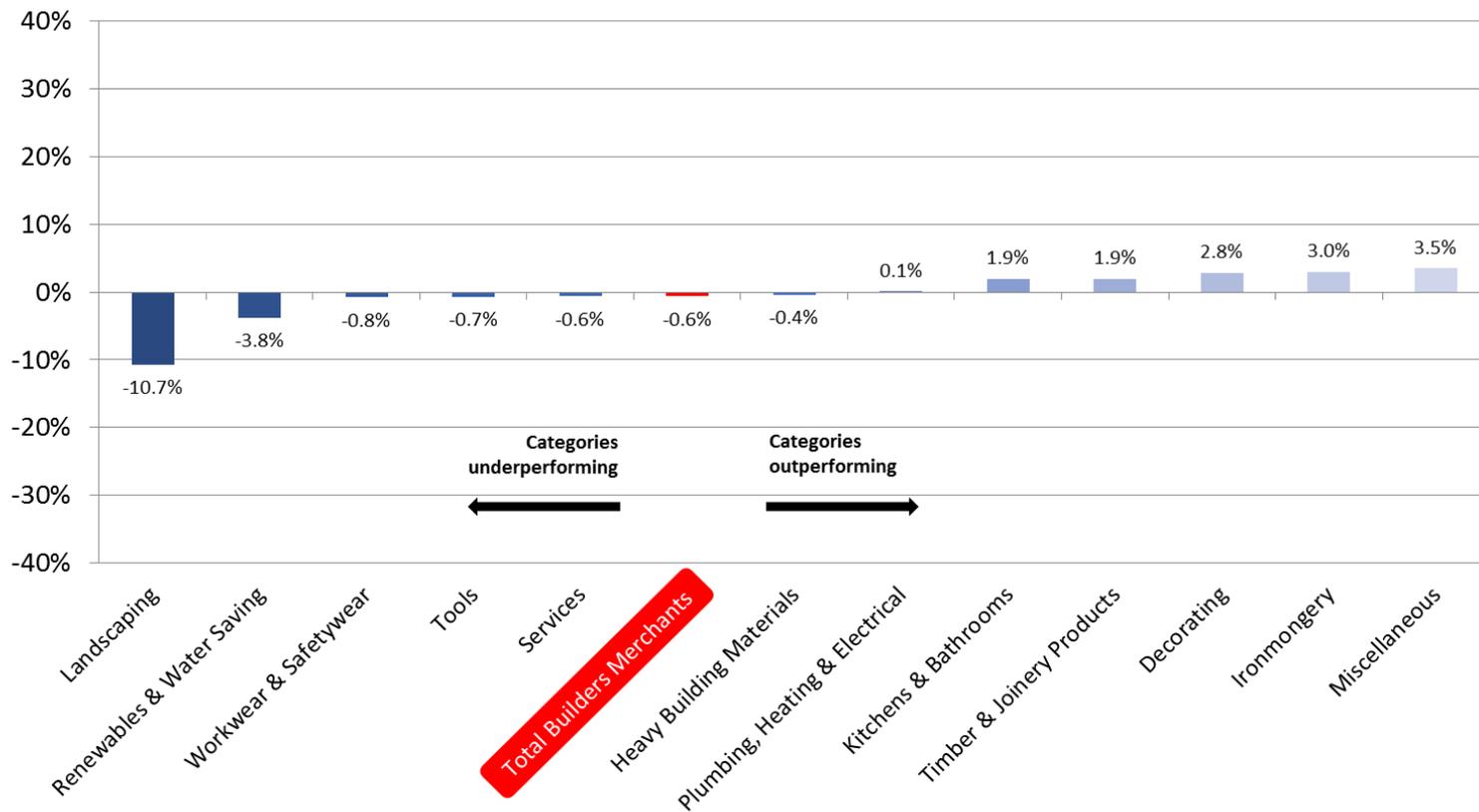
Quarter 3 2016 v Quarter 3 2015



Quarterly: quarter on quarter

Q3, 2016

Quarter 3 2016 v Quarter 2 2016



Overview

John Newcomb, Managing Director BMF



Builders' Merchants sales were strong in September and in Q3, the first three months following the Brexit vote. Sales were up 5.1% on the first nine months of 2015, bucking the construction trends identified by the ONS.

Year on year

Third quarter total Builders' Merchant sales were 3.8% up on the same three months of 2015. Landscaping (+9.6%), Ironmongery (+5.9%) and Heavy Building Materials (+4.4%) were among five categories doing better. Four categories sold less than 2015, with Renewables & Water Saving, a small volatile category, weakest (-19.3%).

September sales were 3.2% higher than September last year. Good weather helped Landscaping's season to continue strongly (+12.0%). Ironmongery (+7.2%) and Heavy Building Materials (+3.5%) also did better. Four categories had their best sales in the last 12 months, including Timber & Joinery Products, Ironmongery and Kitchens & Bathrooms.

Consecutive periods

Q3 sales were 0.6% below Q2 (and 3.7% less when adjusted for two fewer trading days). Ironmongery (+3.0%), Decorating (+2.8%), Kitchens & Bathrooms and Timber & Joinery Products (both +1.9%) were up on Q2.

September's sales were 0.1% higher than August. Nine of the twelve categories did better, including Plumbing Heating & Electrical (+7.8%) Kitchens & Bathrooms (+5.8%) and Workwear & Safetywear (+2.5%)

Indices

The Builders Merchant Building Index for Q3 was 112.9 (108.1 when adjusted for two more trading days this year). Ten of the twelve categories were above 100, led by Landscaping (127.0) on continued good weather.

September's monthly Builders Merchant Building Index was 113.8 (107.4 when adjusted for one extra trading day). Ironmongery (119.8), Timber & Joinery Products (113.3) and Kitchens & Bathrooms (111.4) had their highest indices in the past 12 months.

For greater detail and benchmarking your market contact Ricky Coombes at GFK

Expert Panel

PVC-U Windows & Doors (part of Timber & Joinery Products)



No.1 for choice • No.1 for colour



Steve Halford, Group Managing Director Crystal Direct is BMBI's Expert for PVC-U Windows & Doors.

Builders' merchants' third quarter sales of PVC-U windows and doors were nearly 10% up on Q2 2016. We expect this fast growth to continue as builders' merchants gain share of the over £5 billion windows, doors and conservatories market, and they convince builders to buy their windows and doors where it is easiest and most convenient.

Historically, retail spend on PVC-U windows, doors & conservatories has had two peak transactional periods, in March-May, and a second peak in October-December. The four months in between, June to September, have always delivered slightly lower volumes. In recent years this has been changing as PVC-U windows and doors have become all year around purchases, and the peaks to troughs differences less pronounced. However, we've yet to see this pattern emerge in the PVC-U builders' merchant sector.

Builders' merchants' sales of PVC-U windows, doors and conservatories are growing as merchants recover 'lost' builders' window and door sales with a stronger product and service offering.

While Q3 sales were around 10% ahead of Q2, the growth in builder enquiry values feeding that sales growth was just over 30% in the same period.

Putting this in context, over the same Q3 period the overall PVC-U windows and doors market hardly grew at all. Consumer confidence, weakened initially by the shock and confusion following the EU referendum result, took its time to recover, so builders' merchants' strong growth means that merchants are gaining market share.

Builders buy the bulk of their building supplies from builders' merchants because they are convenient for location and parking, and they can get all the associated products they need at the same time. Many builders have accounts with their local merchants, and builders' merchants are well placed to provide the information and advice builders need.

As builders' merchants re-engage builders with the PVC-U windows and doors range, service and support they need, including online configurators to make purchasing easy, we expect to see this faster growth continue and merchants to gain share at a faster rate.

Expert Panel

Roof Windows (part of Timber & Joinery Products)



John Duffin, Managing Director Keylite Roof Windows is BMBI's Expert for Roof Windows.

The NHBC reported a busy summer for house builders, which went some way to settle post Brexit vote nerves. August house registrations were 20% ahead of 2015, with significant regional differences, and London and Scotland in particular were less positive.

While not recorded specifically in BMBI reporting, the roof windows market has also been strong.

Q3 is traditionally a very active few months for Roof Windows as loft convertors and the Repair Maintenance & Improvement sector in general push to get projects watertight before the onset of winter. From our perspective, we see a strong market moving from summer into autumn as projects started in a strong first half of the year received their roof windows. Underlying demand for housing remains as strong as ever, so merchants must hope that consumer confidence and the availability of finance is not undermined by political events.

Headlines in the press about giants such as Apple and Unilever implementing sharp currency related price increases will not have gone unnoticed in construction. The industry will be watching sterling closely over the next few months, with the expectation of continuing building materials' price instability heading in to 2017.

A review of the construction industry's blogs and twitter accounts reveals an urgent, accelerating search for solutions to the UK's deepening construction skills shortage. In some regions, major projects such as Hinkley Point are predicted to be a critical drain on the existing labour pool. Construction companies are now searching for radical solutions, but the risk represents one of the biggest blockages to builders' merchants' and builders' sustained growth in the immediate future.

Progressive manufacturers like Keylite are aware of the need to innovate and produce installer friendly products for builders to use as part of the solution to labour shortages.

We certainly see our own ongoing investment in innovation to make installation easier as one of the best ways to help stockists' continued growth.

Expert Panel

Timber & Panel Products (part of Timber & Joinery Products)



Nigel Cox, Managing Director Timbmet is BMBI's Expert for Timber & Panel Products.

Post Brexit vote turmoil has dented confidence in construction, but not disastrously. The merchant market for timber & panel products has been inconsistent over recent months but is generally level with last year.

Price inflation is a concern. Predominantly exchange rate driven, panel product manufacturers in particular are increasing prices on a regular basis. The reality is, these prices will need to be passed on to end users.

Manufacturing problems within the MDF supply chain is impacting on availability. Lead times, currently five weeks, are increasing, and availability should be checked with suppliers. UK demand for American Hardwoods, specifically oak, is growing, but meeting the requirement for prime grade material is challenging the supply chain.

The EU Timber Regulation (EUTR) that came into force in March 2013 prohibits European timber importers from selling illegally harvested timber and products derived from illegal timber in the EU. The regulation obliges them to have adequate due diligence systems to minimise the risk. In addition, a number of timber exporting countries have signed Voluntary Partnership Agreements with the EU to improve their Forest Law Enforcement, Governance and Trade (FLEGT). This allows them to export all their timber under a FLEGT licence guaranteeing that these exports are legal and automatically compliant with the EUTR. Indonesia is the first country to do this. Indonesian FLEGT licenced timber will be available in the EU from mid-November onwards.

In its 2016 Statistical Review, the Timber Trade Federation confirmed that timber has moved into the top 10 fastest growing UK manufacturing sectors, achieving 11.4% growth in wood products on the previous year. Although this is good for the timber industry, it is difficult to make realistic forecasts following the referendum vote. Business activity has been good in the first eight months of 2016 with housing starts very strong.

At a global level, 2016 is set to be strong for sawn softwood, and emerging product trends will create new sales opportunities. The analysis suggests that 2016's moderate growth is expected to continue in 2017.

Expert Panel

Civils, Metal Rainwater & Drainage (part of Heavy Building Materials)



Steve Durdant-Hollamby, Managing Director Alumasc Water Management Solutions (AWMS) is BMBI's Expert for Civils, Metal Rainwater & Drainage.

The Civils market was flat to slightly down in Q3, but metal rainwater & drainage grew by around 5%.

Hinkley Power Station and Heathrow's runway will boost construction, and forecasts for infrastructure in the next 5 years are positive. In the short term, fluctuating post-referendum exchange rates and raw material price increases are the key challenges. Will Mr Trump's election help sterling recover and moderate future price increases?

The growing threat of skilled labour shortages will run and run. Without prompt action by industry and Government, skills shortages will be a drag on project timelines. It's an opportunity and stimulus to innovative manufacturers to develop new low-skill modular products that are easy and quick to fit, and don't require multiple trades to install. There are also new opportunities for products that improve flood resilience and protect properties from the increased risk of flooding.

Our climate is getting warmer, windier and wetter. Government lists water as one of the big six threats to Britain's future. Yet no one is doing enough to prepare for the effects of a lot more water in the built environment. Why isn't Government acting with more urgency?

Flash floods and frequent flooding cause massive damage and disruption to homes, businesses, transport, communications, power and gas supply. Flood defences are overwhelmed regularly and ageing sewers fail to cope with excess surface water. Our buildings and infrastructure aren't built to deal with today's let alone tomorrow's climate. More urbanisation makes it worse.

Improving flood resilience across the built environment is complicated. It requires realistic funding to improve defences in and around buildings, and new engineered solutions that channel water more effectively to the water course.

There are few incentives for local authorities, businesses or homeowners to improve flood resilience when replacing or repairing damaged buildings, and the UK needs a committed, clear SuDS policy. This can only happen if organisations and companies across construction and the supply chain join to integrate our response to water management and propose workable solutions. No single organisation has all the expertise, answers or resources, but the industry has the in-depth practical and technical expertise to engage Government to take urgent action.

Expert Panel

Cement & Aggregates (part of Heavy Building Materials)



Jim Claydon, Managing Director Hanson Cement is BMBI's Expert for Cement & Aggregates.

Demand for mineral products was slightly down in Q3 2016, but beyond the quarterly fluctuations the longer-term trends remain positive. Sales to builders' merchants were up in Q3 on a like-for-like basis. The main construction drivers were private housing and commercial work, explaining the stronger builders' merchants' performance.

Demand for ready to use products remains high, and like-for-like sales are better than other product lines. Plastic packaged cement continues to be popular as it gives merchants more storage options and allows better product placement in their yards. We expect sales of cement in plastic packaging to increase as the weather changes.

Leaving the EU is a long term issue and we don't yet know what to expect. What we do know is that the UK economy is still in good shape. GDP was up 0.5% in Q3, household consumption is strong and we've seen increases in services and production (ONS). All major growth forecasts have been downgraded for 2017-18, but no recession is expected.

The outlook for construction materials in 2017 is uncertain and difficult to call. Recent news of national merchants' branch closures and reducing headcount caused some concern, but most closures are connected to plumbing and heating rather than heavy building materials.

The Mineral Products Association (MPA) is calling on Government to take action in the Autumn Statement to boost investment in construction. The MPA believes construction activity has more benefit to the economy than present data suggests. In addition, the level of Government expenditure in construction will be critical to offset any decline in private sector investment.

News that the Hinkley Point nuclear power station project has finally been given the green light from Government was very welcome, as was the approval of a new runway at Heathrow Airport. It could be years before work starts at Heathrow, but we expect other smaller but significant publically financed infrastructure projects to kick-in from 2017 until 2020/21.

On the downside, we expect to see a significant increase in costs in 2017 as inflationary factors start to impact. This is primarily driven by the increases in fuel and energy but also in raw materials, packaging and labour. The carbon agenda will impact the cost of producing cement over the coming years due to the investment required to meet carbon reduction targets to combat global warming.

Expert Panel

Roofing Products (part of Heavy Building Materials)



Andy Williamson, Group Managing Director IKO PLC is BMBI's Expert for Roofing Products.

This time of year is usually very good for roofing, however the market has been slower than usual. In terms of volume, Quarter 3 has been slower than Quarter 2 and the same period in 2015. Geographically, the North has been slower than the South. In use of material, there has been a shift from single ply membranes to hot melt, particularly in new build.

We're also seeing significant movements in raw material prices, oil moving up and sterling gradually regaining ground.

Meanwhile, although Housing Repair, Maintenance & Improvement (RMI) is positive compared to the same period in 2015, it has slowed progressively during the year. In Q1 the market was up 10% on Q1 2015; Q2 was up 6% compared to the same period in 2015, and Q3 was 2.5% up on Q3 2015. Nevertheless, both new housing and RMI are up which is good for pitched roofs, with sales of breather membranes tracking housing trends.

The RMI slowdown is due to a combination of projects delayed for funding, and shortage of labour, but skills shortages affect the whole industry. For example, although Bellway built 12.5% more homes than 2015 from sales up 26.9%, Chief Executive Ted Ayres recently said lack of skilled labour was its greatest challenge. On some sites in London, he said, 70% of the workforce is from overseas. "Brexit or not, it's our biggest constraint and we must get the Government to work with us to find a solution".

It's difficult to forecast what will happen to roofing in the next quarter – the market could do anything from -5% to +10% on the last three months. We live in strange and interesting times! The 'brick boys' will be OK – housebuilding is easier to predict, and infrastructure projects such as HS2 and the third runway at Heathrow have been given the go ahead. But predicting roofing is different and more challenging.

We welcome the investment in infrastructure and highways which are helpful for specific markets such as the battle against potholes where new product solutions exist, but the industry needs more than just investment in these areas.

Expert Panel

Steel Lintels (part of Heavy Building Materials)



Derrick McFarland, Managing Director Keystone Lintels is BMBI's Expert for Steel Lintels.

Trading over the summer was encouraging, with steel lintels' volumes significantly up on Q3 2015. Although growth in July was partly fuelled by customers beating a price increase in steel, August and September showed continuous improvement on the same months last year.

At the time of writing, I can confirm this trend has been sustained into the early part of Q4. The steel lintels market is reaping the benefits of demand for new housebuilding, together with strong consumer confidence, high job security, positive lending and ready availability of mortgages. The rising trend is also visible in the home improvement sector.

However the Royal Institution of Chartered Surveyors (RICS) reported surveyor workloads had tapered off over the summer, especially in London and the South East. So, there is no guarantee that the market will continue to grow.

Is this growth spurt being driven by the unknown of next spring? In this post-Brexit vote period, little is certain and only time will tell. If the Government delivers on its pledge to significantly increase the supply of housing, we hope to see modest growth continue.

Innovative products are contributing to demand in the steel lintels market. Most notably in Q3, growth in the high-performance steel lintel sector was ahead of standard steel lintels. The high performance steel lintel specification allows housebuilders and Standard Assessment Procedure (SAP) Assessors to achieve SAP ratings at relatively low costs. SAP is the government's recommended system for producing an Energy Performance Certificate (EPC) for newly built dwellings.

The unique aspect of these high performance steel lintels is that they significantly reduce cold bridging across the lintel and, combined with other high performance materials, can eliminate expensive renewables and other high cost design solutions.

The recent news that the EU has ratified the Paris Agreement will further test new housebuilding and existing stock refurbishments for low carbon construction and energy efficient operations. The Paris Agreement sets out a global action plan to put the world on track to avoid dangerous climate change by limiting global warming to well below 2°C. The ratification is music to the ears of our innovative R&D teams who relish these new challenges.

Expert Panel

Mineral Wool Insulation (part of Heavy Building Materials)



John Sinfield, Managing Director Knauf Insulation is BMBI's Expert for Mineral Wool Insulation.

The initial market uncertainty post-Brexit continued to subside through Q3. Builders' merchant customers' mineral wool insulation sales performed well, showing positive growth over Q2.

This adds optimism to next year. We expect to see reasonable mineral wool insulation growth in the residential new build sector and repair maintenance & improvement activity (RMI), which is heavily dependent on consumer confidence.

On that note, the GfK consumer confidence index recovered strongly between July and September, but it seems to have hit a small bump in the road in October. The bump is reportedly due to fears that price rises will hit UK living standards. This cements our feeling that we should remain positive, but not expect too much from the market.

In an attempt to provide clarity for the sector, the Construction Products Association (CPA) released its latest CPA forecast in October. Construction activity overall is expected to remain broadly flat in 2017 and 2018, with a more nuanced picture at sector level. Growth in infrastructure and education is predicted to offset the decline in sectors such as commercial offices and industrial factories.

And just when we start to build a picture of the way we think the market will look over the coming years, we have the ruling that our MPs must vote to trigger Article 50 to formally start the process of leaving the EU. While the correct process must be followed, the last thing the industry, or the UK economy needs is more uncertainty.

The mineral wool insulation market is currently benefitting from a shortage of PUR (Polyurethane) insulation & PIR insulation foam boards and panels. This is due to a global shortage of a key raw material to make the foam. Merchants, being inherently fleet of foot are working with us to offer alternative solutions to their customers, ensuring that insulation activity can carry on uninterrupted.

Expert Panel

Insulation Products - Distribution (part of Heavy Building Materials)



Mike Beard, Merchant Development Director Encon Insulation is BMBI's Expert for Insulation Products - Distribution.

Objectively, Britain needs urgent investment in infrastructure and housing. Infrastructure looks certain to figure in the Chancellor's Autumn Statement, even if expectations are being pared back. But recently, no doubt written from the comfort of one of London's leafier suburbs, we've seen press articles arguing that we don't have a housing crisis, we have long term wants that may have to wait. We won't have long to wait to hear if these were unofficial Government spin or media speculation. We hope for positive news.

If Britain is to provide its poorly-housed population with decent homes to live, it must build around 300,000 a year for the next two decades. National housebuilders can only build just over half that number, and they're not keen to build more. Fifteen years ago when we did build those numbers, we had a lot of small to medium sized house builders, developers and self-builders. They're Britain's best hope. At some point, Government will have to encourage small to medium sized enterprises back into the market to achieve those numbers and improve our housing stock.

Small to medium sized housebuilders, developers and self-builders are a growing part of the market. But they need more servicing and advice than larger firms. Supplying their insulation needs is more of a challenge, as it's harder and more costly to stock a wider range and type of insulation for self-builds and one-off projects in the smaller volumes they need.

For example, current shortages of PIR have meant having to offer alternative products, specifications and expertise quickly. Adding value so merchants respond promptly and efficiently, and customers' projects get built to time and specification without penalty.

Post Brexit referendum uncertainty is still evident, although shorter term market sectors are unaffected. Confidence and uncertainty have affected exchange rates, which are increasing the cost of materials and components. When supported by a robust economic case, sensible price increases should be encouraged to strengthen the whole supply chain.

It may be coincidence, but it's a concern that since the referendum all four national builders' merchants, Travis Perkins, Saint-Gobain, Wolseley and Grafton are closing branches and making redundancies. Is the restructuring good housekeeping, or the shape of things to come?

Expert Panel

Bricks (part of Heavy Building Materials)



Tony France, Sales Director Ibstock, is BMBI's Expert for Bricks.

“How do you see brick sales in 2017?” If I had a pound for every time I've been asked this recently, I could afford a new crystal ball!

Demand for bricks is largely dictated by private housing which can account for around 60% of production. The type of property also affects the volume of bricks, with flats and apartments needing around a third of the volume of an average detached property.

In 2008 and 2009, the market for UK produced bricks dropped from around 2.4 to 1.4 billion bricks a year as the number of private houses being built sank from 220,000 to under 100,000. UK brick manufacturers reacted by closing factories permanently or mothballing kilns to match production and stocks to demand.

In 2013, initiatives such as help-to-buy stimulated a rapid recovery in housebuilding, and reduced availability of bricks led to panic buying, stock-piling and brick shortages creating long lead-times. While brickmakers responded by investing heavily to re-open factories and increase capacity, some of the requirement was filled by imports.

In the first half of 2016, brick despatches have been impacted by builders' merchants, who'd been buying excessive volumes in 2015, selling their excess stocks and buying less. Meanwhile, housebuilders have generally shrugged off the Brexit wobble and are progressing strongly. UK manufactured brick sales, in the first nine months of 2016, are ahead of the same period in 2015.

So, 2017? Everything points to increased demand. Housebuilders are very positive about the demand for new homes, and they're building more detached and semi-detached houses, and fewer flats and apartments. Therefore, more units and more bricks per unit. Secondly, builders' merchants' depot stocks are stabilising and stock replenishment is returning to normal. Finally, imports are decreasing as European markets improve and exchange rates make imported bricks more expensive.

UK manufacturers are continuing to invest in production. Ibstock Brick, for example, is mid-way through the construction of a £54 million factory to make up to 100 million bricks a year from 2017.

My crystal ball currently says that brick sales will improve in 2017 and, while there is plenty of capacity, builders' merchants should plan ahead to ensure continuity of supply of the stock products their customers need for RMI.

Expert Panel

Water Heating (part of Plumbing Heating & Electrical)

HEATRAESADIA
SMARTER | CLEANER | WARMER



Paul Rivett, Managing Director Heatrae Sadia, is BMBI's Expert for Water Heating

The uncertainty leading up to the Brexit referendum has continued, stifling investment in current and new projects. Many businesses, including merchants and distributors, have lowering stock holding to reduce working capital.

Theresa May's recent departmental changes have brought energy, commerce and industry back together after an 8 year separation. We think the reuniting of these areas makes perfect sense. It's an opportunity for the Government to introduce a more joined up approach to policy, and cut out the administrative red tape which naturally occurs when responsibility is spread over multiple departments.

One such area is compliance and the enforcement of product performance and safety standards. Under the previous Government, energy related regulation could be decided by the Department of Energy and Climate Change, set by the Department of Communities and Local Government and enforced by a contracted out under-resourced National Measurement and Regulation Office which sat within the Department of Business Innovation and Skills. It's not surprising that the enforcement of Building Regulations and Energy Efficiency Regulation in the UK has been somewhat lacking in recent years.

Unfortunately this shortfall in enforcement has led to a worrying decline in compliance across some parts of the heating and hot water sector. This includes products placed on the UK market that haven't got third party approval, which ensures they've undergone all the necessary Safety and Performance requirements for UK installation. Or, products being placed on the market which claim higher efficiencies than they have in reality achieved.

Who cares, some may ask? However a disregard for the enforcement of standards undermines their credibility, reduces the competitiveness of those companies that do invest in compliance, and ultimately results in consumers being placed at risk of receiving products which the UK Government has deemed unfit for purpose. The new Department of Business, Energy and Industrial Strategy brings back together those who set the regulations and those who enforce them. With this reunion comes a fresh opportunity to ensure that the standards set by the Government are realised in the marketplace.

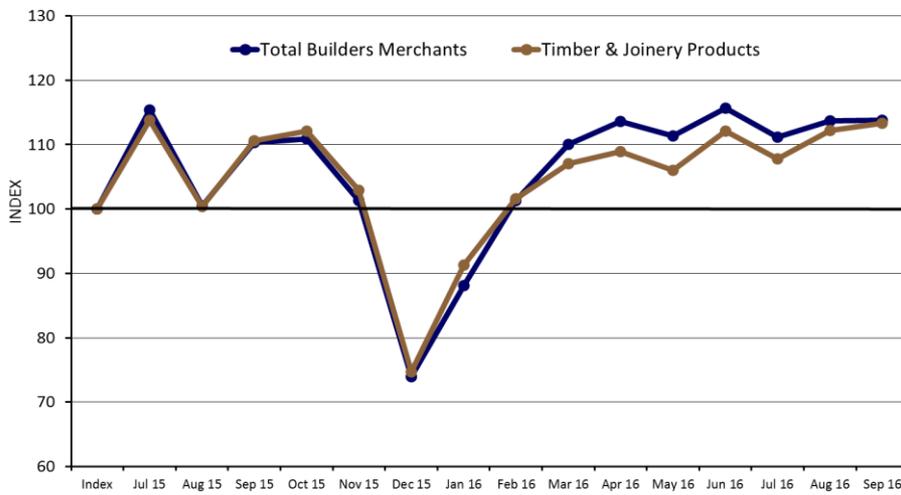
Looking forward, I believe the market will be subdued next year, either flat or up to 2-3% down on 2016.

Quarterly Report

Q3 2016

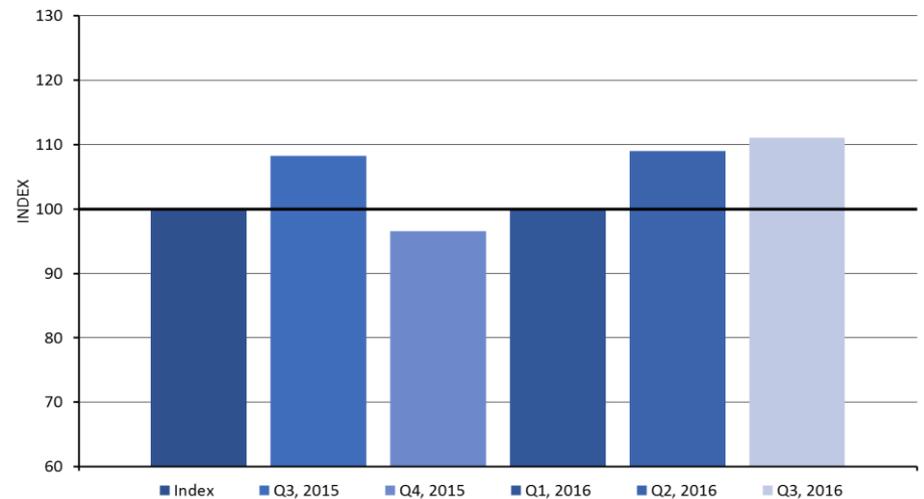


Timber & Joinery Products



Monthly chart indexed on July 2014 – June 2015

Timber & Joinery Products - Quarterly



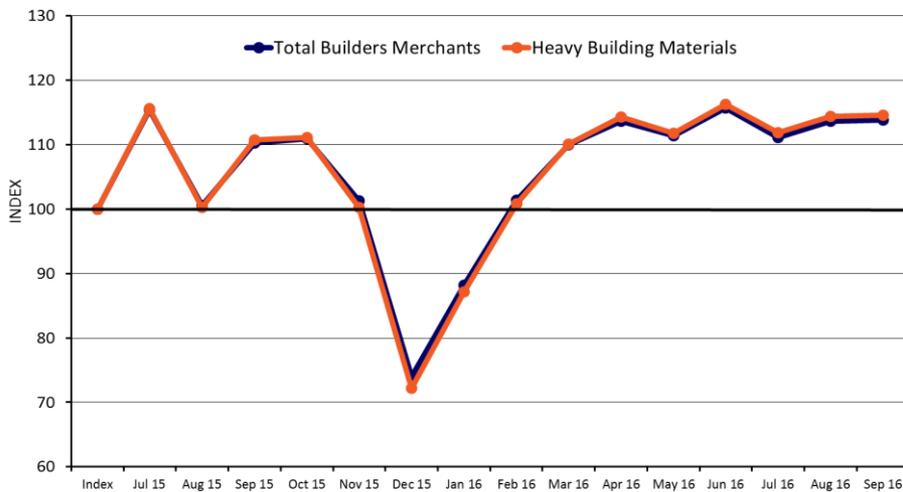
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

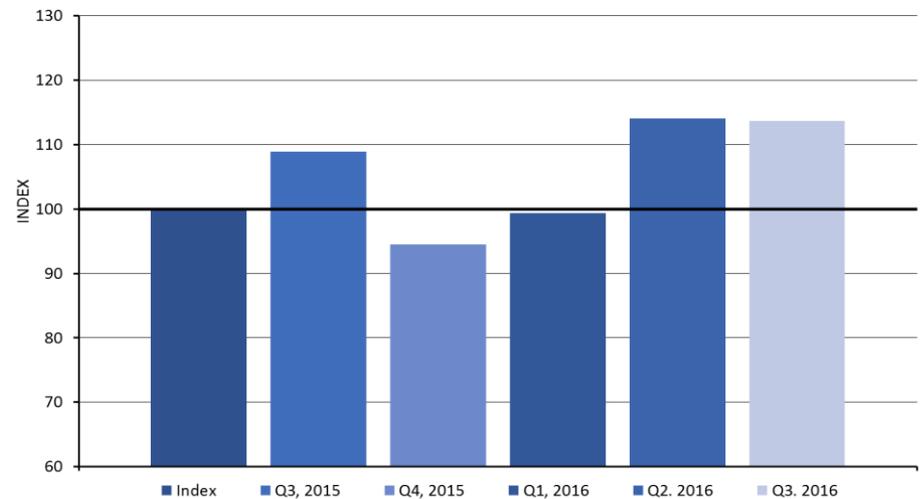


Heavy Building Materials



Monthly chart indexed on July 2014 – June 2015

Heavy Building Materials - Quarterly

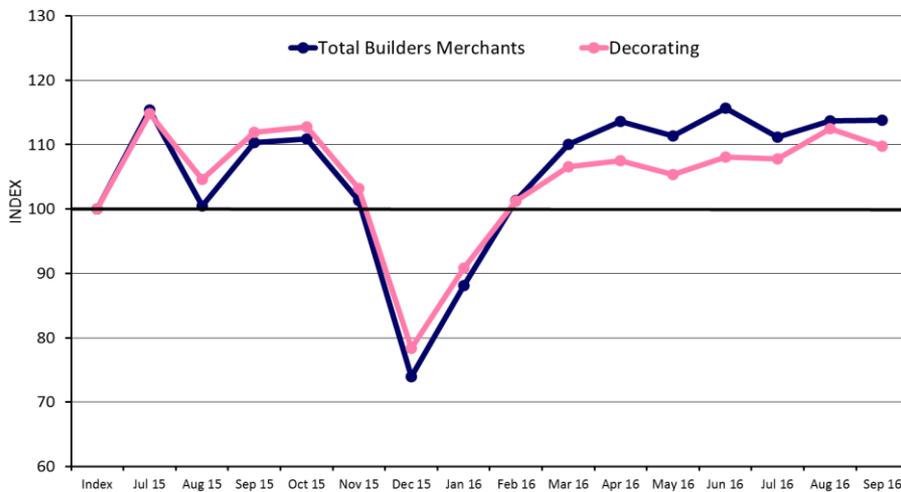


Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

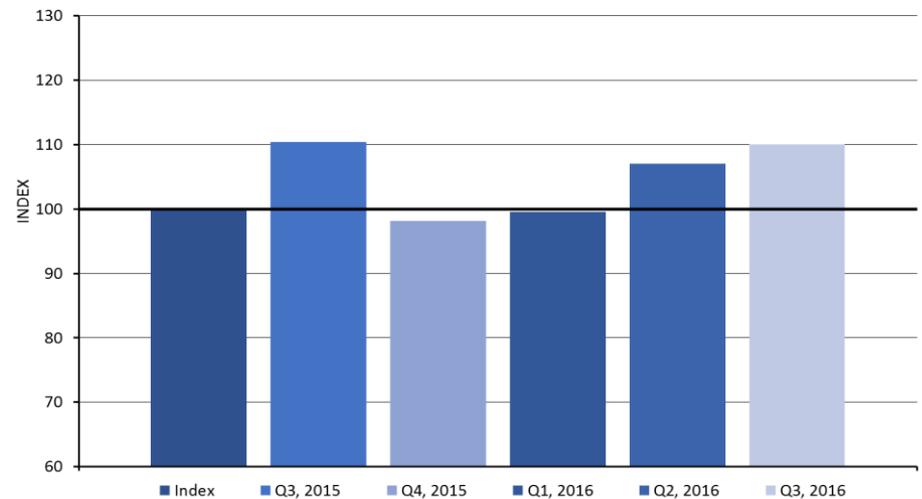
Q3 2016

Decorating



Monthly chart indexed on July 2014 – June 2015

Decorating - Quarterly



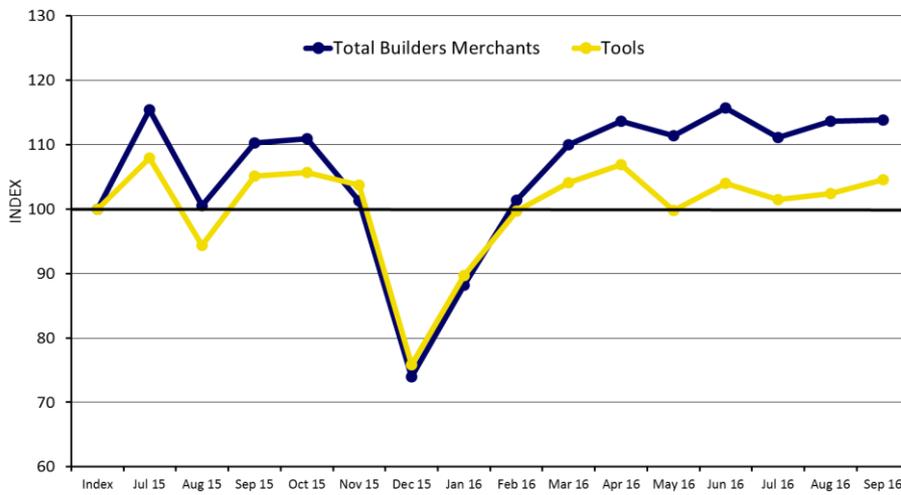
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

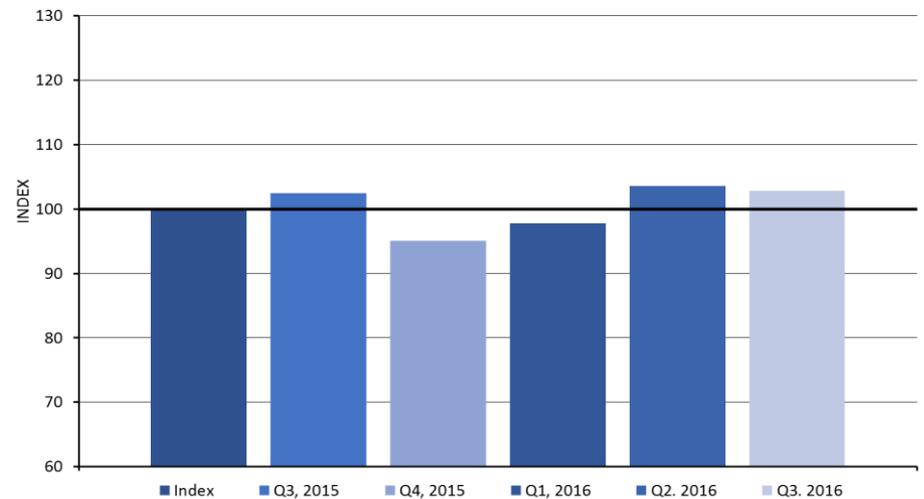


Tools



Monthly chart indexed on July 2014 – June 2015

Tools - Quarterly



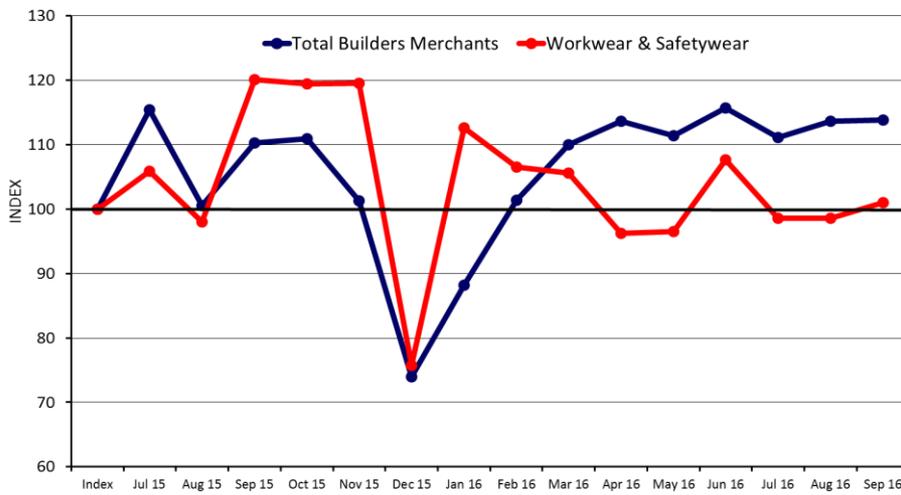
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

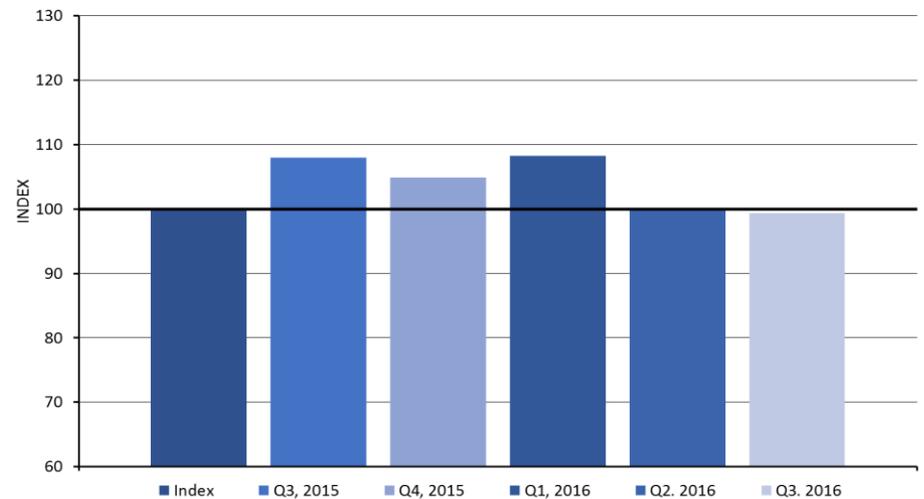


Workwear & Safetywear



Monthly chart indexed on July 2014 – June 2015

Workwear & Safetywear - Quarterly



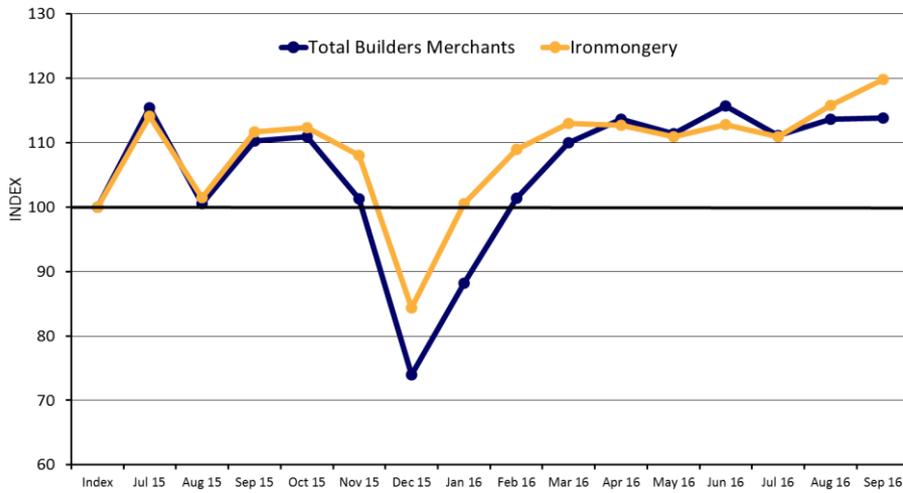
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

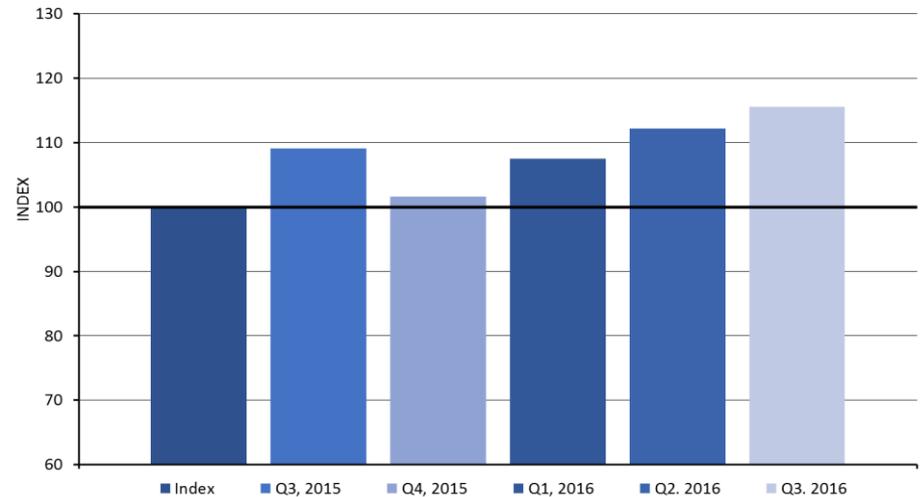


Ironmongery



Monthly chart indexed on July 2014 – June 2015

Ironmongery - Quarterly



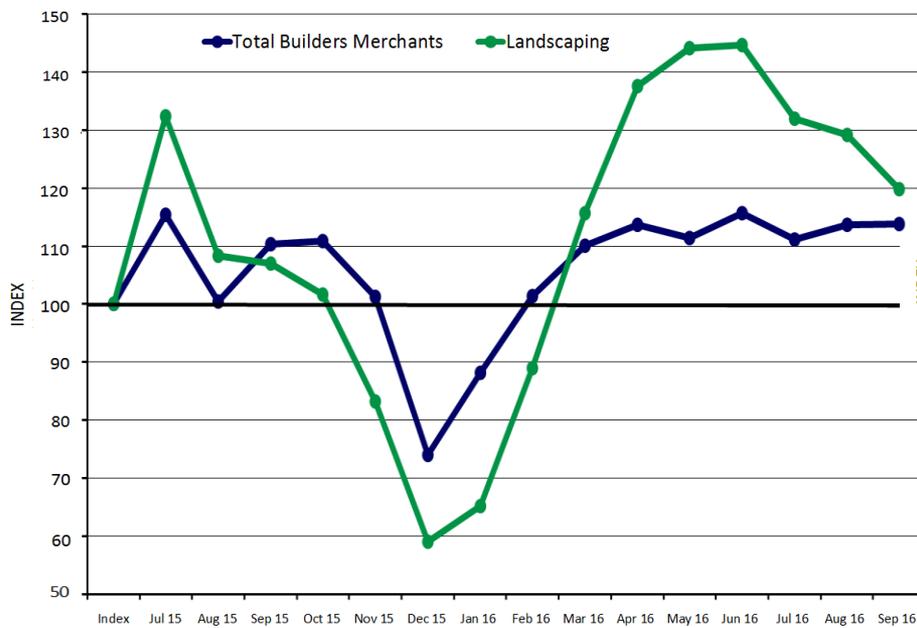
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

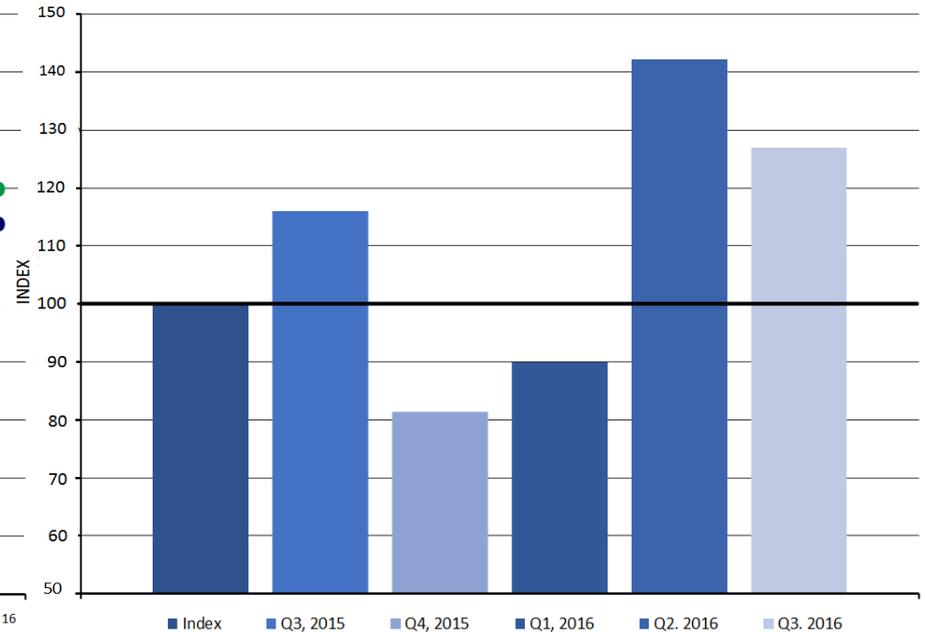


Landscaping



Monthly chart indexed on July 2014 – June 2015

Landscaping - Quarterly



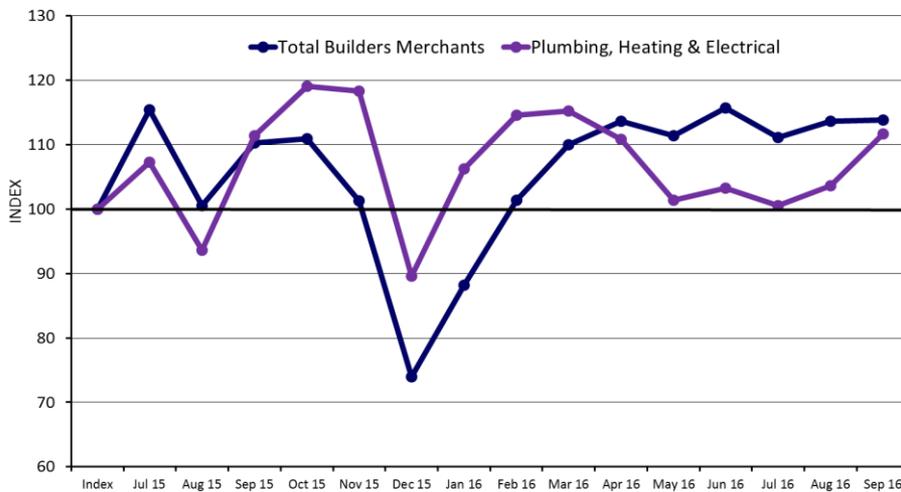
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

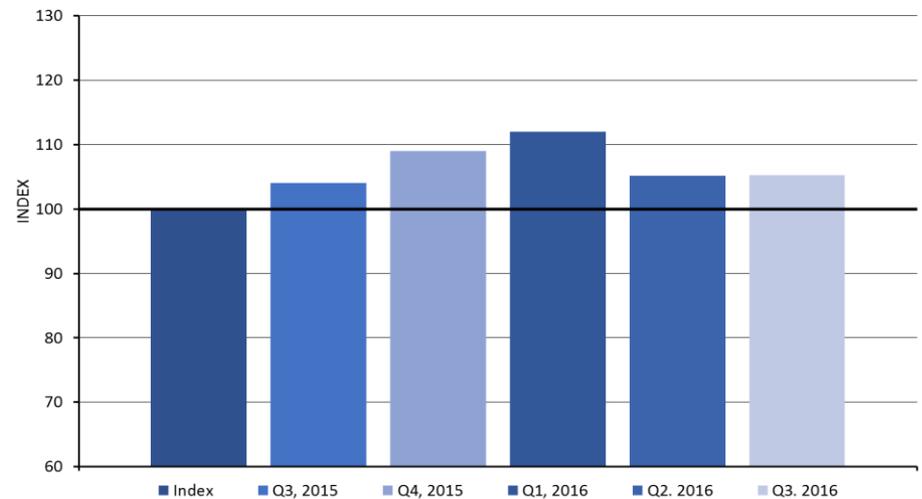


Plumbing, Heating & Electrical



Monthly chart indexed on July 2014 – June 2015

Plumbing, Heating & Electrical - Quarterly



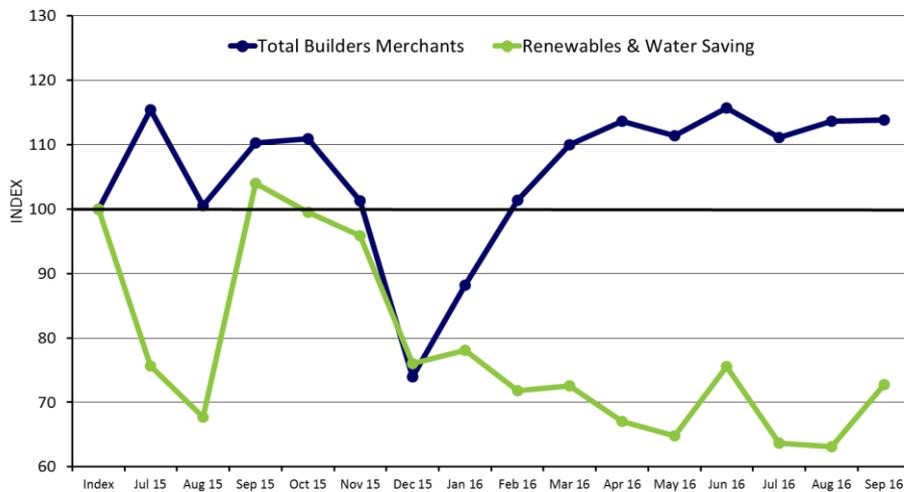
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

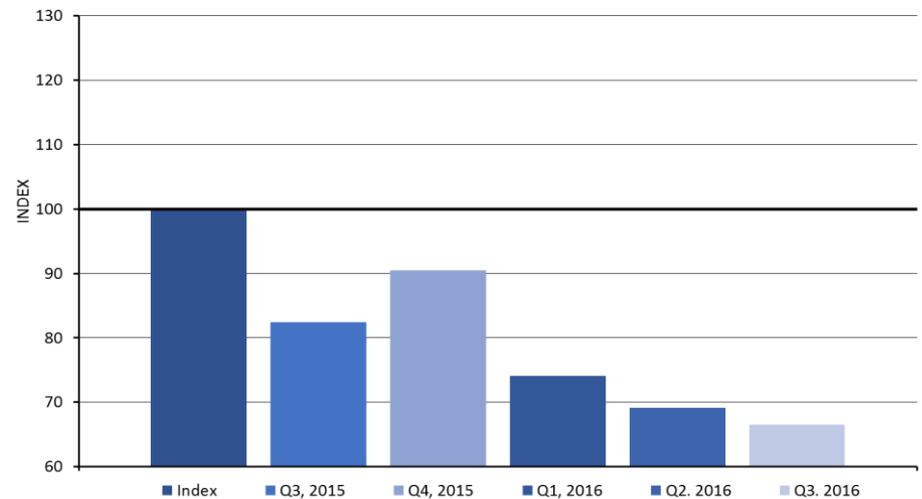


Renewables & Water Saving



Monthly chart indexed on July 2014 – June 2015

Renewables & Water Saving - Quarterly



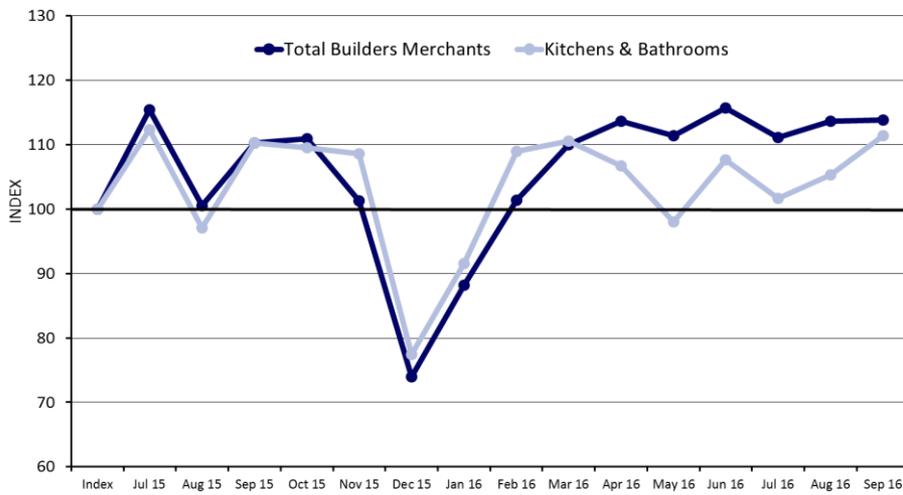
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

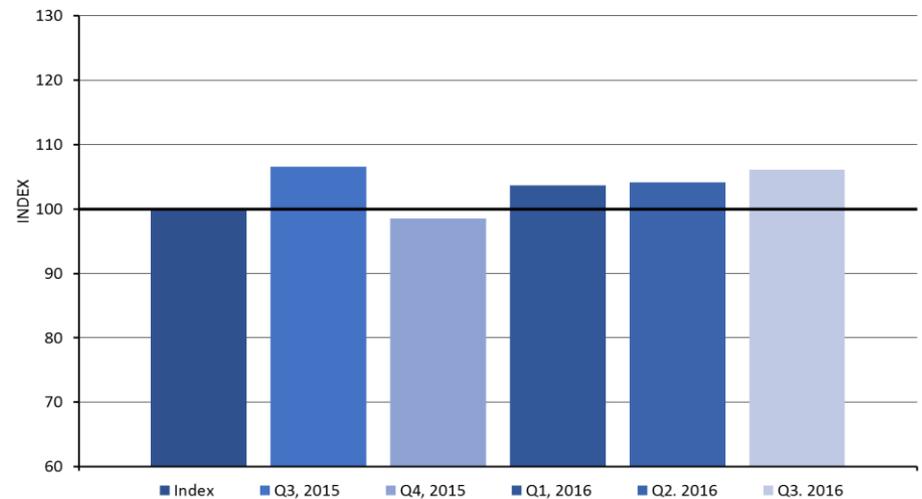


Kitchens & Bathrooms



Monthly chart indexed on July 2014 – June 2015

Kitchens & Bathrooms - Quarterly



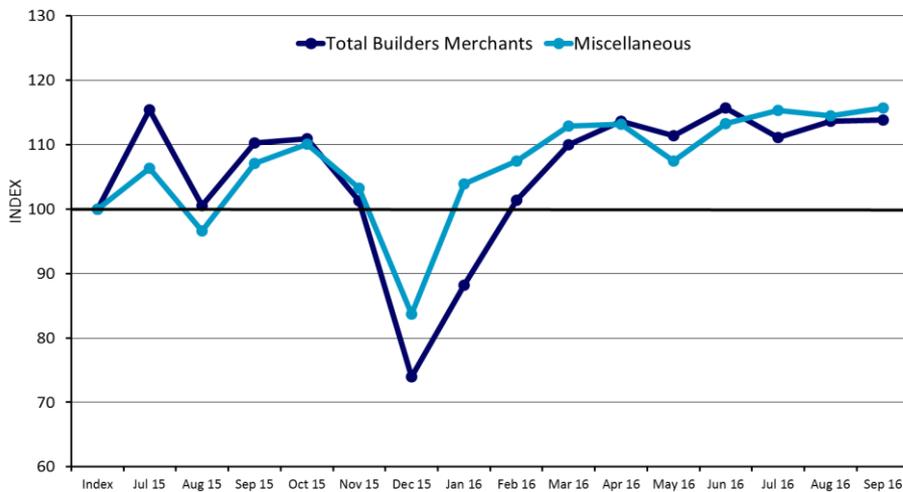
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

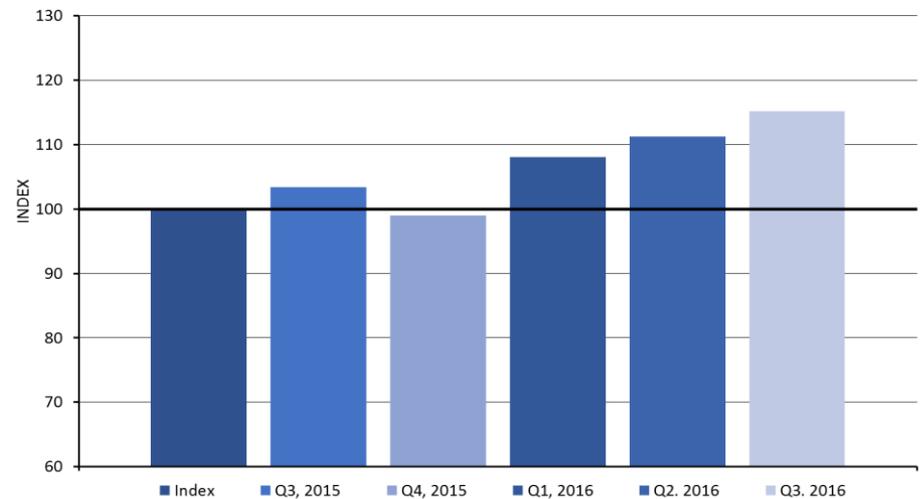


Miscellaneous



Monthly chart indexed on July 2014 – June 2015

Miscellaneous - Quarterly



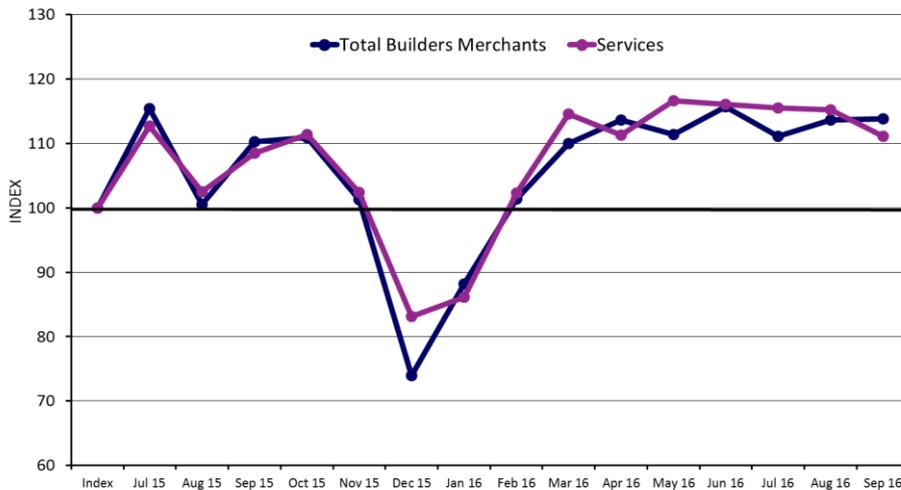
Quarterly chart indexed on July 2014 – June 2015

Quarterly Report

Q3 2016

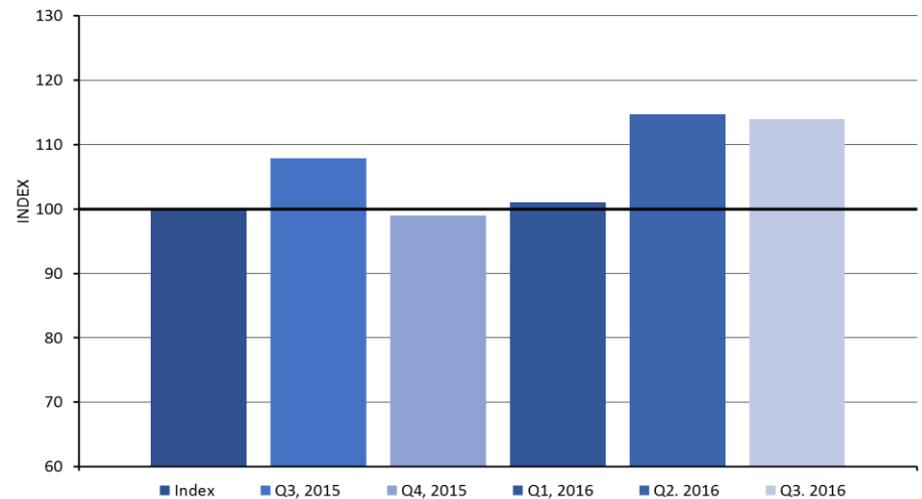


Services



Monthly chart indexed on July 2014 – June 2015

Services - Quarterly



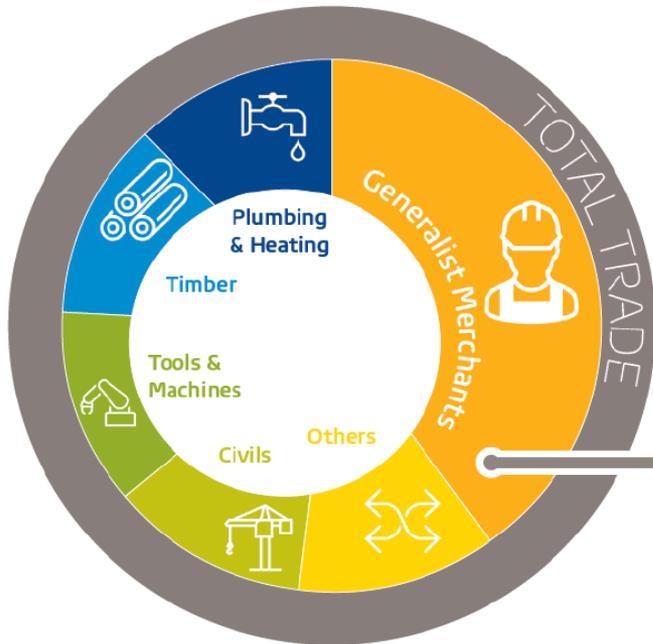
Quarterly chart indexed on July 2014 – June 2015

GfK's Panel

Generalists Builders Merchant Panel (GBMs)



The Multiple Generalist Builders Merchants Channel



Generalist Builders Merchants

Builder Merchants handle an extended range of building materials and components (e.g. doors, windows, interior furnishing materials, insulation materials, tiles, cement, mortar, adhesives, sealants, nails, hardware products, pipes, ironware, paint) and generate their turnover with professional end users.

Multiple merchants are those defined as having more than 3 outlets or a turnover of greater than £3m p.a.

Examples include:



GfK Insights Methodology



GfK collect live sales-out data from our panel of merchant partners.

We add value to that data through the application of each sold product's unique technical features. We compare like-for-like products and categories from like-for-like merchants and aggregate this within our reports.

Our international methodology is based on robust scientific principles and delivers continuous, reliable information that can be applied to your business requirements.

GfK's Product Categories

Reports cover category headline values & in-depth, brand-level insights



Headline values available

Timber & Joinery Products

Timber
Sheet Materials
Cladding
Flooring & Flooring Accessories
Mouldings
Stairs & Stairparts
Window & Frames
Doors/Door Frames

Heavy Building Materials

Bricks Blocks & Damp Proofing
Drainage/Civils/Guttering
Lintels
Cement/Aggregate/Cement Accs
Concrete Mix/Products
Plasters Plasterboards And Accessories
Roofing Products
Insulation
Cement Mixers/Mixing Buckets Products
Builders Metalwork
Other Heavy Building Equipment/Material

Decorating

Paint/Woodcare
Paint Brushes Rollers & Pads
Adhesives/Sealants/Fillers
Tiles And Tiling Accessories
Decoration Preparation & Decorating Sundries
Wall Coverings

Tools

Hand Tools
Power Tools
Power Tool Accessories
Ladders & Access Equipment

Workwear And Safetywear

Clothing
Safety Equipment

Ironmongery

Fixings And Fastenings
Security
Other Ironmongery

Landscaping

Garden Walling/Paving
Driveways/Block Paving/Kerbs
Decorative Aggregates
Fencing And Gates
Decking
Other Gardening Equipment

Plumbing Heating & Electrical

Plumbing Equipment
Boilers Tanks & Accessories
Heating Equipment/Water Heaters/Temperature Control/Air Treatment
Radiators And Accessories
Electrical Equipment
Lighting And Light Bulbs

Renewables And Water Management

Water Saving
Renewables & Ventilation

Kitchens & Bathrooms

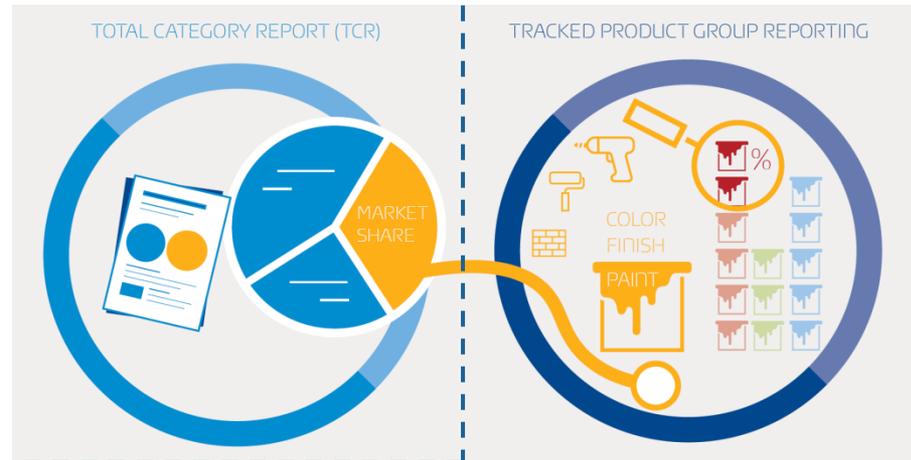
Bathroom (Including Showering)
Fitted Kitchens
Major Appliances

Miscellaneous

Cleaning/Domestic/Personal
Automotive
Glass
Other Furniture & Shelving
Other Misc

Services

Toolhire / Hire Services
Other Services



In-depth product group reporting

Monthly sales values, volumes, pricing analysis & distribution facts available by brand and key product features.

For insights on your product group please contact Pete Church at GfK (pete.church@gfk.com).

Available categories:

Heavyside

Bricks
Insulation

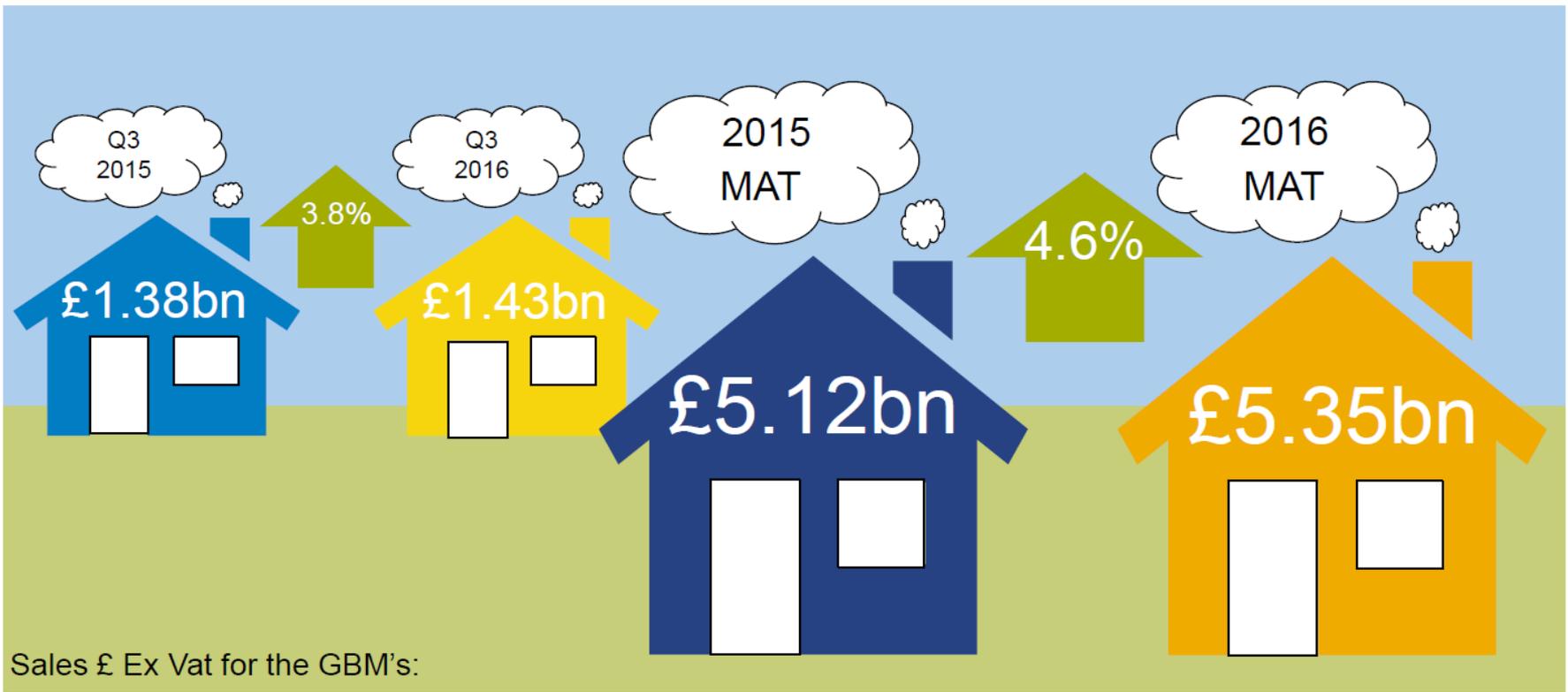
Lightside

Emulsion Paints (incl. Masonry & Base)
Trim Paints
Primers/Undercoats
Woodcare
Adhesives
Sealants
Fillers/PU Foam
Tile Fixing (Adhesives/Grout)

GfK Insights



Continued quarter YoY growth for the GBM's, however, slower than MAT for the first time this year. Is this the start of a slow down?



Sales £ Ex Vat for the GBM's:

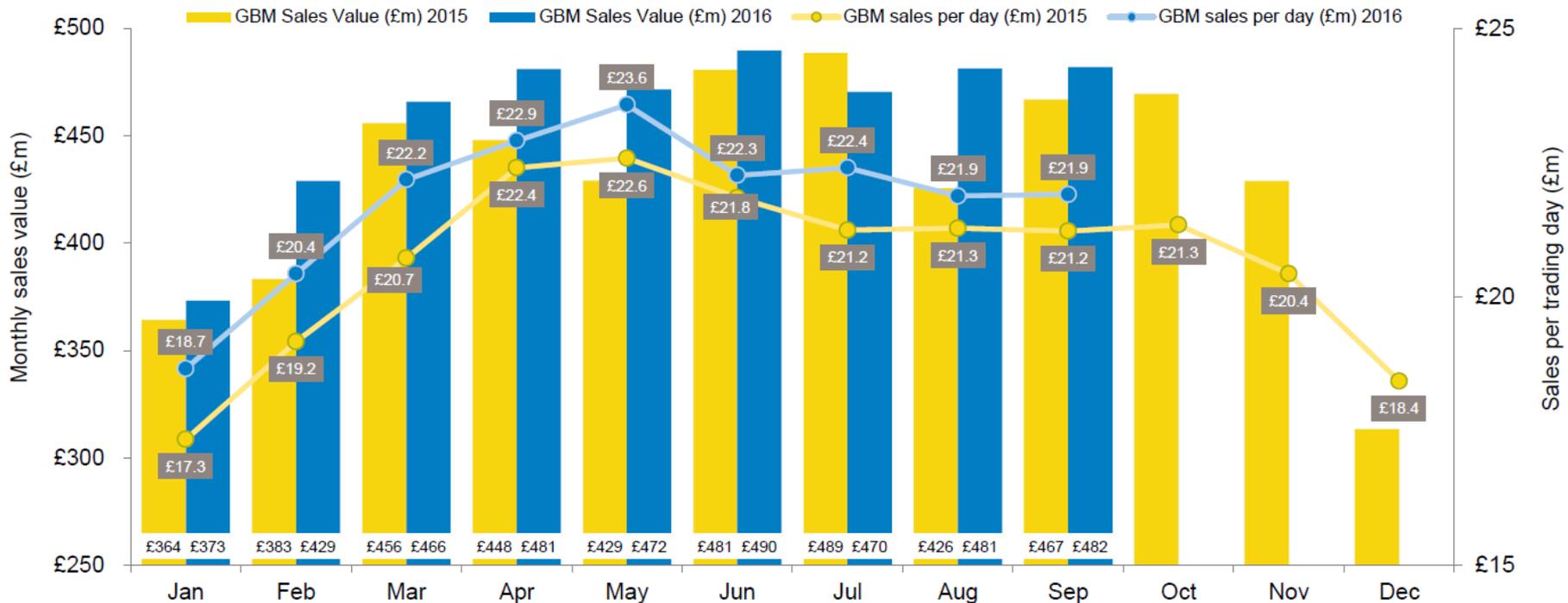
Source: GfK's GBM TCR report. Data July 2014 to Sept 2016 showing £ ex VAT

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GfK Insights



Variation in August trading days gives a false sense of growth YoY, when viewed in isolation. Growth seen in all months, YTD, when taking into account trading days.



Source: GfK's GBM TCR report. Data July 2014 to Sept 2016 showing £ ex VAT

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TRADING DAYS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
2015	21	20	22	20	19	22	23	20	22
2016	20	21	21	21	20	22	21	22	22

GfK Insights



Continued decline in Renewables but declines also seen in Decorating, K&B and Workwear, not seen in Q2.



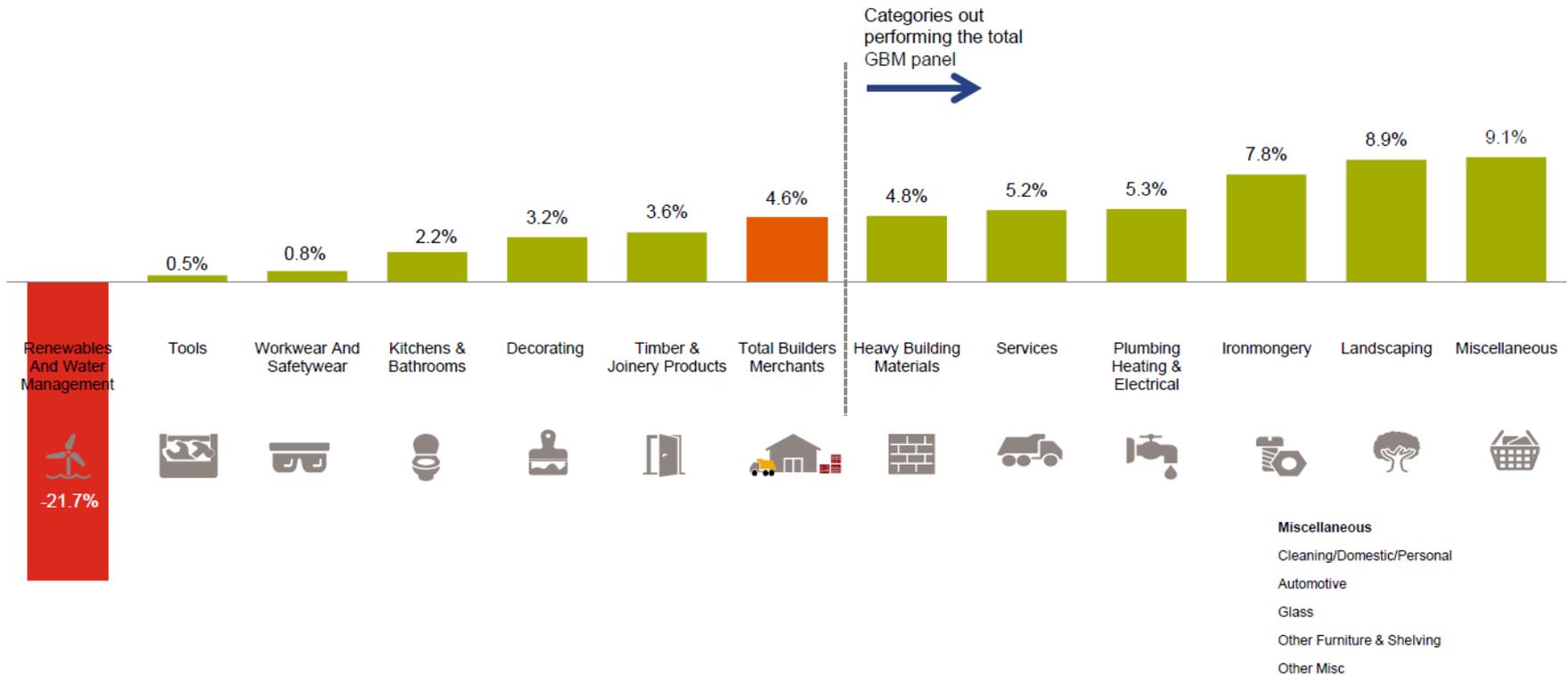
Source: GfK's GBM TCR report. Data July 2014 to Sept 2016 showing £ ex VAT

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GfK Insights



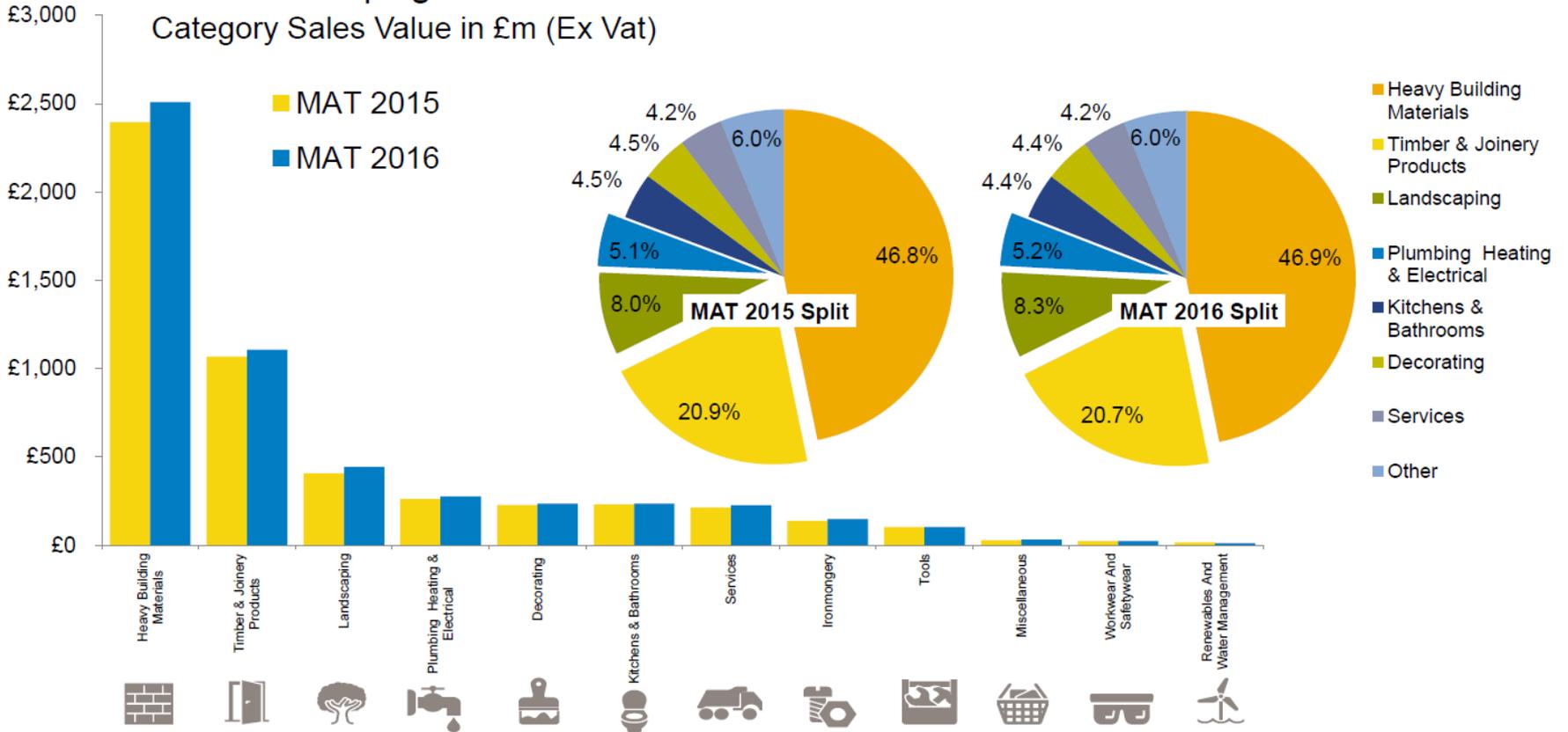
MAT Value growth still showing in all categories except Renewables.



Source: GfK's GBM TCR report. Data July 2014 to Sept 2016 showing £ ex VAT

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Total GBM sales value by Category showing growth in the share of Landscaping sales YoY



Source: GfK's GBM TCR report. Data July 2014 to Sept 2016 showing £ ex VAT

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GfK Insights



How can these top level insights help.



GfK's insights can go much further! Gain competitive advantage.

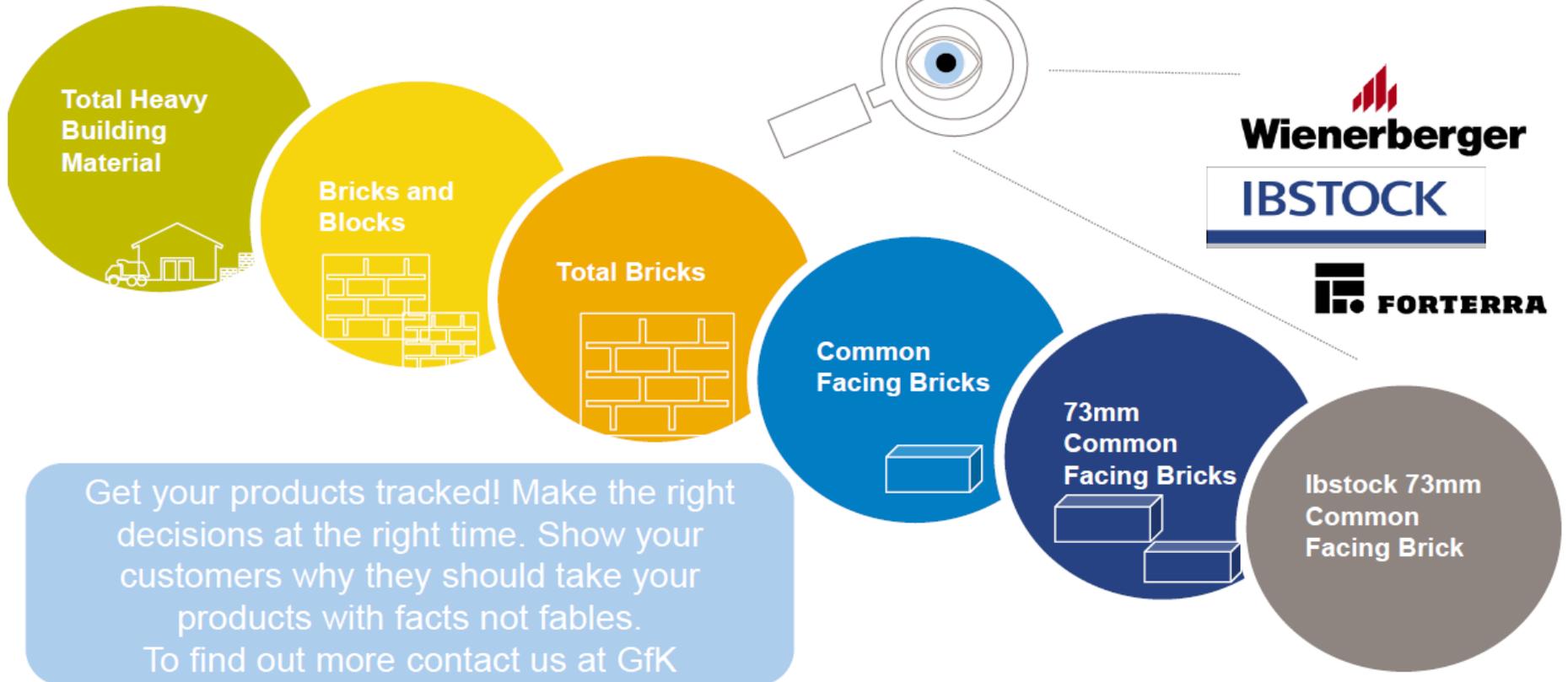
GfK provides the most detailed trade insights in the UK down to product feature level

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GfK Insights



Bricks Product Group insights at feature by brand level are now available! Enabling informed strategic and tactical decision making.

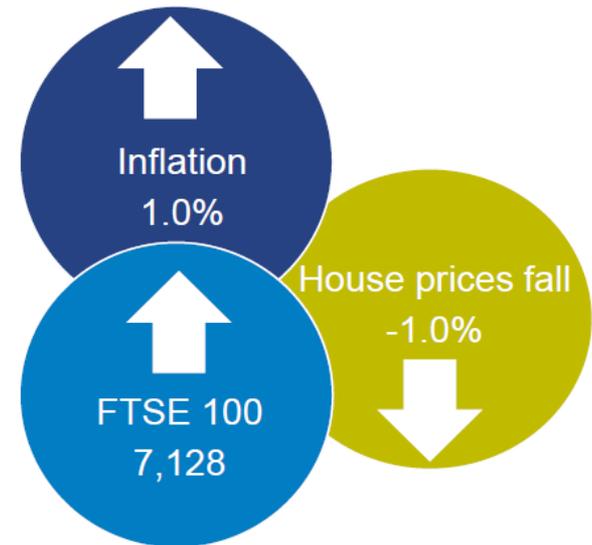


Macro factors impacting Merchants



Economic overview

- Inflation rose to 1.0% in September 2016, up from 0.6% the previous month. Rising prices for clothes, hotel rooms and petrol have led to the highest rate of inflation in nearly two years
- **FTSE 100** index hit a record intraday high of 7,128 points on the 4th October 2016, surpassing its previous intraday high of 7,123 in April 2015
- House prices in the three months to September 2016 were 0.1% lower than in the preceding three months. This is the first quarterly decline in house prices since 2012
- The UK Consumer Confidence Index returns to June's pre-Brexit levels in September 2016 (following a 6 point gain), driven by improved expectations in our personal financial situation, perceptions of the general economic situation and intentions to make major purchases.



Macro factors impacting Merchants

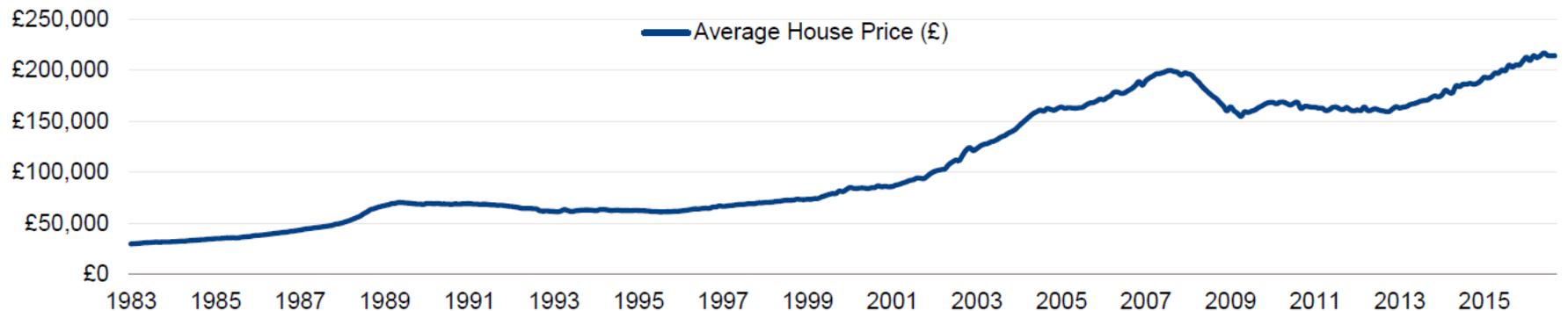


Standardised average house prices

Average Price (year end)		
1995	£62,374	-10%
2000	£84,868	+36%
2005	£163,139	+92%
2010	£168,390	+3%
2013	£174,220	+3%
2014	£189,426	+8%
2015	£208,286	+10%

- The housing market has seen an easing in house price inflation over the last 6 month.
- This follows a period of sustained growth, fuelled by the economic recovery and rising employment

- At the end of September 2016, the average house price in the UK fell to £214,024 from £216,726 in June 2016.



Source: Lloyds Banking Group plc

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Macro factors impacting Merchants



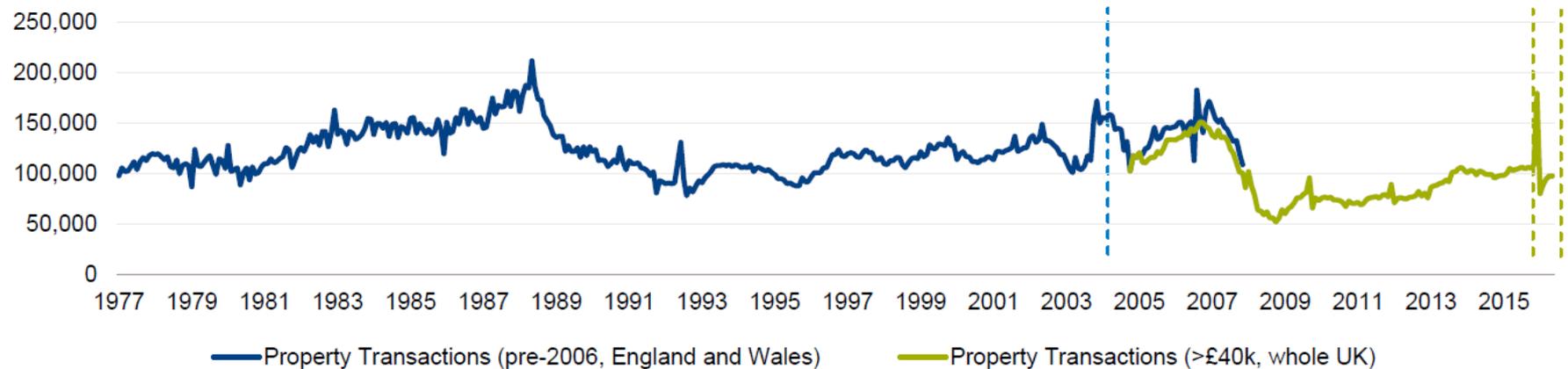
Property transactions

Monthly transactions, residential, seasonally adjusted

Annual total	
2006	1,668,470
2009	847,540
2010	879,050
2011	883,770
2012	932,000
2013	1,067,700
2014	1,223,120
2015	1,228,710

- Stamp duty was altered significantly on 1st December 2003
- April 2016, major changes to the amount of Stamp Duty property investors will have to pay when purchasing a second home or a buy to let property

- Levels of seasonally adjusted property transactions remained largely unchanged in September 2016 compared to the previous month.
- This follows the March/April 2016 peak and fall, as people rushed to beat the new stamp duty changes coming into force in April 2016



Source: HM Revenue & Customs

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Macro factors impacting Merchants



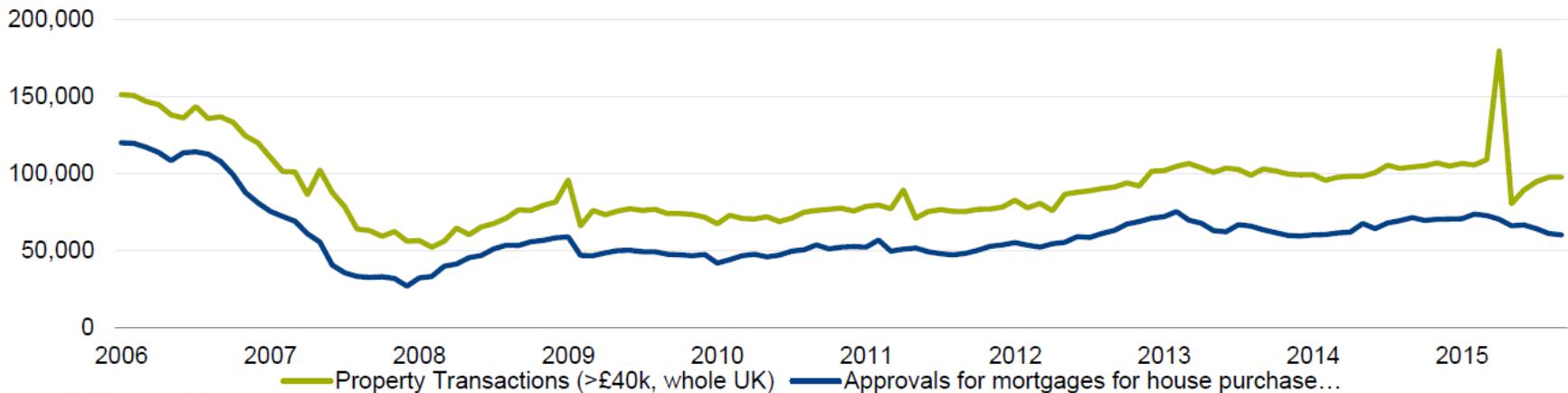
Mortgage approvals and property transactions

Monthly residential transactions and mortgage approvals (seasonally adjusted)

▪ There were 60,058 mortgage approvals in August 2016, down from 71,337 in August 2015

▪ Mortgage approvals in August 2016 were 16.0% lower than a year ago, and have declined for each of the last 3 months

▪ The March/April 2016 peak and subsequent fall in property transactions, may be attributed to people rushing to beat the new stamp duty changes coming into force in April 2016



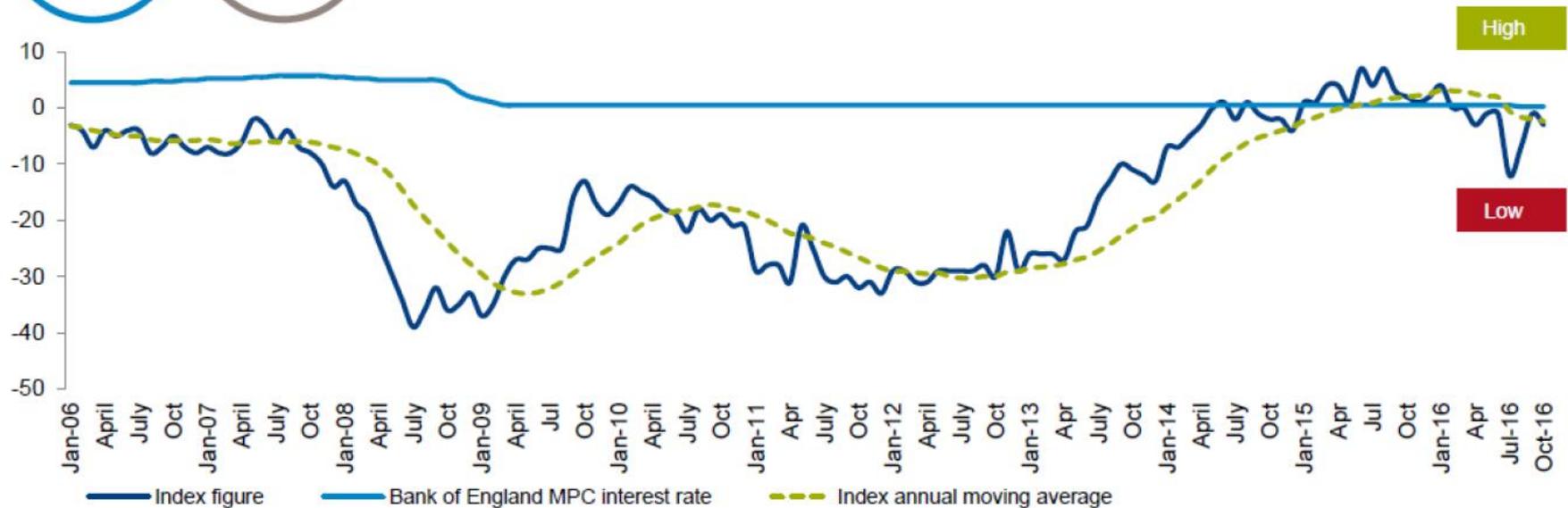
Source: HM Revenue & Customs

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Macro factors impacting Merchants



A long term view shows the historic high level of consumer confidence in general



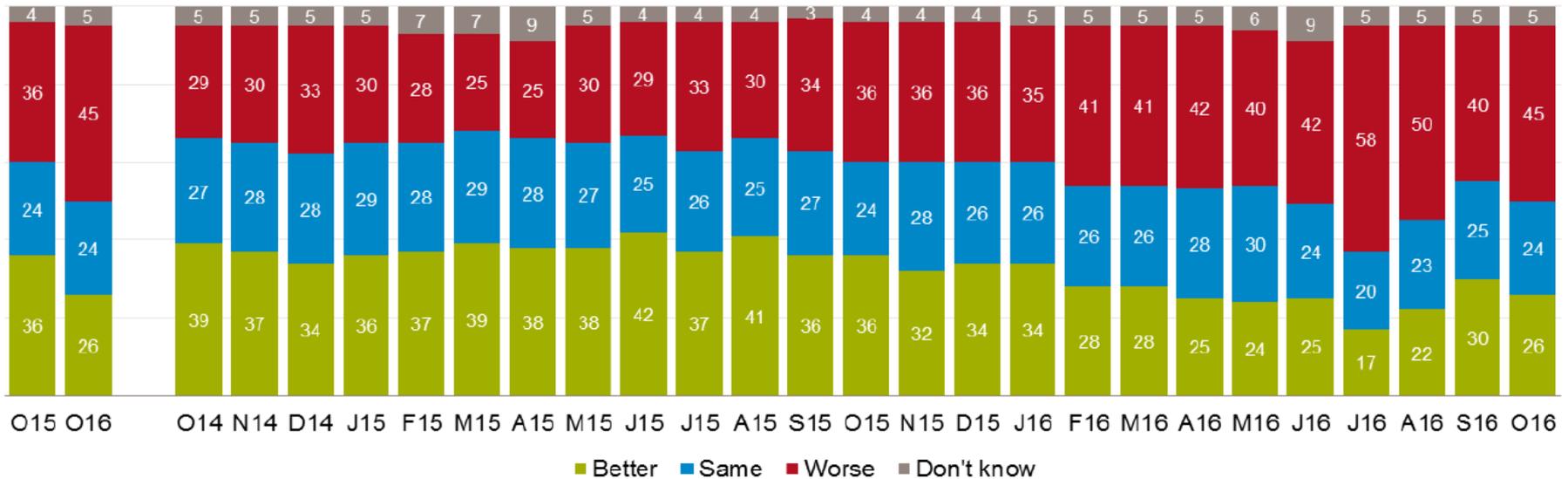
Macro factors impacting Merchants



Consumer Confidence Barometer



How do you think the general economic situation in this country will develop over the next twelve months?



Macro factors impacting Merchants

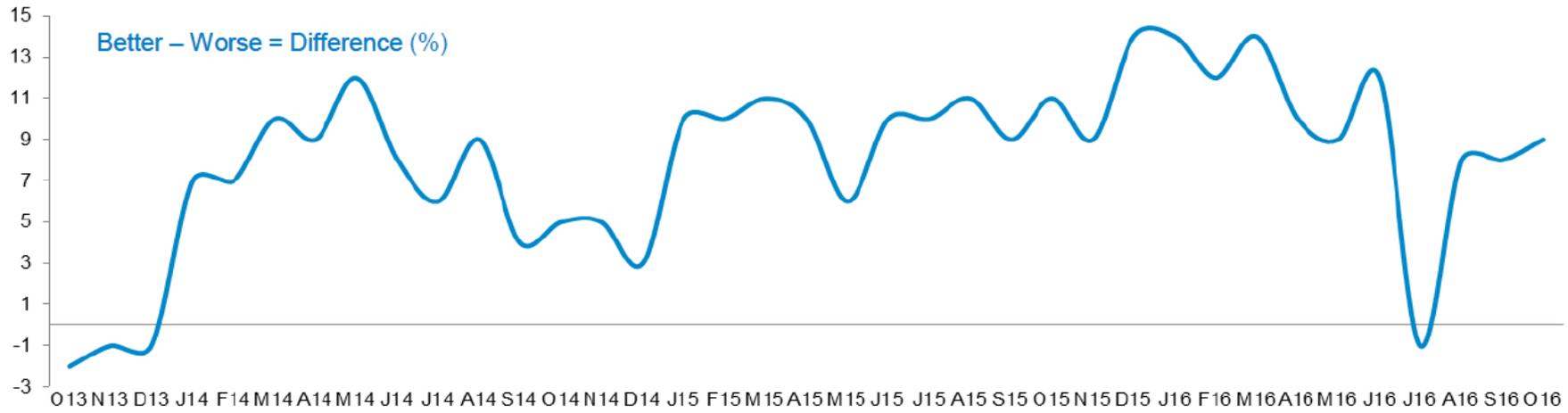


Consumer Confidence Barometer



How do you think your household's financial position will change over the next twelve months?

Better – Worse = Difference (%)



	O13	N13	D13	J14	F14	M14	A14	M14	J14	J14	A14	S14	O14	N14	D14	J15	F15	M15	A15	M15	J15	J15	A15	S15	O15	N15	D15	J16	F16	M16	A16	M16	J16	J16	A16	S16	O16
Difference (%)	-2	-1	-1	7	7	10	9	12	8	6	9	4	5	5	3	10	10	11	10	6	10	10	11	9	11	9	14	14	12	14	10	9	12	-1	8	8	9
Better	25	25	25	27	27	29	28	30	28	27	28	26	28	27	26	31	31	32	31	29	32	33	33	31	33	31	35	35	34	36	34	31	33	28	32	32	31
Same	45	46	46	49	50	48	51	48	48	48	49	48	45	47	48	45	44	44	44	44	43	41	42	44	42	44	41	41	41	39	39	44	43	40	41	41	43
Worse	27	26	26	20	20	19	19	18	20	21	19	22	23	22	23	21	21	21	21	23	22	23	22	22	22	22	21	21	22	22	24	22	21	29	24	24	22

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