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one **voice**”

Builders Merchant Building Index



Quarter 2 2018

Building the Industry & Building Brands from Knowledge



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Introduction



This Builders Merchant Building Index (BMBI) 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. GfK's Builders Merchant Point of Sale Tracking Data sets a gold standard in reliable market trends. 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.

BMBI trend data 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 the industry access to far more accurate and comprehensive insights than that available to other construction sectors.

MRA Marketing produces the Builders Merchant Building Index, a brand of the BMF, to communicate to the wider market as the voice of the industry as well as the voice of individual Expert Brands: Crystal Direct, Keylite Roof Windows, Timbmet, Alumasc Water Management Solutions, Hanson Cement, IKO PLC, Keystone Lintels, Knauf Insulation, Encon Insulation, Ibstock, Talasey Group, Heatrae Sadia and Dulux Trade, who provide valuable commentary on market trends and influences. This quarter we welcome Mike Tattam, Sales & Marketing Director Lakes Bathrooms, as our Expert on Shower Enclosures and Showering.

More data available

This BMBI report provides valuable top-level indices but there's considerably more data available. GfK insights go much deeper and include sales value data. GfK can quantify market values and drill down into contributing categories, tracing product group performance, to focus on aspects that are critical 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 acquiring data or getting involved should contact Richard Frankcom at richard.frankcom@gfk.com.

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

Overview and Insights

Richard Frankcom, Key Account Director, GfK



“Following the dramatic weather in quarter 1 delaying the usual end of quarter external work kick off, I have been expecting a strong quarter 2 performance; it did not disappoint, growing in value terms 7.2% year on year.

Landscaping initially struggled as the bad weather rolled into the first half of April, resulting in the category being down 4.3% year on year, with Driveway, Block and Commercial Paving and Kerbs particularly badly hit. However, as the weather improved the whole category exploded into life delivering growth of 11.3% and 11.7% year on year for May and June and a quarterly growth of 6.5%.

Heavy Building Materials also showed strong growth in quarter 2, up 6.3% year on year. Plaster, Plasterboard and Insulation had a great April year on year as typical external works were still delayed and then Drainage, Civils and Guttering had a strong end to the quarter as the trades moved outside.

The cold weather in quarter 1 also seemed to stimulate growth in Quarter 2 within the Plumbing, Heating and Electrical category as people looked to upgrade old or failing equipment. The category had exceptional year on year growth up 13.3%, with April growing at 22.5% year on year driven by Boilers and Lighting.

Timber and Joinery also had a great quarter and had a major impact on total value growth this quarter, up 9.5% year on year with April delivering exceptional growth of 12.6%. Sheet Materials sub category was a big contributor, with its quarterly growth percentage hitting the high teens.

Before we break out the champagne and fire the corks at those naysayers, we must be wary. Price inflation and one extra trading day this year in quarter two had an effect on growth. Nevertheless we should be content that the sector is still in good health.

Looking forward, what effect will the sunny start to quarter 3 and a successful World Cup have had on sales? Will our delicate British constitutions have melted; will the call of a ‘cold one’ while watching the ‘waist coated one’ have been too strong? Will the feel-good factor have pushed the builders and merchants on once again? We will see.

“Price inflation and one extra trading day this year in quarter two had an effect on growth. Nevertheless we should be content that the sector is still in good health.”

Merchants' View

John Newcomb, CEO BMF



As the Q2 data sets are published by government departments and various industry bodies, the impact of the weather on construction output is once again clear to see. Thankfully, there has been a positive effect this quarter with warm, dry weather for much of the period enabling construction work to catch up on sites where work had stalled during the February freeze.

In the short term, construction appears to be making hay while the sun shines. After a poor first quarter, the merchant industry will be buoyed by Q2 sales and, with above average temperatures forecast into the autumn, remains confident of continued growth this year.

Figures from the Office of National Statistics (ONS) show overall construction output grew by 0.9% in Q2, largely driven by a 2.7% increase in Repair, Maintenance and Improvement work – a mainstay for many builders' merchants' customers.

There has been something of a boom in private domestic RMI work in recent years, stemming from the combined effects of increases in stamp duty deterring home movers and an easing of planning constraints encouraging owners to extend their existing properties. A current permitted development right enables householders to increase the size of their property with a large rear extension, but this has only been granted until 30 May 2019.

While there may be a disproportionate impact on SME building firms if this right is withdrawn next year, the sector is currently doing well, with over five years of continuous growth now recorded. The Federation of Master Builders' (FMB) State of Trade Survey for Q2 was positive on all its key metrics – with increased workloads, enquiries, employment and expectations.

That said, there are other factors dampening the FMB's positivity, namely their members' expectations of rising output prices, material costs, wages and salaries during the second half of the year. The FMB's Q2 results found that SME builders were already struggling to hire tradespeople, particularly bricklayers and carpenters and joiners.

With Brexit looming next year, and future access to EU labour uncertain, this has the potential to escalate into a skills crisis unless Government and industry act urgently.

“In the short term, construction appears to be making hay while the sun shines. After a poor first quarter, the merchant industry will be buoyed by Q2 sales .”

Monthly: Index and Categories

June 2017* – June 2018

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



MONTHLY SALES VALUE INDEX	Index	2017							2018					
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Total Builders Merchants	100	120.2	119.2	120.2	117.5	123.4	121.6	76.7	102.6	104.5	112.2	116.1	129.4	127.6
Timber & Joinery Products	100	116.7	116.3	117.3	116.9	124.4	122.1	77.8	108.0	107.6	112.9	115.9	126.7	126.2
Heavy Building Materials	100	121.2	120.6	121.6	119.4	125.8	122.8	75.2	100.5	103.3	110.8	115.9	128.7	128.0
Decorating	100	111.8	114.6	115.6	110.5	115.4	114.9	76.6	101.9	100.8	106.5	106.6	117.0	114.9
Tools	100	109.9	109.8	110.8	110.4	119.2	119.8	75.3	101.3	100.0	111.2	105.1	110.5	113.3
Workwear & Safetywear	100	99.4	95.2	96.2	107.0	112.9	131.0	86.1	117.2	107.3	108.3	100.2	96.0	95.7
Ironmongery	100	124.5	125.6	126.6	123.4	130.6	129.5	85.5	120.4	114.8	118.0	117.3	125.7	123.9
Landscaping	100	146.9	140.8	141.8	117.1	115.8	105.8	60.0	81.3	88.0	104.8	132.1	170.4	164.1
Plumbing, Heating & Electrical	100	110.0	106.6	107.6	120.3	128.9	141.9	97.4	127.2	125.2	136.1	120.4	122.7	117.1
Renewables & Water Saving	100	69.9	66.6	67.6	69.2	78.3	82.2	46.8	75.2	76.3	79.8	74.2	70.4	75.0
Kitchens & Bathrooms	100	118.3	113.7	114.7	114.5	120.2	128.6	85.9	108.2	115.2	120.3	111.9	119.2	117.8
Miscellaneous	100	113.7	117.2	118.2	119.8	118.4	125.3	90.7	114.4	113.2	114.2	111.3	120.5	115.3
Services	100	109.7	110.6	111.6	110.6	114.0	109.2	79.0	93.1	96.4	107.3	109.6	125.4	116.9

*Click the web link below to see the complete series of indices from July 2015.

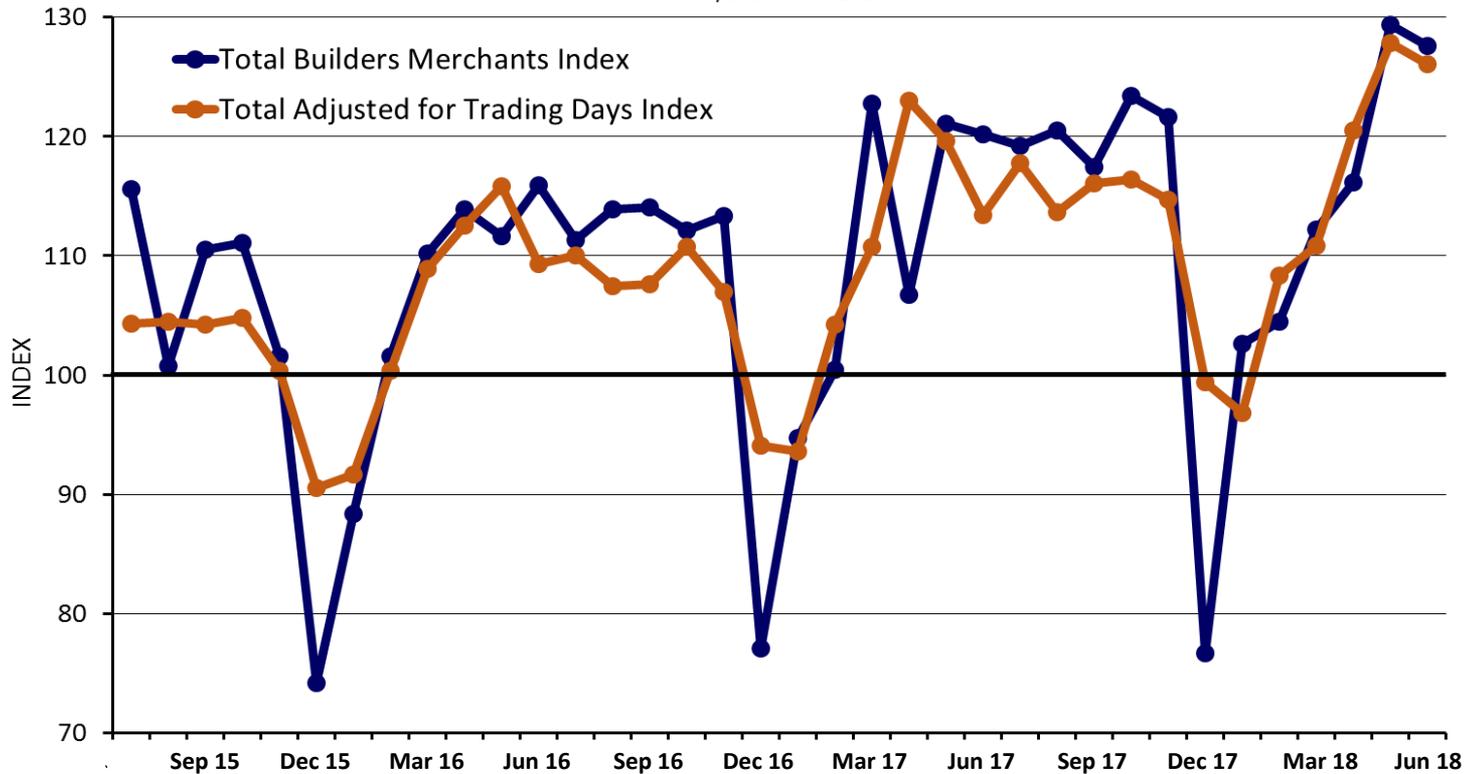
Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Monthly: Index

Adjusted and unadjusted for trading days

Total Builders Merchants Index v Total Adjusted for Trading Days Index

Indexed on July 2014 - June 2015



Trading days:

Index 20.8

Months:

23 20 22 22 21 17 20 21 21 21 20 22 21 22 22 21 22 17 21 20 23 18 21 22 21 22 21 22 22 16 22 20 21 20 21 21

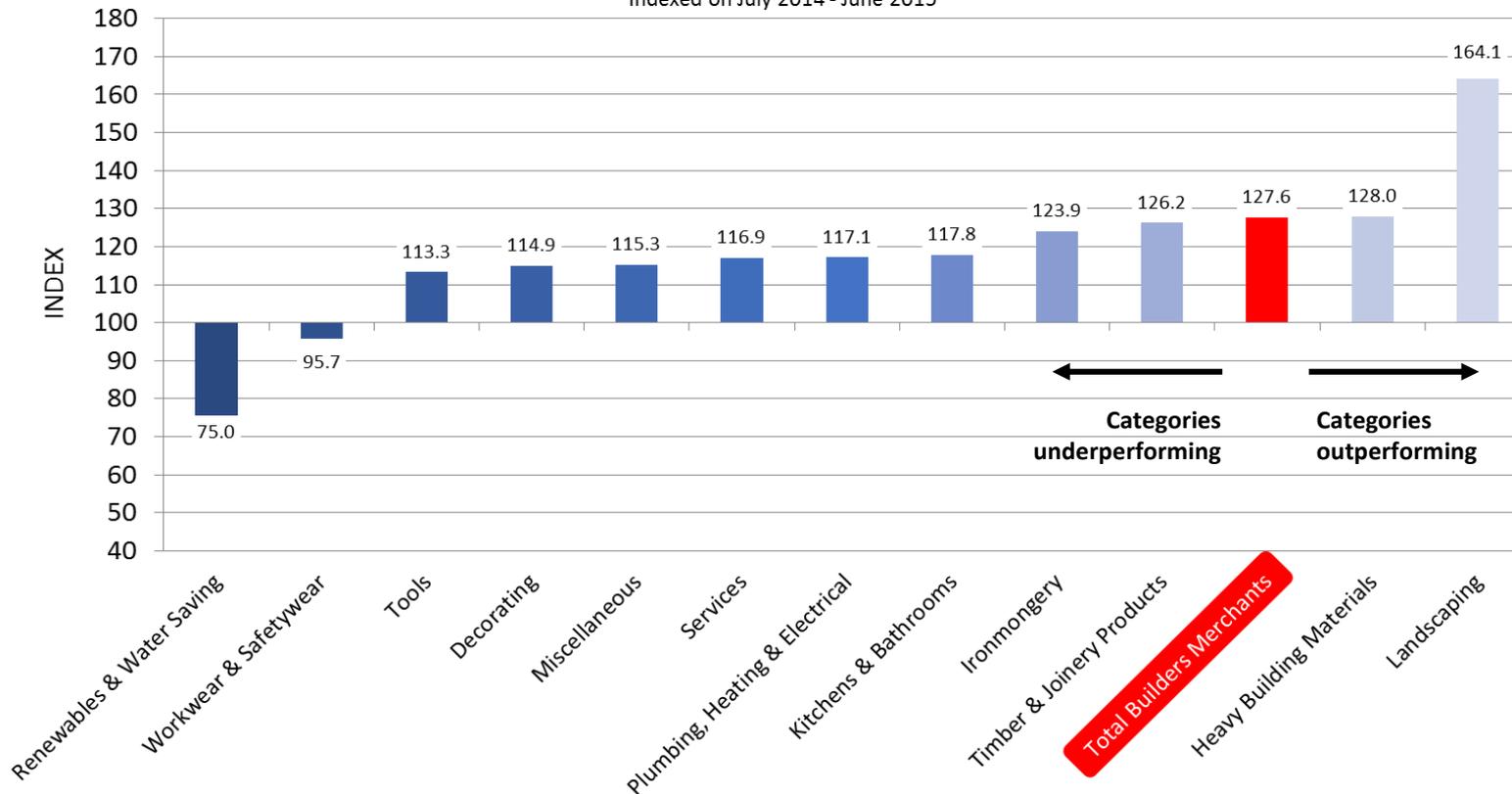
 Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Monthly: Index and Categories

June 2018 index

June 2018 Index

Indexed on July 2014 - June 2015

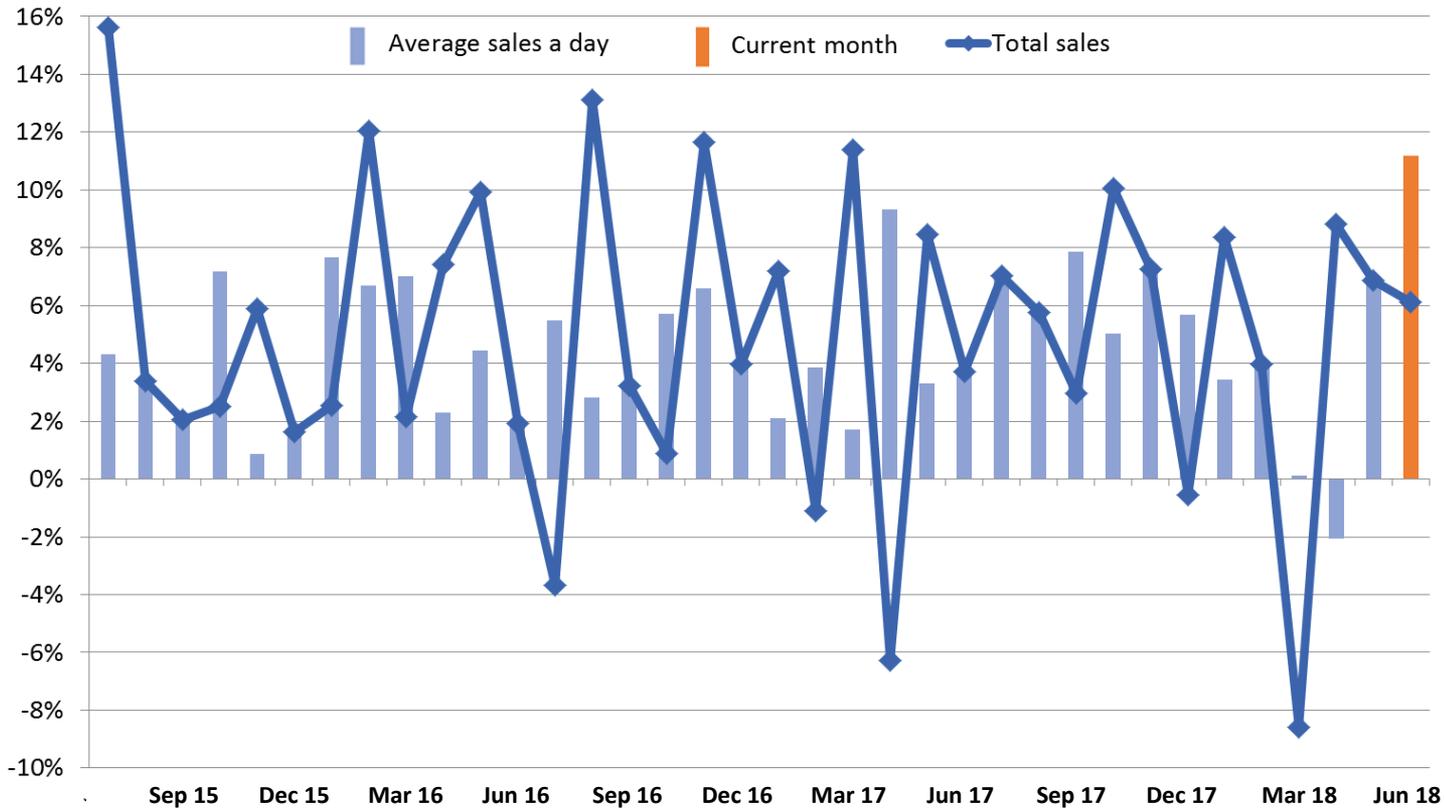


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Monthly: Sales Indices

Adjusted and unadjusted for trading days

Monthly: Year on Year



Trading days: Index 20.8

Months: 23 20 22 22 21 17 20 21 21 21 20 22 21 22 22 21 22 17 21 20 23 18 21 22 21 22 22 22 16 22 20 21 20 21 21

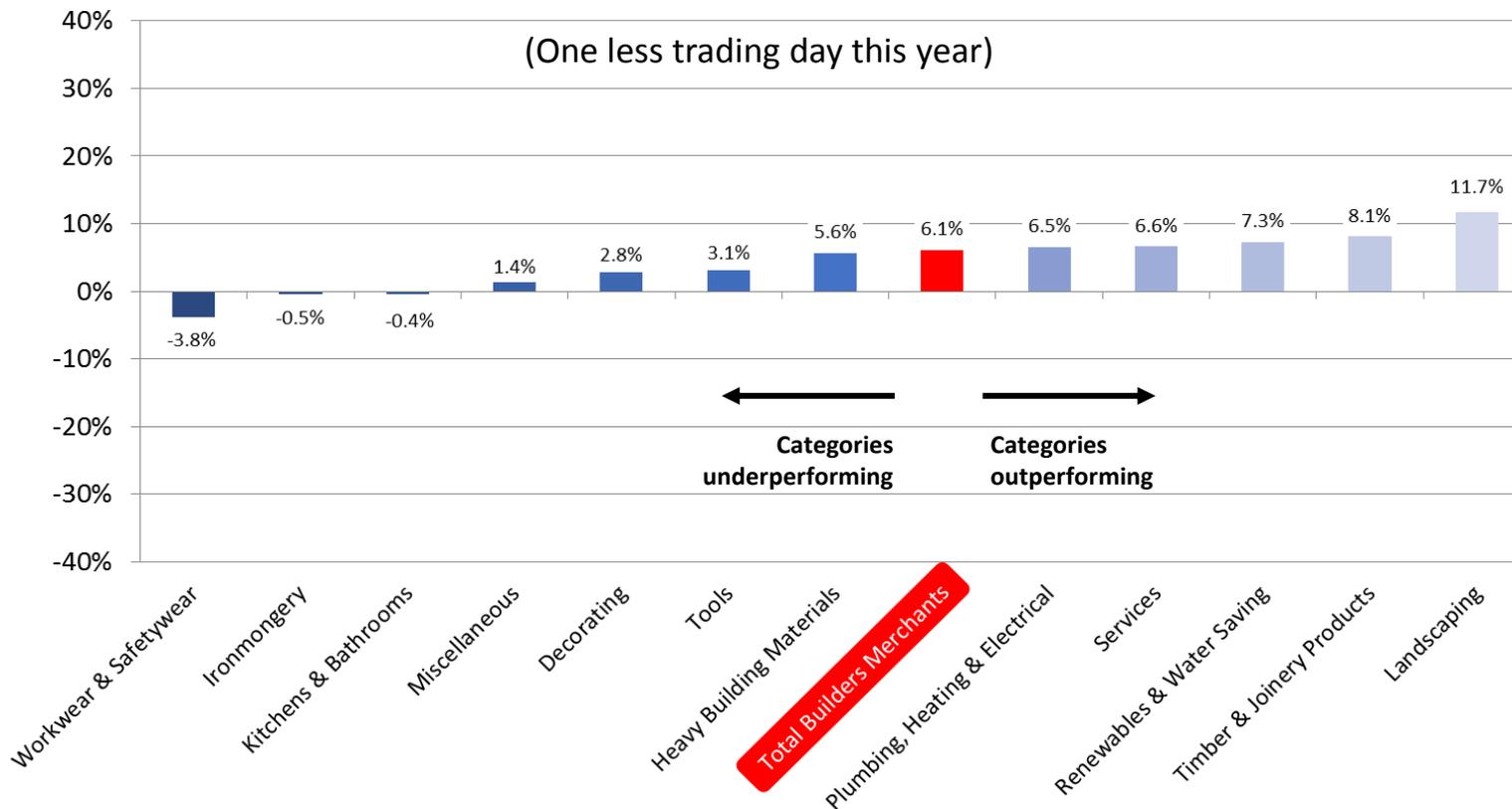
 Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Monthly: This year v last year

June 2018 sales indices

June 2018 index v June 2017 index

(One less trading day this year)

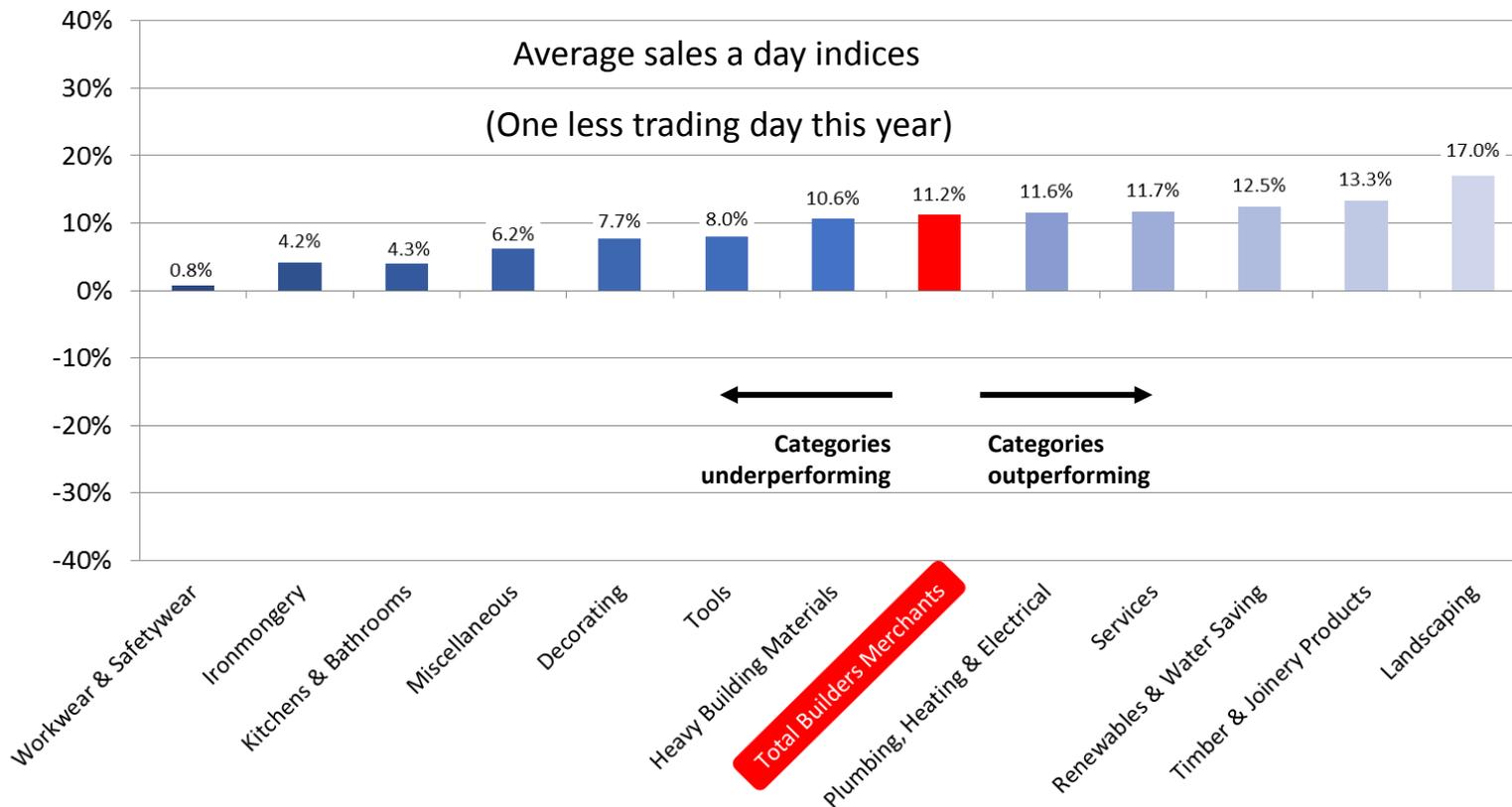


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Monthly: This year v last year

June 2018 average sales a day indices

June 2018 index v June 2017 index



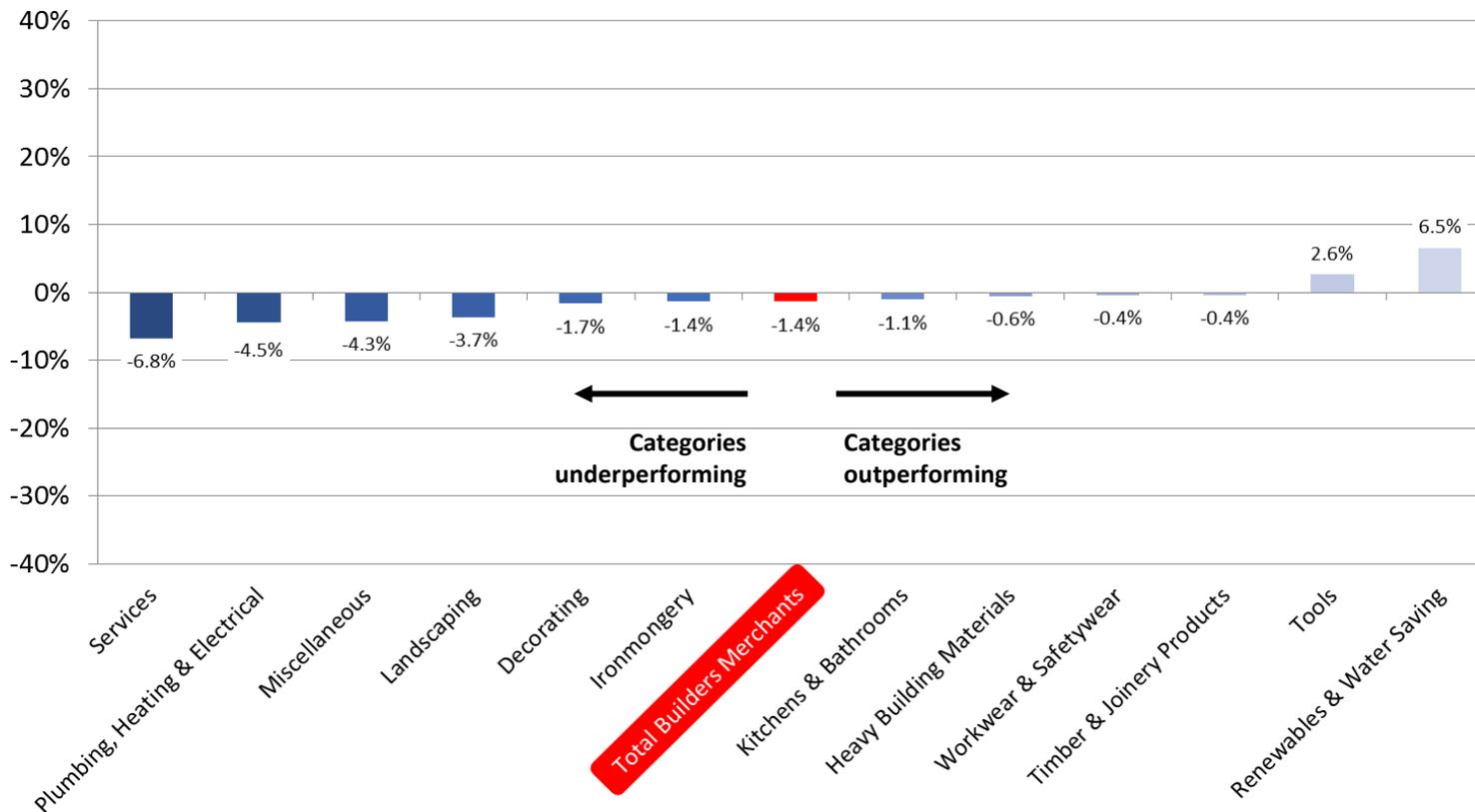
 Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Monthly: This month v last month

June 2018 sales indices



June 2018 index v May 2018 index



Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Quarterly: Index and Categories

Quarter 2 2017* to Quarter 2 2018

(Indexed on July 2014 to June 2015)



QUARTERLY SALES VALUE INDEX	Index	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Total Builders Merchants	100	116.0	119.1	107.2	106.4	124.4
Timber & Joinery Products	100	112.3	117.1	108.1	109.5	122.9
Heavy Building Materials	100	116.9	120.7	107.9	104.9	124.2
Decorating	100	107.2	113.9	102.3	103.0	112.8
Tools	100	104.7	109.8	104.7	104.2	109.6
Workwear & Safetywear	100	95.3	100.9	110.0	110.9	97.3
Ironmongery	100	117.9	125.3	115.2	117.8	122.3
Landscaping	100	146.0	130.4	93.8	91.4	155.5
Plumbing, Heating & Electrical	100	106.0	113.4	122.7	129.5	120.1
Renewables & Water Saving	100	69.4	69.0	69.1	77.1	73.2
Kitchens & Bathrooms	100	109.6	115.2	111.6	114.6	116.3
Miscellaneous	100	112.5	120.5	111.4	113.9	115.7
Services	100	107.6	112.4	100.7	98.9	117.3

*Click the web link below to see the complete series of quarterly indices from Q2, 2015.

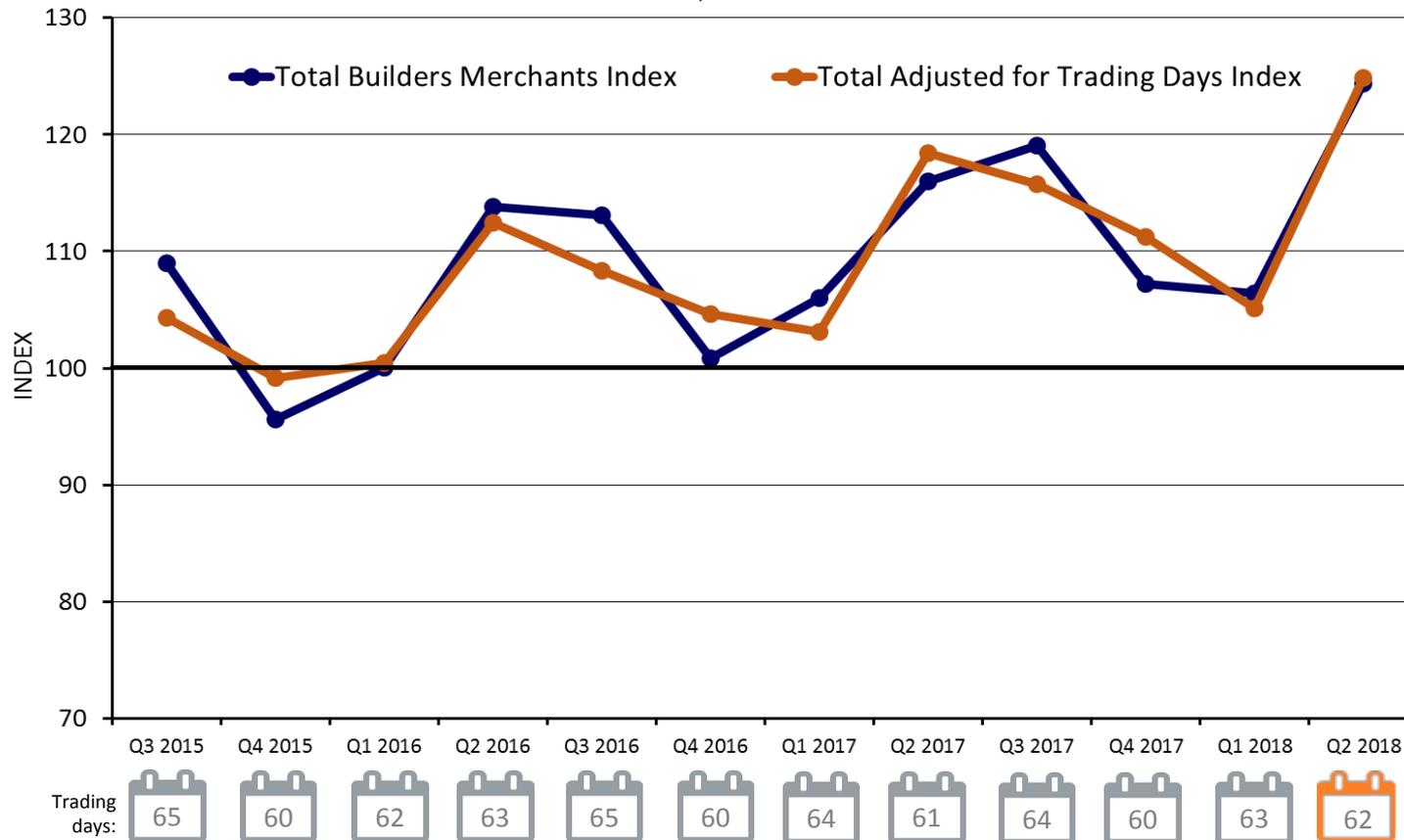
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Quarterly: Index

Adjusted and unadjusted for trading days

Total Builders Merchants Index v Total Adjusted for Trading Days Index

Indexed on July 2014 - June 2015



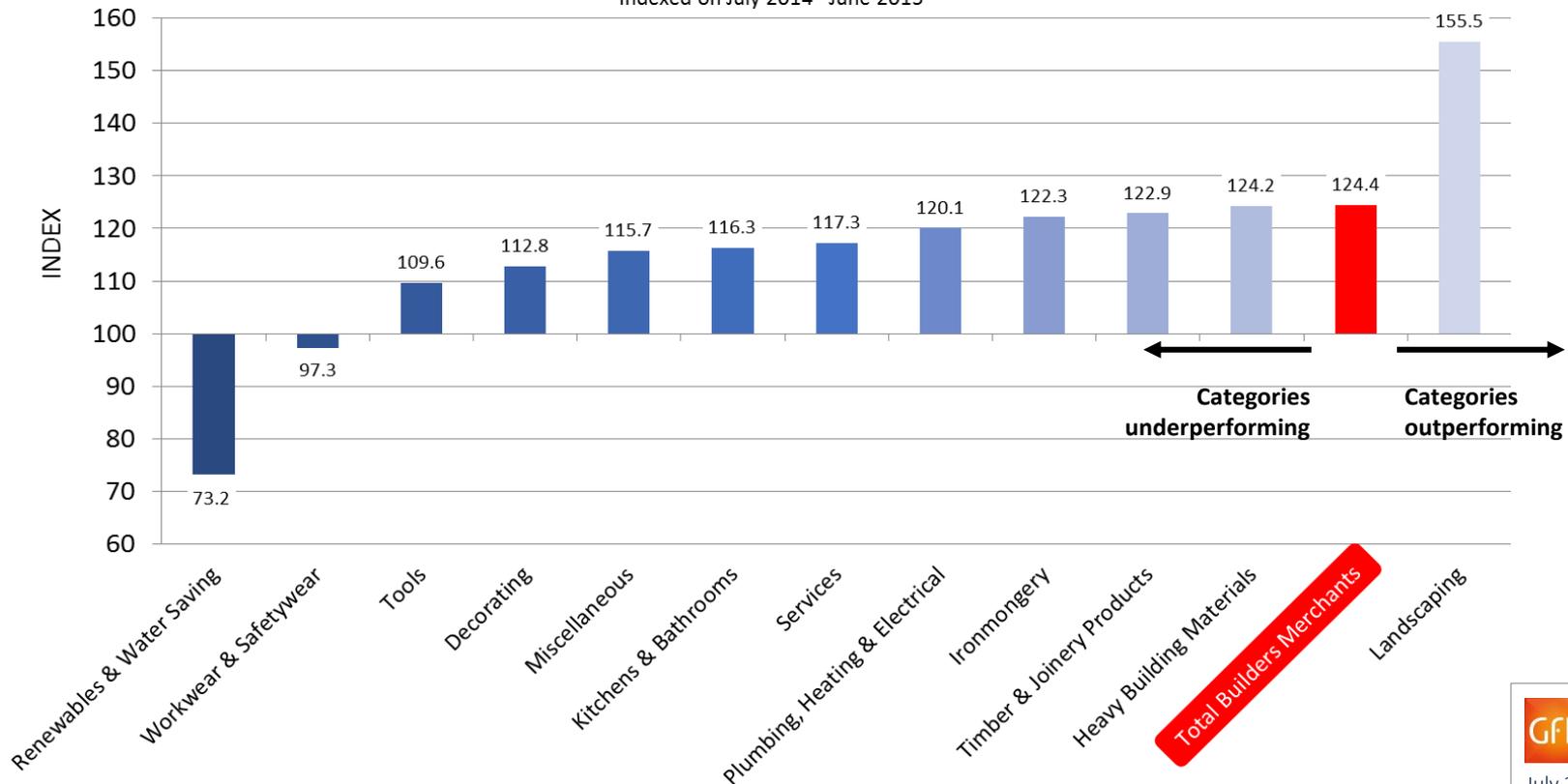
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Quarterly: Index and Categories

Q2 2018 index

Quarter 2 2018

Indexed on July 2014 - June 2015



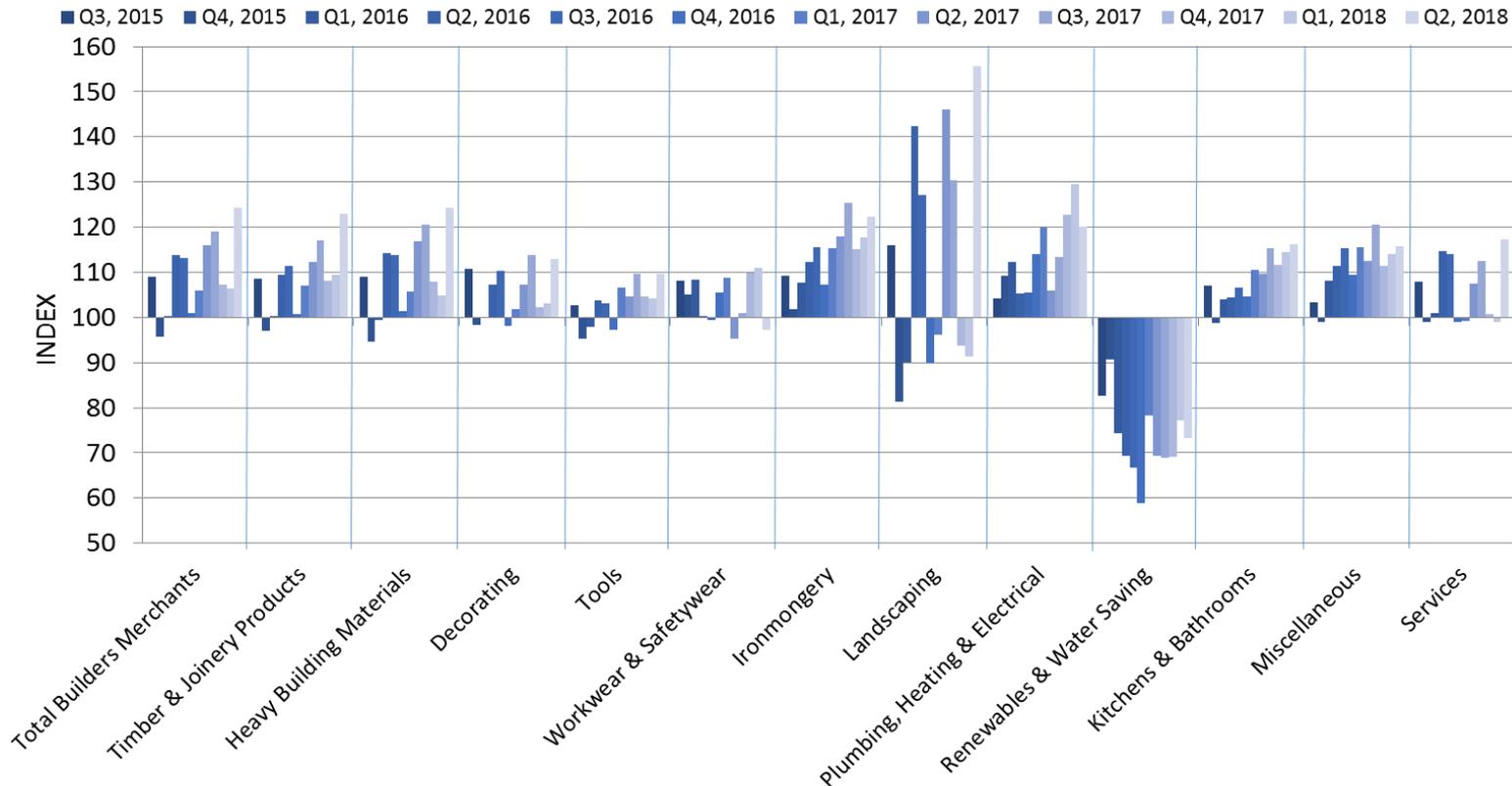
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Quarterly: Index and Categories

Quarterly indices

Quarterly Indices

Indexed on July 2014 to June 2015

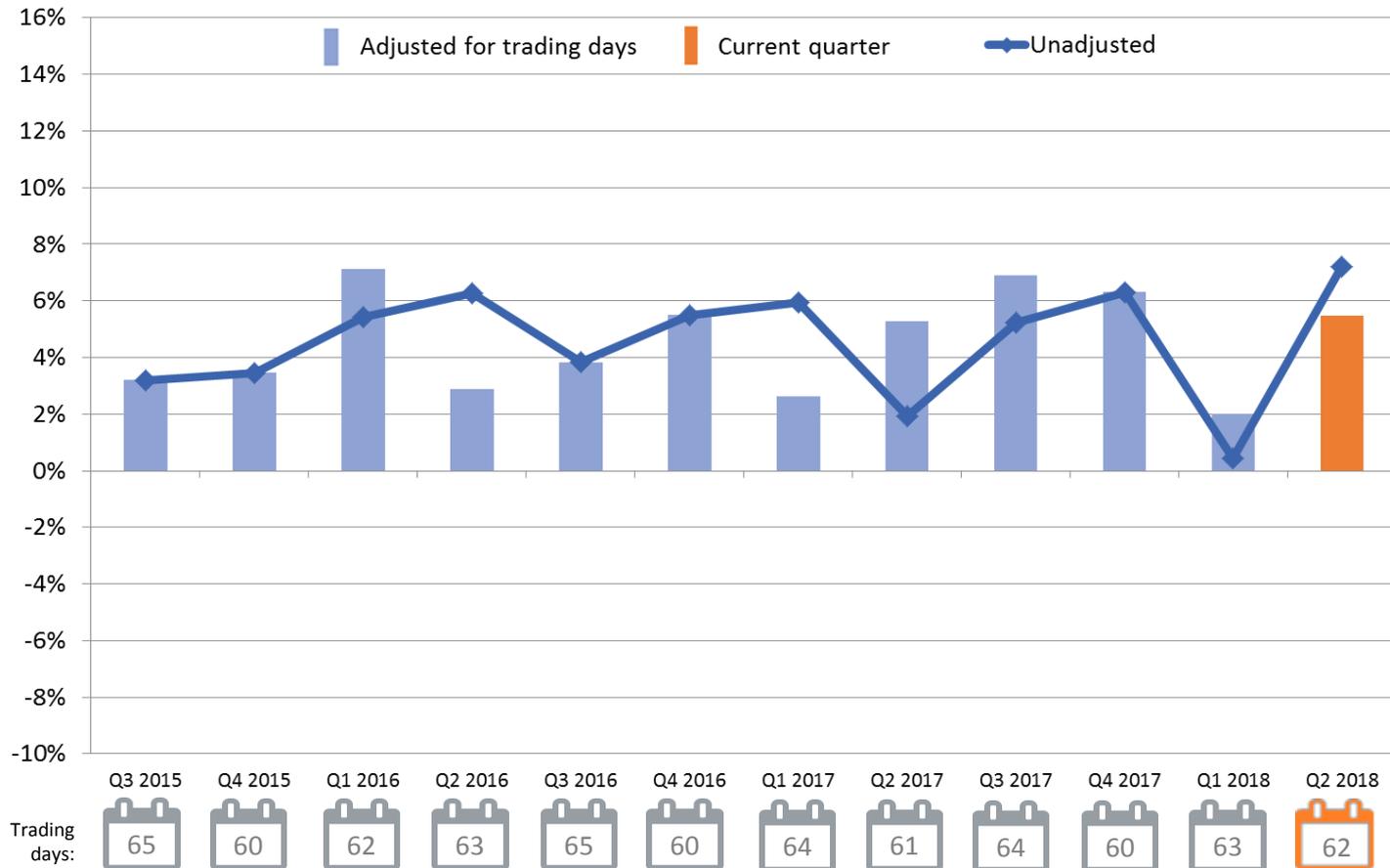


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Quarterly: Sales Indices

Adjusted and unadjusted for trading days

Quarterly Indices: Year on Year

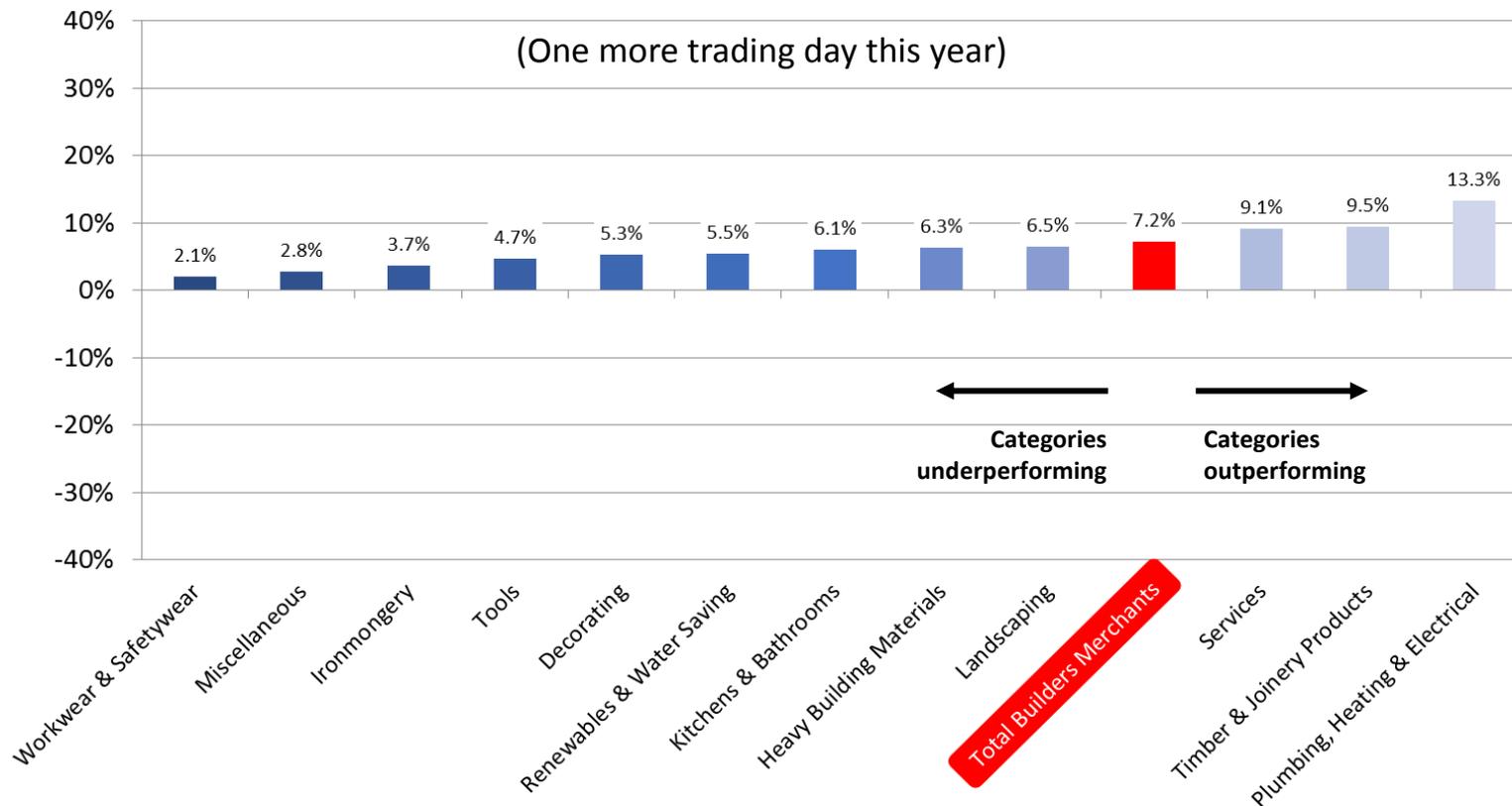


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to March 2018

Quarterly: This Year v Last Year

Q2 2018 sales indices

Quarter 2 2018 index v Quarter 2 2017 index



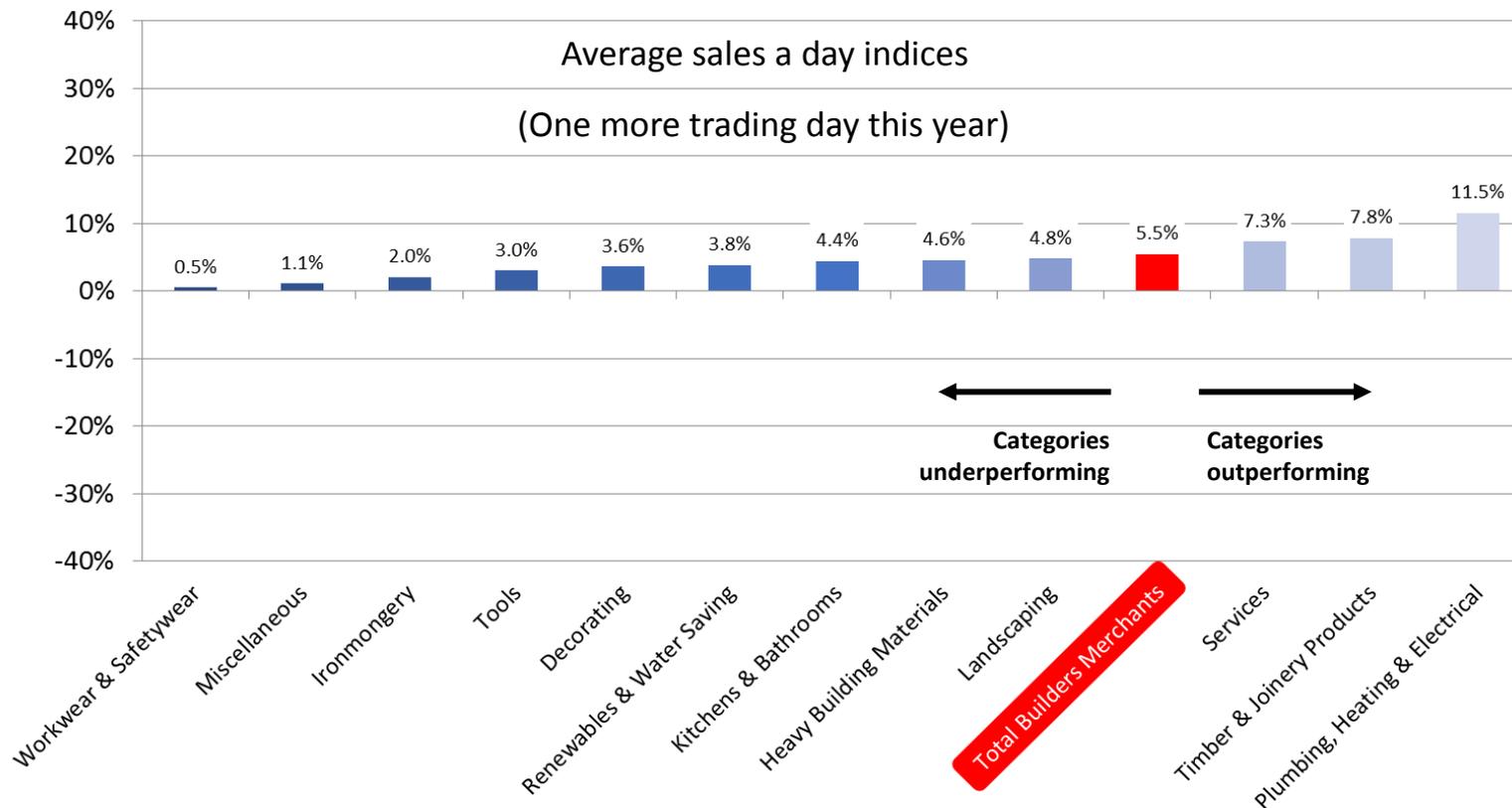
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Quarterly: This Year v Last Year

Q2 2018 average sales a day indices



Quarter 2 2018 index v Quarter 2 2017 index



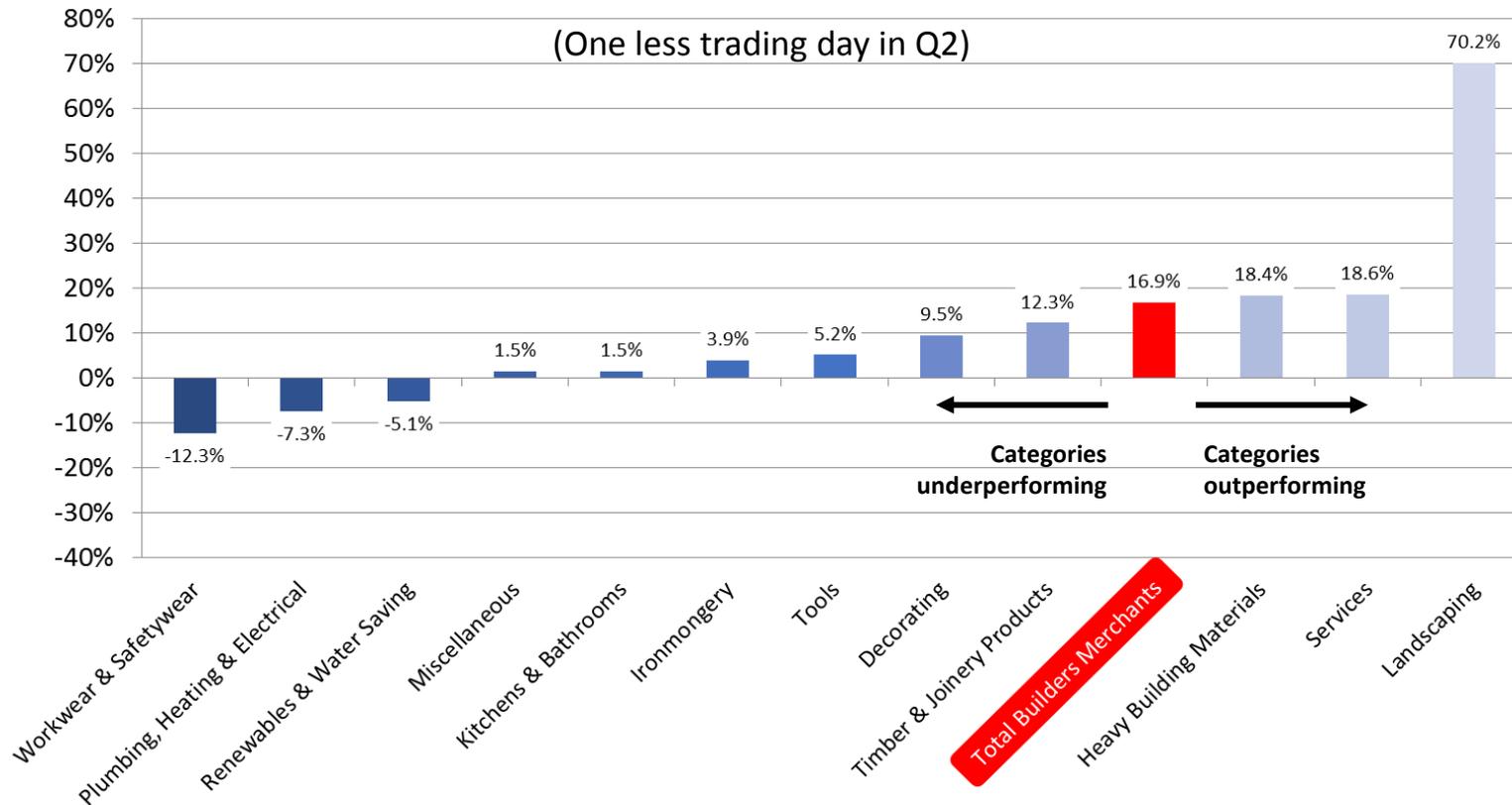
Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Quarterly: Quarter on Quarter

Q2 2018 sales indices

Quarter 2 2018 index v Quarter 1 2018 index

(One less trading day in Q2)

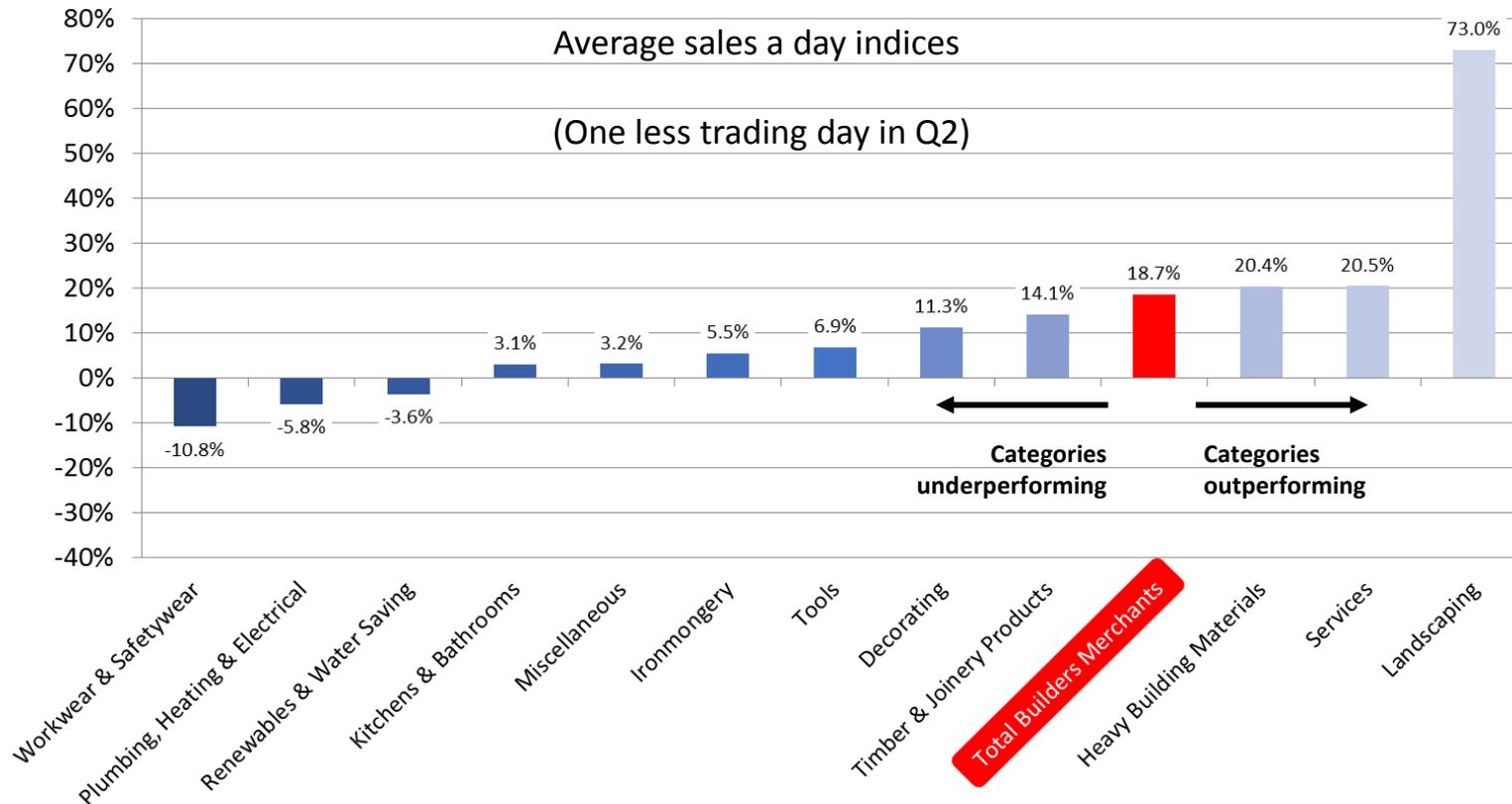


 Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Quarterly: Quarter on Quarter

Q2 2018 average sales a day indices

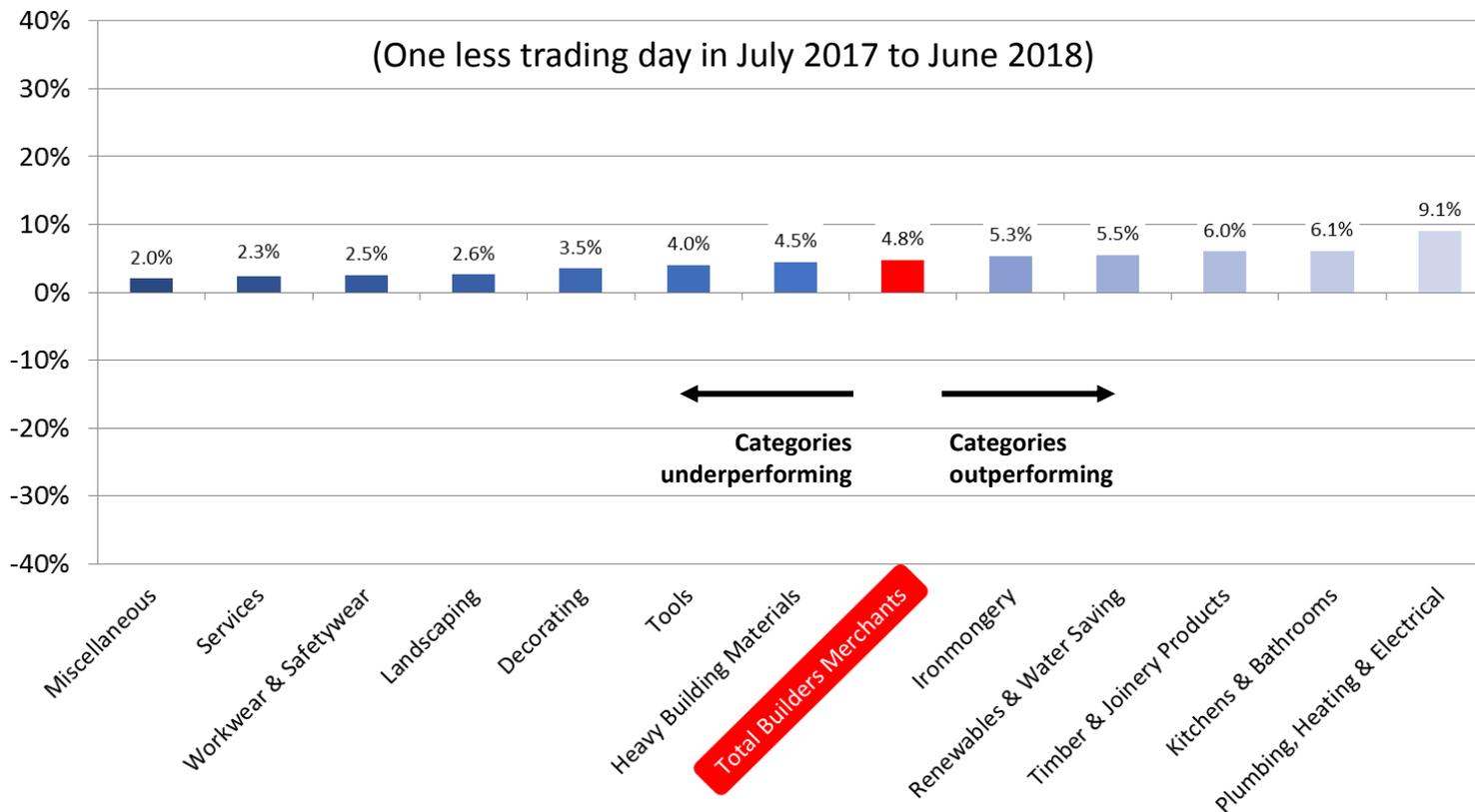
Quarter 2 2018 Index v Quarter 1 2018 Index



 Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Last 12 Months: Year on Year

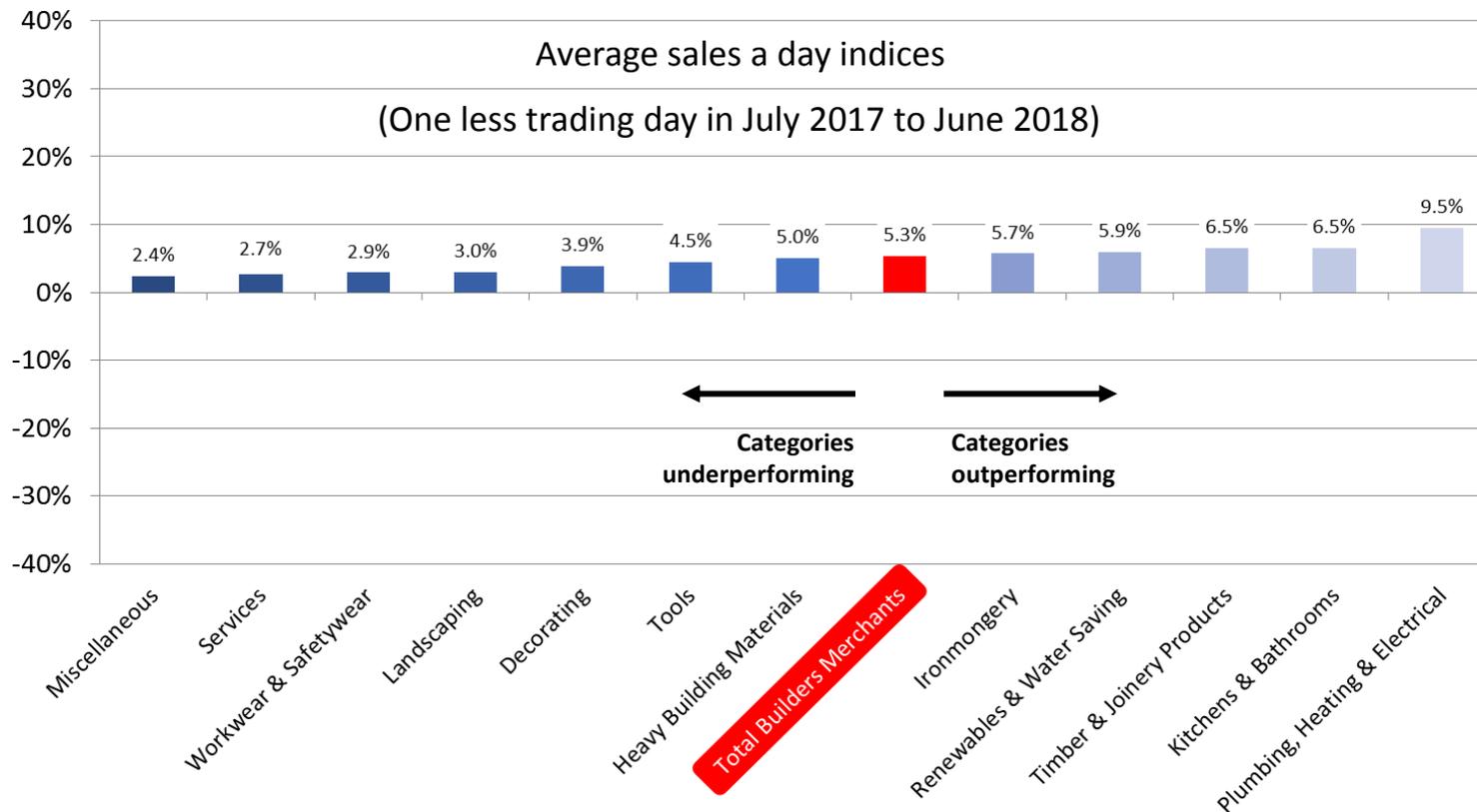
12 months Jul 17 to Jun 18 v 12 months Jul 16 to Jun 17



 Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Last 12 Months: Year on Year average sales a day indices

12 months Jul 17 to Jun 18 v 12 months Jul 16 to Jun 17



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Expert Panel

Shower Enclosures & Showering

(Part of Kitchens & Bathrooms)



Mike Tattam, Sales & Marketing Director Lakes Bathrooms, is BMBI's Expert for Shower Enclosures & Showering.

Home improvement retailers struggled with the weather and a less confident retail market this year. But, RMI continues to perform. This BMBI report shows that kitchen and bathroom Q2 sales were 6.1% up in value on the same quarter last year, and the past 12 months were 6.1% up compared to the previous twelve, making it the second best performing BMBI category.

It's been a relatively flat start to the year for shower enclosures though, with signs of improvement from this quarter. Merchant and stockist showrooms reported less foot traffic in June and July, coinciding with the World Cup and extremely warm weather.

Compared to other 'bathroom' products, people spend less time thinking about shower enclosures: they look through the glass at the shower head, fittings, or tiles before they see the enclosure. That's because enclosure brands have left it to others to promote showering spaces, and not explained why or how the showering space is important. However, emerging trends are shaping the market, providing opportunities for strong growth.

Eight out of ten people now prefer to shower than take a bath. New build homes are shrinking, so housebuilders favour stand-up showers instead of baths, and lifestyles are changing with an increase in multigenerational households having an impact too. The bathroom is increasingly becoming a personal sanctuary and it's an important space with enclosures at the heart of good showering.

The most significant trend is the development of 'The Haves', driven by the rising value of homes, housing wealth and demographics. This group of generally older homeowners, especially the over 55s, own much of Britain's housing wealth. They account for most of the UK's savings, and they're becoming more numerous. They have the money, and with rising house prices paying for the purchase, why wouldn't they invest in their home? This powerful trend is driving most home improvement markets, not just bathrooms and showers. Watch this trend grow in importance.

“Eight out of ten people now prefer to shower than take a bath. The bathroom is increasingly becoming a personal sanctuary and it's an important space with enclosures at the heart of good showering.”

Expert Panel

Paint

(Part of Decorating)



Paul Roughan, Trade Merchants Sales Director Dulux Trade, is BMBI's Expert for Paint.

After severe weather heavily impacted site activity and decorative paint performance in Q1 2018, the spell of record-breaking warm weather has boosted Q2 sales in retail and trade channels.

Major changes in the retail sector continue with the announcement of B&Q's £100m investment in price reduction and Hilco Capital's plans for a CVA (Company Voluntary Arrangement) and the closure of 42 Homebase stores after its purchase of the DIY chain. The Bunnings brand will be withdrawn, with some stores converting back to Homebase. Travis Perkins is also reviewing its Wickes chain and predicts lower than expected profits.

Sales performance varies between product lines – again often weather related. While retail emulsion sales are still down, woodcare has seen excellent performance over May and June with volume up 6.7% year to date (YTD). Trade paint sales show a similar pattern with emulsion down 1.2% YTD and woodcare up 7.2% due to the good weather.

Volume and value trends differ too, with volume down 3.1% YTD and value up 3.9%. This is a common issue as material cost inflation driven by sterling's exchange rate changes feeds through to manufacturer price increases.

Heavy side builders' merchants' volumes are up despite pressure from light side merchants.

There is a need to protect the UK's ageing housing stock from the intense changeable weather we're seeing – particularly when heavy rains and storms return later this summer or during another wet winter. To improve the efficiency of hard-to-upgrade older properties with solid wall construction, sprayable innovative coatings are now available to give a waterproof yet breathable exterior surface.

Such products, which Dulux launched recently, give the trade an opportunity to help consumers save energy in their existing homes, at a time where consumer confidence in housing and other areas has been softening.

“Volume and value trends differ, with volume down 3.1% YTD and value up 3.9%. This is a common issue as material cost inflation driven by sterling's exchange rate changes feed through to manufacturer price increases.”

Expert Panel

PVC-U Windows & Doors

(Part of Timber & Joinery Products)



No.1 for choice • No.1 for colour



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

The excellent start to quarter two generated very positive enquiry and order levels. Looking at Q2 2018 versus Q2 2017 enquiry levels were up 9% and order levels up 34%. Quarter by quarter performance was also very strong with enquiry levels 21% up on Q1 and order levels 43% up.

Such a positive outlook seems at odds with trading troubles elsewhere. At both ends of the High Street from Poundland to Marks and Spencer, businesses are hitting the headlines with profit warnings, CVAs, closures or performance reviews. The same applies to the DIY sector with news that Travis Perkins is reviewing the Wickes chain with lower profits predicted.

Changing buyer behaviour has been cited as a major factor in the retail sector's fortunes with the rise of online shopping. Much has been made of the fear that people, tradesmen and homeowners, would come into store, research prices, then order online.

It's not all gloom however, particularly if you change your business model to take account of the new way we buy. In many markets, and increasingly with home improvements, people are behaving differently. In the windows sector, people are researching online and then coming in-store to see and handle the product and ask a few critical questions before buying.

Merchants with trained knowledgeable staff, online configurators so ordering is simple and quick, and showrooms that show product to advantage are cleaning up.

This is a significant factor in the surge of builders' merchants' sales of bespoke PVC-U windows, doors and conservatories. Life becomes easier for merchants to sell when their choice, range, quality of product, service and way of selling matches how trade customers and homeowners increasingly want to buy.

We hope to see this approach to the market reflected in continuing positive order levels for the window sector.

“In the windows sector, people are researching online and then coming in-store to see and handle the product and ask a few critical questions before buying.”

Expert Panel

Roof Windows

(Part of Timber & Joinery Products)



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

Roof window sales for the second quarter have shown double digit year-on-year growth. This largely makes up for a disappointing first quarter due to poor weather.

The ONS reports just 0.8% year-on-year growth for Q2 construction output. But in our sector we continue to see good growth in the supply of roof windows to new build, and in roof windows for repair, maintenance and improvement (RMI) which is more than 80% of the market.

RMI is driving significant demand for two specific product areas. Flat roof windows demand – products providing daylight to living spaces in flat roof extensions – is strong and we also see a surge in sales of low-maintenance PVC roof windows. This reflects growth in products which give users an easier life, and consumers falling out of love with DIY – particularly on maintenance.

We expect the roof window market to continue to provide good growth potential for merchants and their customers with cost-effective solutions for brighter, healthier homes and work spaces. Merchants, however, should be aware of the growing competition from online roof window sales, which risks becoming a threat to merchants with some manufacturers bypassing them online.

We expect Q2's growth trend to carry through to the third quarter, as dry weather boosts output on sites. However, consumer confidence and bank lending, rather than the weather, are key to longer term trends in the housing market. Sliding consumer confidence has already been blamed for soft UK house prices in Q2: one lender posted the largest fall in average prices since 2010.

Concerns come from reports that lenders faced with Brexit uncertainty are starting to lower valuations below the sales price. In addition, sterling's weakness continues to effect prices. As speculation around a 'no-deal Brexit' strengthens, merchants are beginning to consider possible impacts. Keylite is confident that our in-depth UK stocking policy will provide a seamless supply chain for merchants regardless of any 'deal'.

“Roof window sales for the second quarter have shown double digit year-on-year growth, largely making up for a disappointing first quarter due to poor weather.”

Expert Panel

Timber & Panel Products

(Part of Timber & Joinery Products)



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

Demand for timber and panel products improved in the second quarter of 2018 as a result of better weather and increased construction activity. BMBI statistics reflect this with the category highlighted as the second-highest performer year-on-year in Q2. We remain optimistic for the future but are aware of significant uncertainty around Brexit. Continued fluctuation in the sterling exchange rate impacting on prices is a concern, especially when forward buying in euros or dollars. The uncertainty around importing protocols should there be a no-deal Brexit is another concern.

Following the Grenfell Tower fire disaster, the Ministry of Housing, Communities & Local Government commissioned a review of building regulations and fire safety. Whilst we welcome the review findings we must all ensure that we respond to the consultation, and promote the benefits of timber. There will be opportunities that we're well placed to support, such as the need to replace fire doors in public housing.

Hardwood timber supply is generally stable. African timber supply problems are now known and imports are being managed: in the short-term timber is still available. There is an increased requirement for prime-grade European oak which is affecting availability of supply and increasing price. Demand could be increased further following President Trump's decision to impose trade levies and the proposed Chinese counter of a 25% levy on American timber imports. Any shortage of European oak should be offset by an increased availability of American oak.

Designers and architects are important influencers in new uses for oak. In the veneer market, as well as using the market-leading crown-cut option, we see them embracing new effects such as fumed, dyed, scratched, brushed and rustic.

The panel product supply chain hasn't changed significantly over the quarter. The availability of MDF (medium density fibreboard) remains on seven-week lead times with no sign of fresh supply hitting the market for the foreseeable future. Pricing pressure should be expected in the second half of the year.

Finally, Malaysian plywood supply is seeing robust demand from Europe, America and Japan. Supply is under pressure following unseasonal rainfall and the decision by the Malaysian government to reduce or suspend logging.

“We remain optimistic for the future but are aware of significant uncertainty around Brexit. The uncertainty around importing protocols should there be a no-deal Brexit is another concern.”

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.

Overall, quarter two has been mixed for civils, metal rainwater and drainage. In infrastructure and social housing it's been a positive three months. The expansion of Manchester, East Midlands and Heathrow airports is generating fresh enquiries, and continuing demand in housebuilding is boosting specifications for metal rainwater, particularly in high-rise residential. However, buoyancy in these sectors is being offset by the slowdown in the commercial sector. The fall of Carillion and project delays at the start of the year due to poor weather have been compounded by the collapse of Lagan Construction and Ikon. This suggests that tight margins in the contractor market makes for an unsustainable business model. Although health and safety issues were the focus of customer confidence in Ikon's case, their outstanding debts were still high. All these changes result in rebids which further delay projects.

The Hackitt Review, now published, looks at building regulations predominantly with reference to fire safety, but there are lessons for the whole construction industry. The report discusses the need for a fundamental change in the culture of construction including, amongst other areas, the need for accountability and respect for product specifications – despite budget pressures throughout the process. Upskilling across the board, particularly noting that system installations require skilled labour, is another issue that affects us all.

It continues to be a bumpy ride for our markets and construction overall, and it will be down to the industry to get its house in order following failures like Carillion and the tragedy of Grenfell. However, we also see evidence that performance activity levels are slowly returning, and will be in line with the CPA forecast of -0.6% by the end of this year. We expect a moderate increase in activity for freight warehousing and breweries, and continued demand in housebuilding, which will benefit builders' merchants.

“It's been a positive three months for infrastructure and social housing. However buoyancy in these sectors is being offset by the slowdown in the commercial sector. It continues to be a bumpy ride for our market and construction overall.

Expert Panel

Cement & Aggregates

(Part of Heavy Building Materials)



Andrew Simpson, National Commercial Director Hanson Cement is BMBI's Expert for Cement & Aggregates.

Demand for construction products increased in quarter two following the poor start to the year due to the severe weather. The Mineral Products Association reports that seasonally adjusted sales volumes increased by 9.2% for aggregates and by 9.8% for ready-mixed concrete compared to the previous quarter, and by 11.3% for asphalt. Sales of mortar increased 20.9% which demonstrates that the housebuilding sector continues to be strong compared with other channels.

Although we've seen a welcome increase in activity, it's tempered by the fact that sales volumes of asphalt, aggregates and ready-mixed concrete are lower on an annual and half-year comparison. Mortar again bucks the trend and merchants should benefit from the continued growth in housebuilding activity. The Office for National Statistics (ONS) also reports a slight increase in RMI activity in June, which is also good news for merchants. Interestingly, the ONS also says the increase in construction output in June was mainly attributed to growth in infrastructure.

There are still some choppy waters ahead for our sector due to underlying issues with consumer confidence. Despite unemployment being down and salaries growing slightly more than inflation, consumers still seem reluctant to spend at previous levels. The experience of High Street retailers reflects the issues we face too. Rising energy and distribution costs will be affecting manufacturers with energy intensive operations.

The longer-term issue that the industry needs to address is the shortage of skills and labour we could see as Brexit kicks in. Will government apprenticeship schemes attract people to the construction industry? The Department for Education states that there were 21,210 new apprentices in the construction, planning and built environment sector. That's 2.1% of all new apprenticeships that academic year. Given the number of people employed in construction – getting on for 10% of the workforce – this seems a very small proportion. If we are to meet future construction demand and forecasts the industry needs to do more to address the ageing workforce and skills shortages.

“The longer-term issue that the industry needs to address is the shortage of skills and labour we could see as Brexit kicks in. Will government apprenticeship schemes attract people to the construction industry?”

Expert Panel

Roofing Products

(Part of Heavy Building Materials)



Paul Owen, Commercial Director Distribution IKO PLC is BMBI's Expert for Roofing Products.

There are mixed fortunes in the roofing sector with retail sales struggling but a more positive private housing market.

The Construction Products Association (CPA) forecasts total construction output to fall 0.6% in 2018 before rising 2.3% in 2019, with commercial offices and retail output down 20% and 10% respectively in 2018. B&Q, Wickes and Homebase have problems resulting in planned reviews, restructuring or scaling down of their estates. Bunnings sold for £1 and exited the UK market.

The CPA's RMI forecasts vary sector by sector but are generally down. However, private housing new build starts are forecast to rise by 2% in 2018.

After the disruption caused by the 'Beast from the East' in Q1, the sustained period of good weather was very welcome, allowing catch-up. It is likely to take several more months, however, before everything is fully back on track.

There are positive signs for the rest of the year from distributors and contractors on sales and future opportunities. Merchants and specialist roofing distributors report Q2 sales significantly up on Q1, and more importantly up on Q2 2017. Major roofing contractors have healthy order books and enquiry levels are up on 2017 in size and value. Small and medium sized contractors also report steady opportunities in a competitive market.

A safe working environment is always a key concern in roofing. In flat roofing, client awareness of the NFRC (National Federation of Roofing Contractors) 'Safe2Torch' campaign continues to grow, with all reputable roofing contractors and specialist suppliers actively promoting safe specification and safe practice.

Another occupational hazard for the roofing trades, as the long hot summer continues, is being out in the sun without sticking to 'wear sun screen' advice. Coverage of t-shirt tans on social media sites bore testament to that, as well as showing our industry's good humour.

“Major roofing contractors have healthy order books and enquiry levels are up on 2017 in size and value. Small and medium sized contractors also report steady opportunities in a competitive market.”

Expert Panel

Steel Lintels

(Part of Heavy Building Materials)



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

What a difference sunshine makes! Weather conditions in the first two quarters of 2018 have significantly influenced demand. Although Q2 is nearly 20% higher than Q1, in real terms volumes have just caught up from a poor start. The key challenge for the next six months will be to see how much growth the market can really deliver.

The NHBC reported that new homes registration decreased 3% to 39,000 in Q2 compared to last year, but numbers in May and June look more promising. Enquiries are growing with particularly strong interest in the higher thermally performing lintel ranges. Housebuilders are building more units that meet the new regulations.

In addition, housebuilders are actively changing product specifications to high performing 'Fabric First' components. Fabric First is an approach to improve the fundamental building fabric to achieve environmental benefits. Our findings show that this approach can be technically, environmentally and economically more viable than the installation of low carbon and renewable energy technologies.

Sporting achievements distracted us all this summer as the English football team and the Irish Ladies hockey team shone in their respective World Cups. Now, back to harsh reality, Brexit and a potential 'No-deal' Brexit is back on the daily agenda.

The government, reportedly, is to issue weekly advice to businesses and households on how to prepare for a 'disorderly' Brexit. There are many questions to consider trying to predict and plan for the various unknowns. What will 'disorderly' mean for our industry, and what will the short-term impact be? Will imports be delayed? Should we be stocking up on inventory, and where will the opportunities be?

The unexpected rise in interest rates has divided opinion on what it means for the market. With a continuing imbalance between the supply and demand for good quality homes, it is unlikely to have a significant impact on housebuilding.

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Expert Panel

Mineral Wool Insulation

(Part of Heavy Building Materials)



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

Housebuilding momentum and a growing number of enquiries for non-combustible insulation material mean demand for glass and rock mineral wool remain strong. This follows a particularly buoyant end of 2017 and start of 2018.

These higher sales have resulted in some supply restrictions across the insulation market. In the past, manufacturers have been able to import product to match sales to demand – due to strong markets in Europe, that option is not available this time. The restrictions should ease towards the end of the year, as manufacturers, and their supply chains, see the effects of adjustments made to their operations.

Looking further ahead, there are good indications that the longer-term outlook for glass and rock mineral wool insulation products remains positive.

As one of the four Grand Challenges that underpin the Government's Industrial Strategy, the ambition to 'at least halve energy use of new buildings by 2030' can only be a good thing for our sector.

The need for innovative solutions to drive value and unlock more carbon has been a recurring theme in my quarterly comments for BMBI. So, we were encouraged to see the Government emphasise the need for innovative, low-cost, energy-saving measures in its response to the ECO3 scheme (Energy Company Obligations) consultation.

In June, a separate consultation was opened, banning combustible materials in the external walls of high-rise residential buildings. When concluded, it will be interesting to see how this adds to demand for non-combustible glass and rock mineral wool insulation. Over this last quarter, there have already been a number of influential voices speak out on this issue. RIBA, the Association of British Insurers, the MCRMA, Chair of the Local Government Association Lord Porter, the APPG on Fire Safety and Rescue, and most recently, the General Secretary of the Fire Brigades Union, have all called for a ban on the use of combustible building materials.

All of these developments stand to provide opportunities for glass and rock mineral wool insulation manufacturers. But, for the industry to have the confidence to invest in capacity and innovation for the future, we must see sustained commitment from Government to currently planned energy efficiency policies and initiatives.

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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.

Insulation sectors are experiencing strong sales although it is unclear how much of this is catch up from the poor performance in the first quarter due to the weather.

The biggest concern in the sector is product availability in a number of key areas, most importantly in both glass and rock mineral wool. This supply issue is likely to worsen and might well encompass other products as the year continues. Inevitably this will fuel price inflation, putting more strain on the supply chain.

We are seeing stronger support for specifications, in light of recent obvious events, which is a good thing for the supply chain as quality and added value helps grow the market.

Another boost has been that the weather over the last twelve months has really shown the benefit of good insulation standards: keeping the warm air inside in the winter and allowing the opposite in the summer!

In summary, the market is generally performing well – with the exception of the commercial sector. Areas for concern, however, include the availability of labour and the inevitable protracted arguments on planning whenever somebody talks about the need to build thousands of new houses.

One other concern to a possible Brexit impact – one not yet openly discussed – is the change to imported building materials and their product standards. Currently Industry leaders and trade bodies are lobbying the EU to keep the UK as a full member of the European Standards Organisations. Such standards could apply to the products, their manufacture and their in-situ performance. The relationship between CE-marked products and those that are BBA approved has not been clarified post-Brexit. Will CE marking, a significant marker on product conformity, remain in place and be recognised or will BBA take over? This area is currently under discussion by, Industry leaders and trade bodies, but I fear that there is a possibility that Brexit will overtake the discussion and the supply of products might be impacted.

Despite these supply issues and other concerns for the future, it’s worth noting finally that house building has risen at the fastest rate since 2015!

“The biggest concern is product availability in a number of key areas, most importantly in both glass and rock mineral wool. This supply issue is likely to worsen and might well encompass other products as the year continues.”

Expert Panel

Bricks

(Part of Heavy Building Materials)

IBSTOCK



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

GB brick industry despatches in the first 6 months of 2018 were at lower than expected levels, due primarily to the 'Beast from the East' bad weather in the first quarter. However, there has been a recovery during Q2 and GB brick manufacturers' despatches in the first half were just 1% down against the first six months of 2017.

Many housebuilders are expecting to build more houses in the second half of the year compared to the first half and builders' merchants were reporting healthy demand for bricks, particularly in July, despite the welcome distraction of the World Cup.

In anticipation of a strong market, GB brick manufacturers increased production for 2018. The 12-month average industry production volume at the end of June was at its highest level in 10 years since the credit crunch when many factories were temporarily or permanently closed.

Despite the slow start to the year industry stock levels are relatively low. But this does not mean that UK produced bricks are not available: good quantities are in stock at brick manufacturers' yards and in merchants' depots around the UK.

And brick manufacturers are addressing capacity. In June, Istock was proud to host over 400 customers for the opening of our new Eclipse factory in Leicestershire and honoured to have James Brokenshire, the Secretary of State for Housing, Communities and Local Government, perform the opening ceremony.

Eclipse is steadily increasing production, up to its target of two million soft-mud bricks a week by the end of this year. To put that into context for the housing market, that's enough to build an extra 15,000 houses a year. And we're continuing to invest in our existing 20 factories for the benefit of our customers and the long-term future of the market.

“In anticipation of a strong market, GB brick manufacturers increased production for 2018. The 12-month average industry production volume at the end of June was at its highest level in 10 years.”

Expert Panel

Natural Stone Landscaping Products

(Part of Landscaping)



Malcolm Gough, Group Sales & Marketing Director Talasey Group is BMBI's Expert for Natural Stone Landscaping Products, Vitrified Paving & Artificial Grass.

The sun came out in Q2 and as the summer kicks off, so does activity in the stone trade. A heatwave isn't always a good thing though – there are hazards on site and it can slow things down.

The porcelain paving market has now really come into its own. The homeowner now understands the product and it is very much in demand. As a result of more and more contactors discovering porcelain, the demand for training is also on the rise. One threat to the market is the growing number of cheaper imports coming from overseas: Turkey, China and even India.

Despite a very slow start to the year the artificial grass market has truly taken off. It is now an accepted norm for smaller gardens and home owners with little time for mowing the lawn. The market has surely been helped by the heatwave where so many lawns have suffered. An artificial lawn still needs some protection in the heat though – the product you buy should always have a UV sun-damage protection guarantee.

It's been an unusual year for all-weather brush-in sands. This is probably the first time I've ever heard of a major shortage for this specialised product. The reason is the main ingredient is used in another market which is also experiencing high demand. This situation is likely to last for some time, so I'd advise merchants to stock up.

The number of installers now getting into resin driveways is huge and so the need for training is overwhelming. We launched our own Talasey Training Academy offering one training session a week but merchants need to be able to advise and answer queries too, so to boost knowledge at merchant counters, we're encouraging merchants with a free place if they bring a paying contactor.

“The porcelain paving market has now really come into its own. The homeowner now understands the product and it is very much in demand.”

Expert Panel

Water Heating

(Part of Plumbing Heating & Electrical)

HEATRAE SADIA
SMARTER | CLEANER | WARMER



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

We are currently enjoying a glorious summer and the half year has just passed, yet it seems only five minutes ago we had snow and prolonged cold weather. The good news is that as human beings we need hot water all the year round, whatever the weather or temperature, so it does not dramatically affect sales of hot water products. Unlike other sectors such as gas boiler spares, which are very much affected by the weather.

Summer events, such as the Football World Cup did more to affect merchant trade counters which were much quieter and also contributed to a poorer performance.

Overall, Q2 water heating sales were approximately 5% less than the same quarter last year. Electric commercial water heating, boiling water dispensers for hot beverages and electric boilers did better than other areas such as domestic unvented cylinders. With construction sites delayed due to poor weather earlier in the year, we now need a period of catch up to recover the year's position. But as mentioned in the Q1 report, there were several working days lost to the snow and cold that may be difficult to recover.

As longer-term positive news for the industry, there is encouraging government news on renewable energy initiatives with this year's update to the Renewable Heat Incentive (RHI) – now due to run till at least 2021. Now, the government is considering making it compulsory to have an amount of hot water storage available in every home to connect to renewable heating technology of the future e.g. air source heat pumps. This is an essential policy that will help to drive the installation of carbon-reducing products and provide consumers with a good hot water performance.

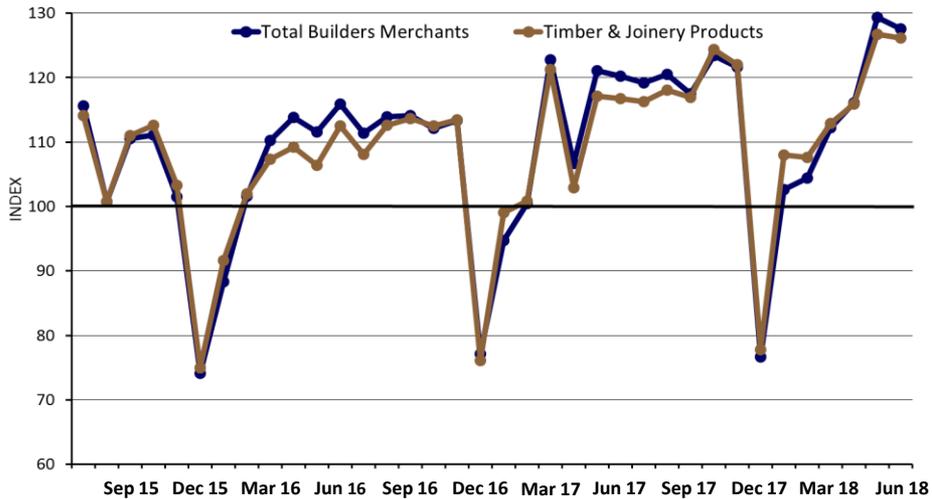
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Monthly and Quarterly Indices

June 2018 and Q2 2018

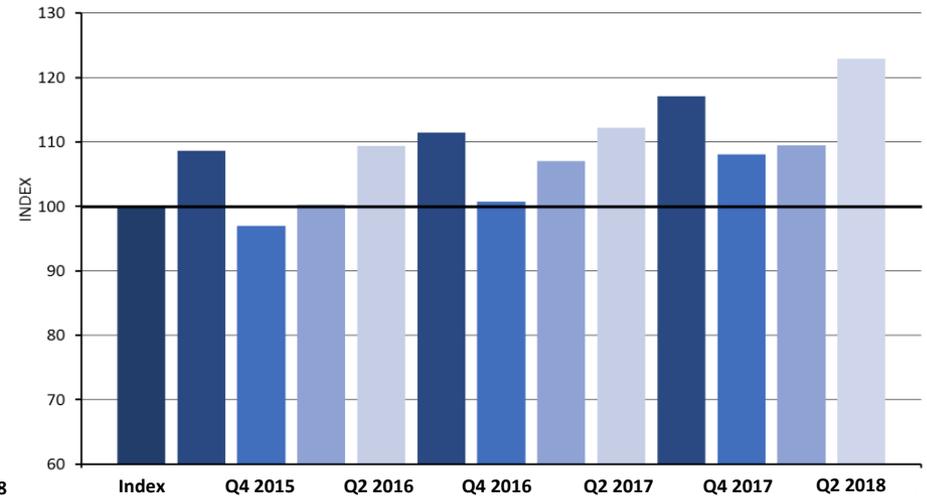


Timber & Joinery Products



Monthly chart indexed on July 2014 – June 2015

Timber & Joinery Products - Quarterly



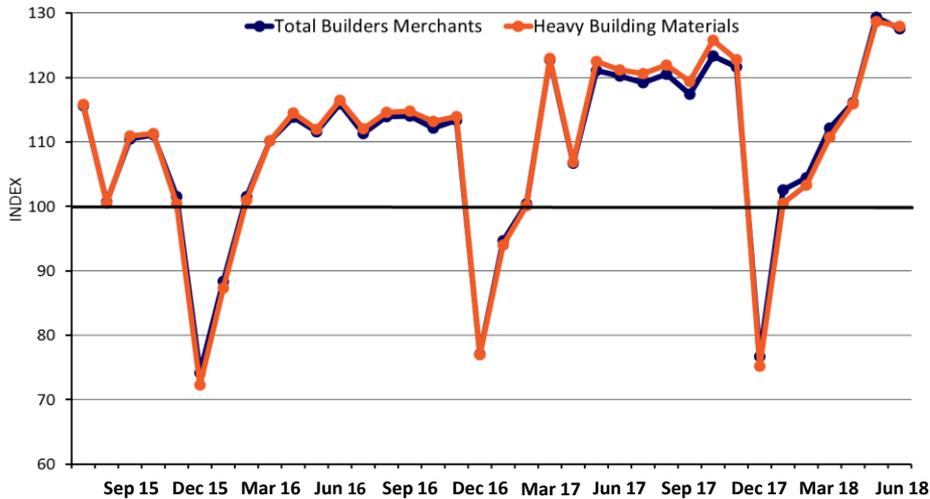
Quarterly chart indexed on July 2014 – June 2015

GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Monthly and Quarterly Indices

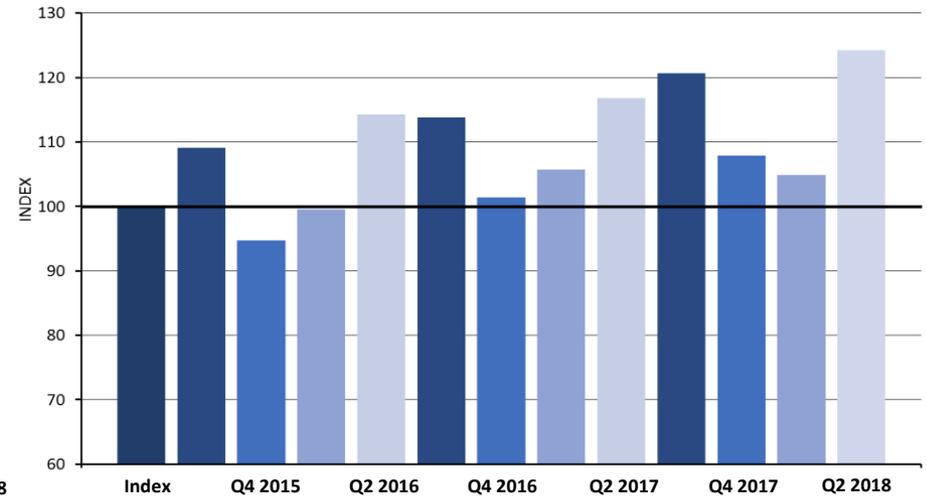
June 2018 and Q2 2018

Heavy Building Materials



Monthly chart indexed on July 2014 – June 2015

Heavy Building Materials - Quarterly

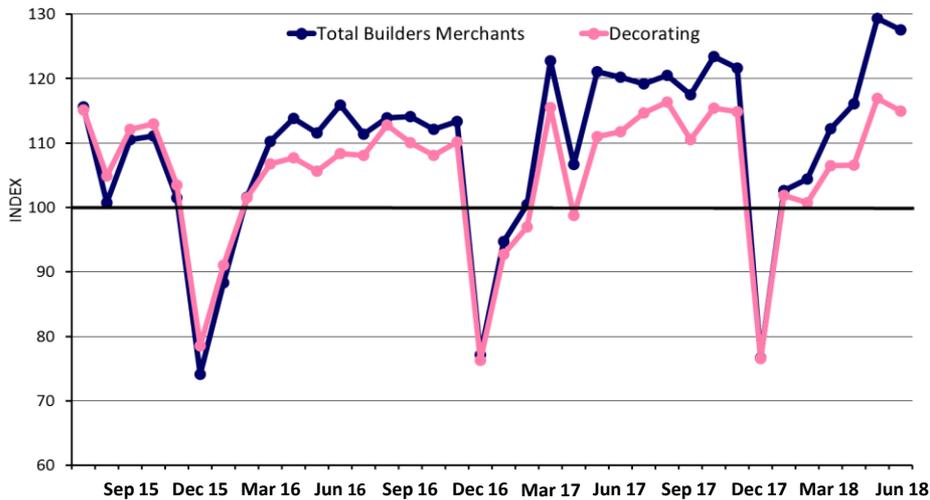


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Monthly and Quarterly Indices

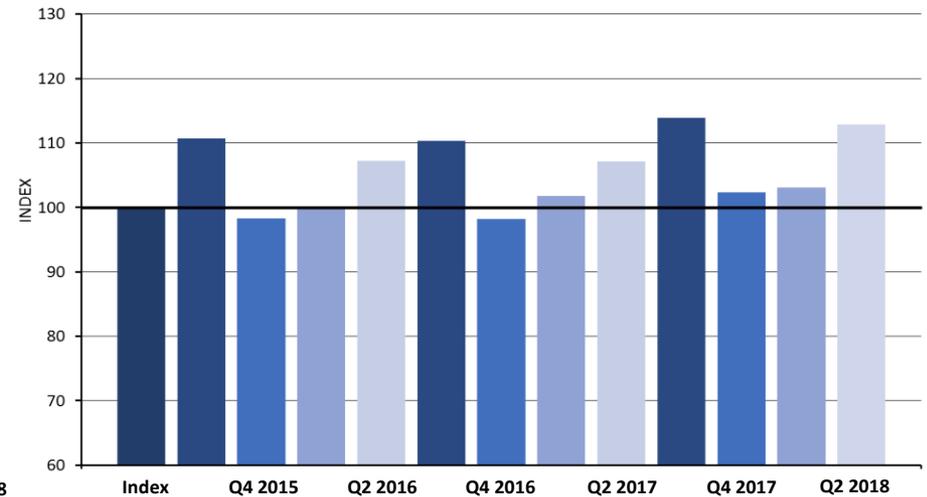
June 2018 and Q2 2018

Decorating



Monthly chart indexed on July 2014 – June 2015

Decorating - Quarterly



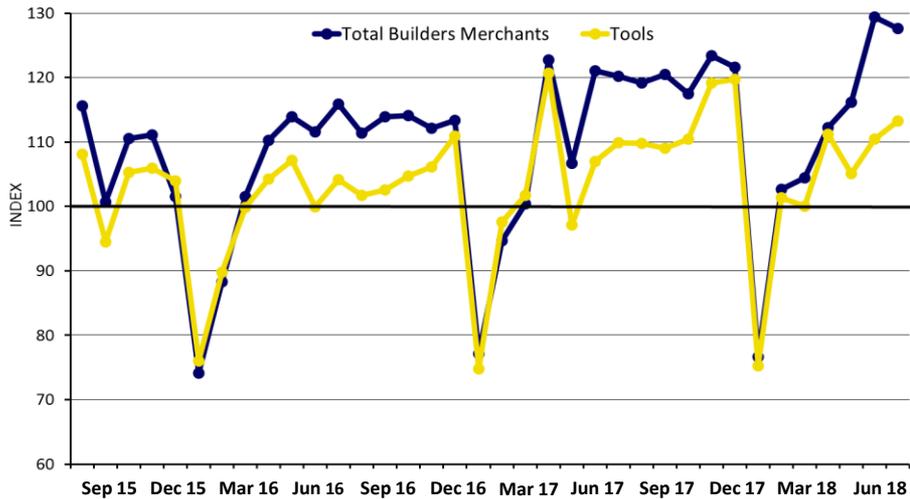
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July 2015 to June 2018

Monthly and Quarterly Indices

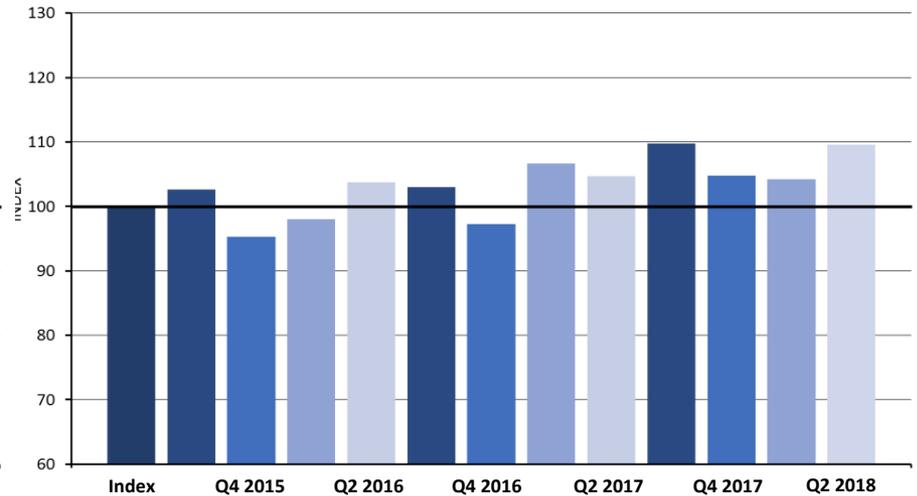
June 2018 and Q2 2018

Tools



Monthly chart indexed on July 2014 – June 2015

Tools - Quarterly

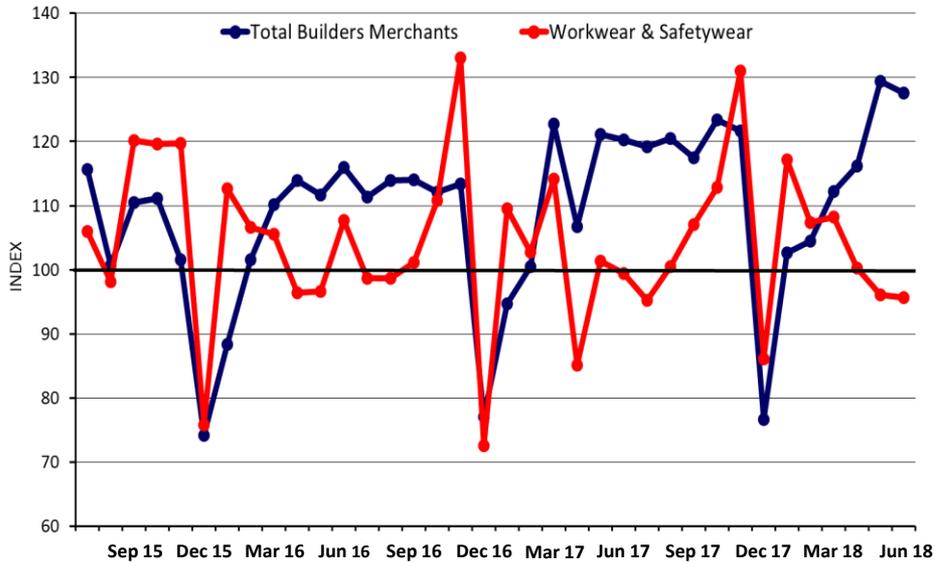


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Monthly and Quarterly Indices

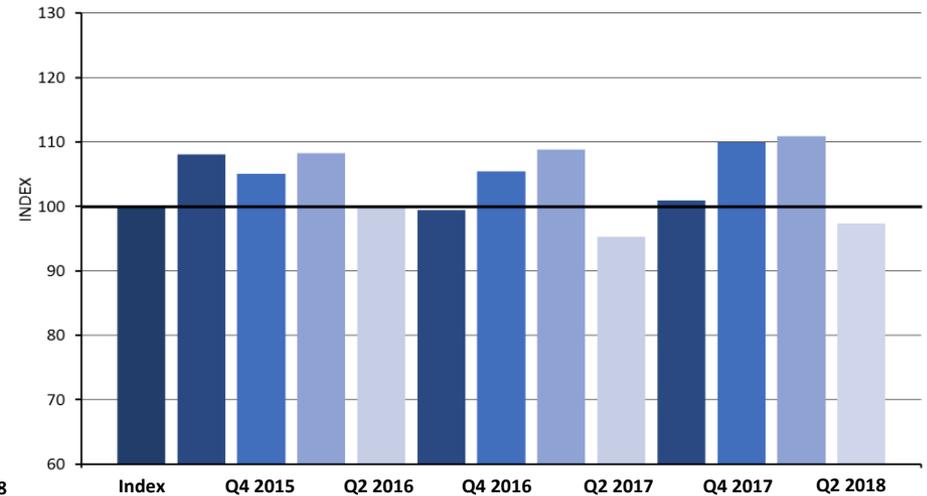
June 2018 and Q2 2018

Workwear & Safetywear



Monthly chart indexed on July 2014 – June 2015

Workwear & Safetywear - Quarterly

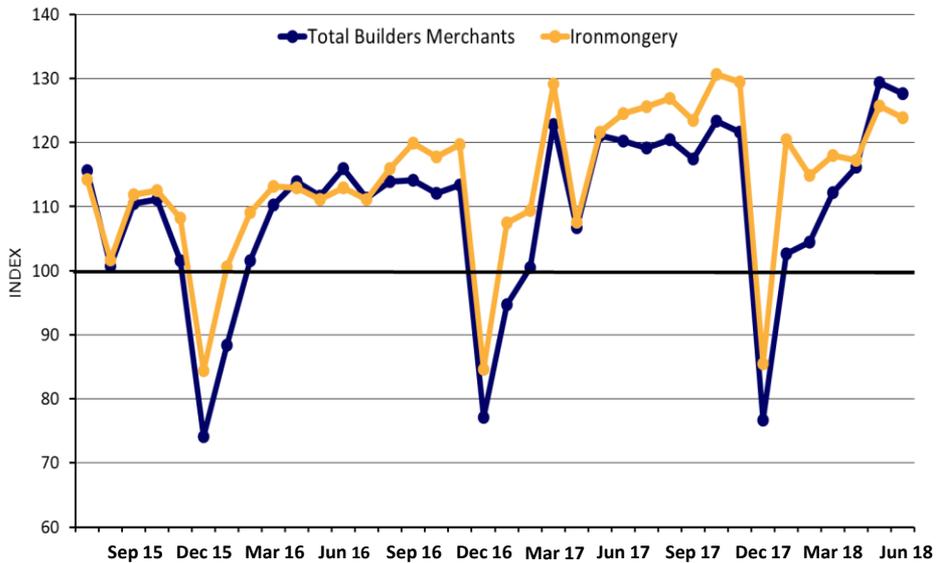


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Monthly and Quarterly Indices

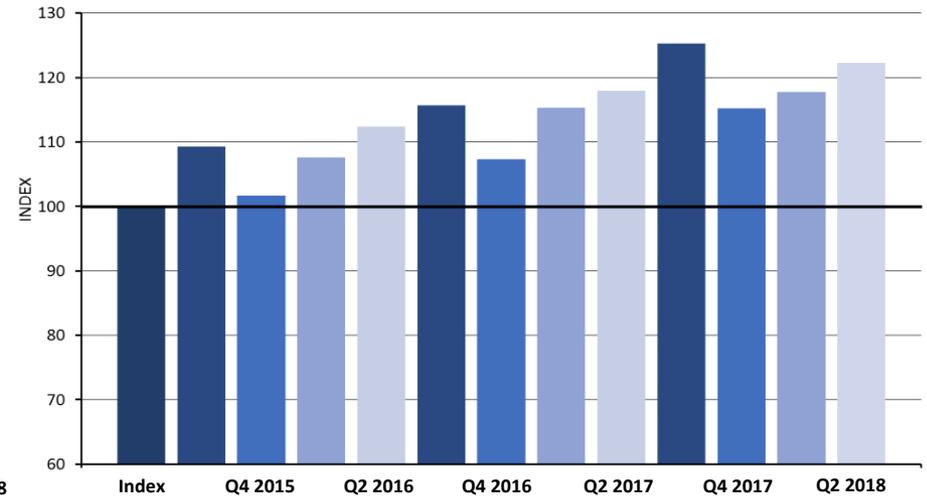
June 2018 and Q2 2018

Ironmongery



Monthly chart indexed on July 2014 – June 2015

Ironmongery - Quarterly



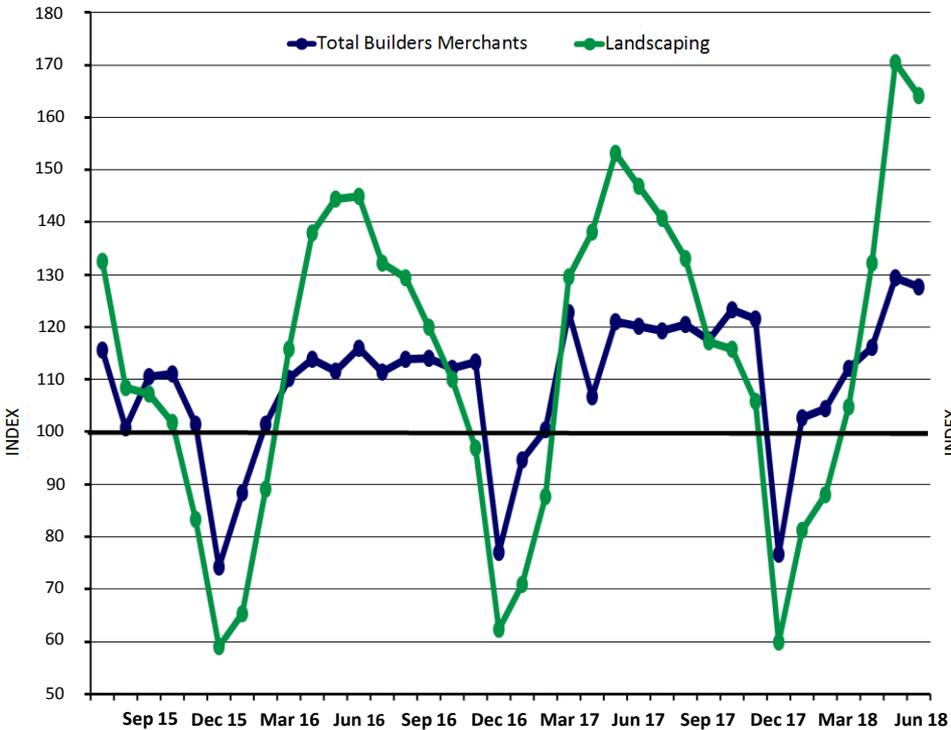
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Monthly and Quarterly Indices

June 2018 and Q2 2018

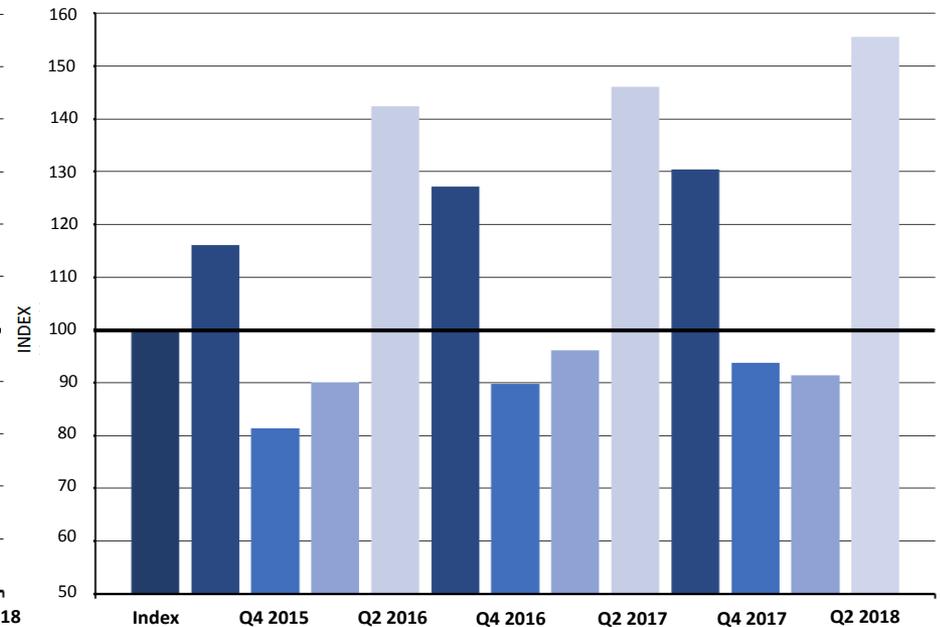


Landscaping



Monthly chart indexed on July 2014 – June 2015

Landscaping - Quarterly



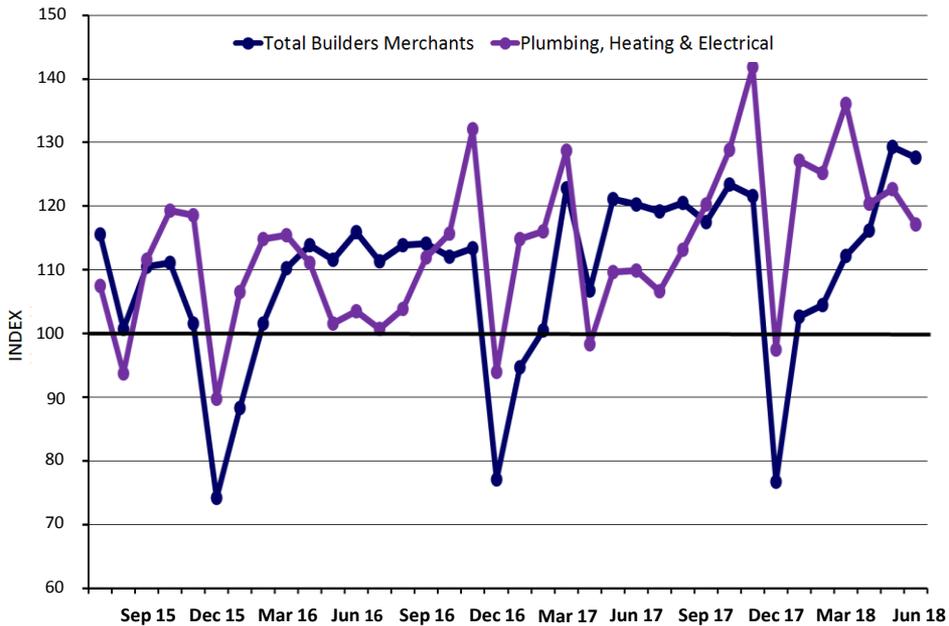
Quarterly chart indexed on July 2014 – June 2015

GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

Monthly and Quarterly Indices

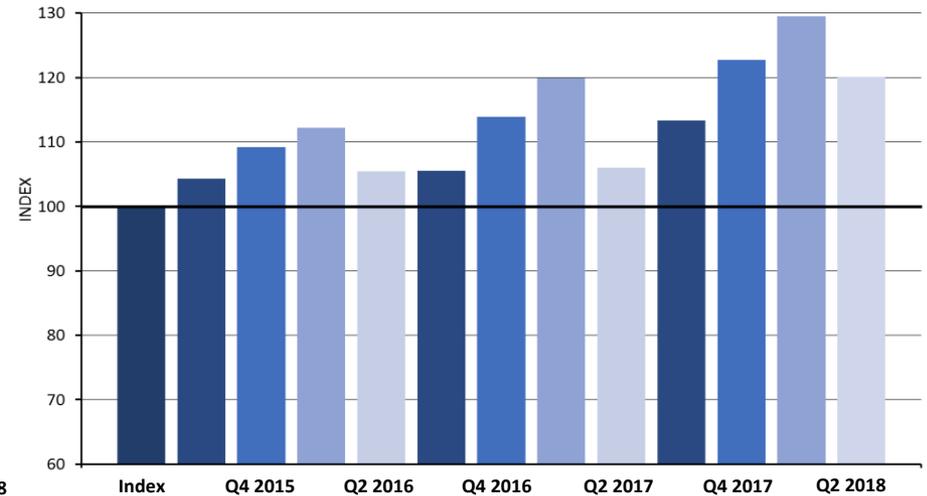
June 2018 and Q2 2018

Plumbing, Heating & Electrical



Monthly chart indexed on July 2014 – June 2015

Plumbing, Heating & Electrical - Quarterly



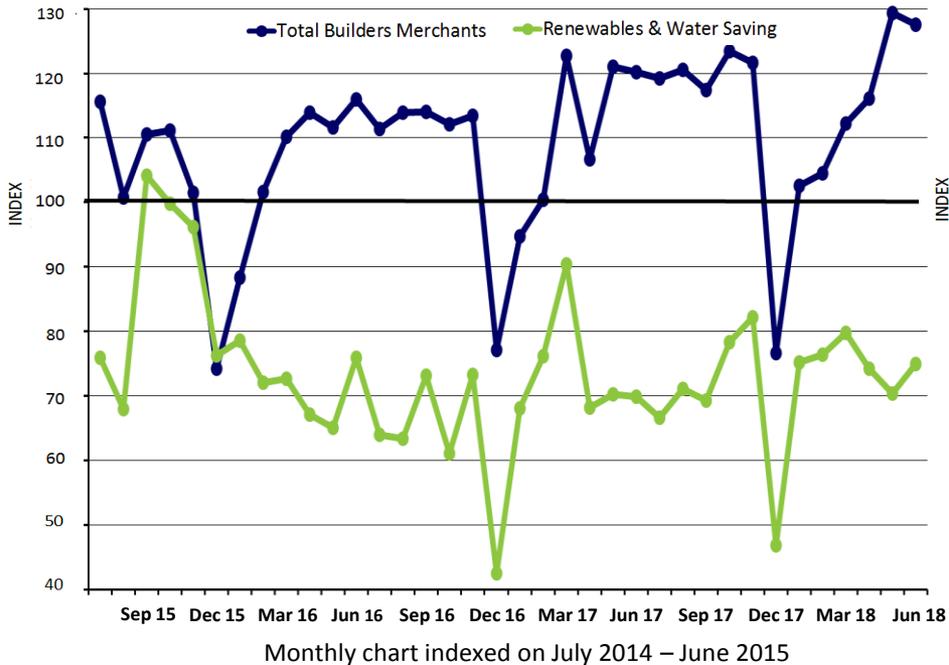
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Monthly and Quarterly Indices

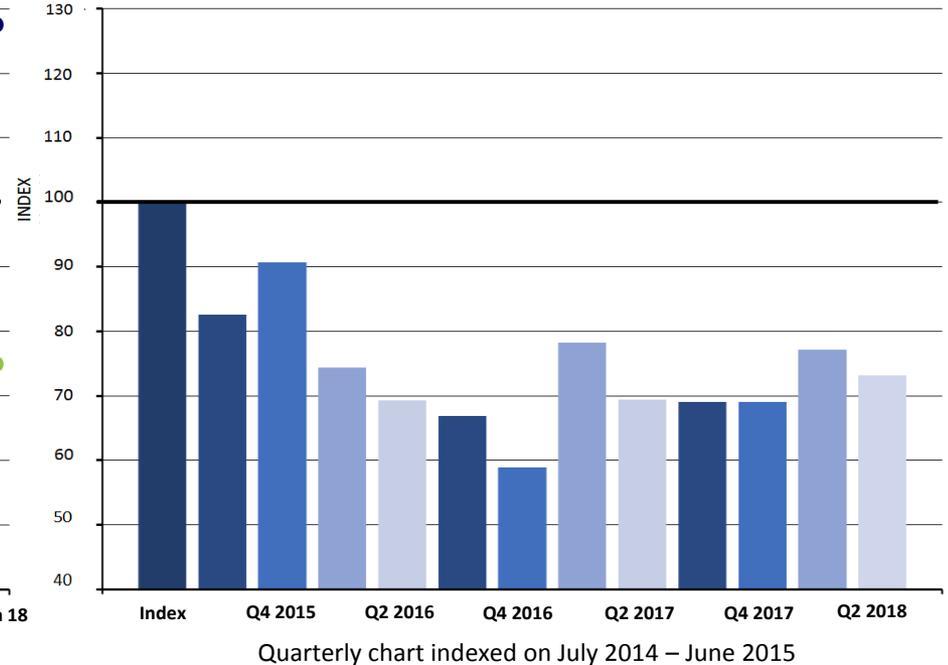
June 2018 and Q2 2018



Renewables & Water Saving



Renewables & Water Saving - Quarterly

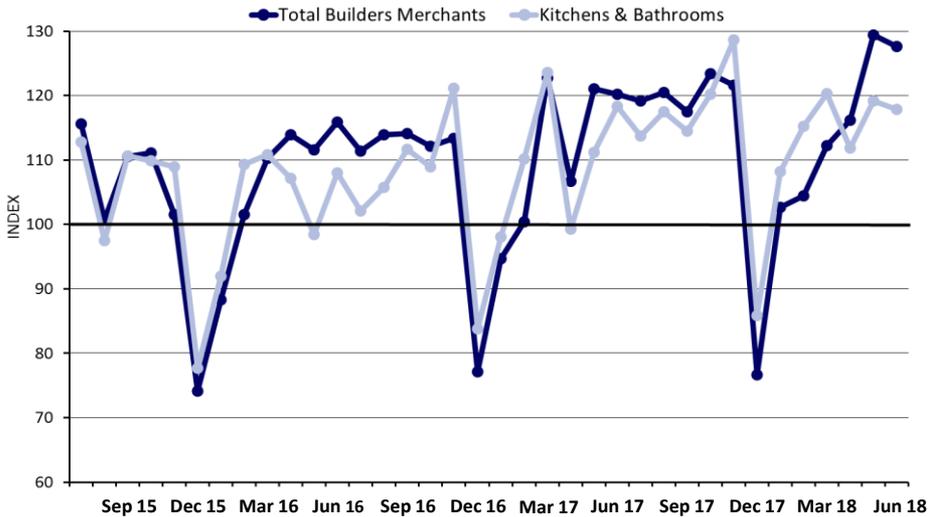


GfK Source: GfK's Builders Merchants Total Category Report July 2015 to June 2018

Monthly and Quarterly Indices

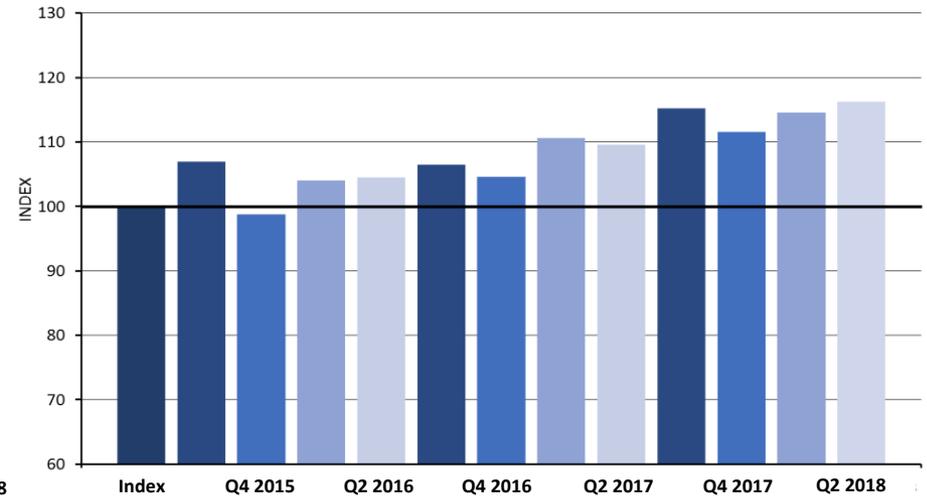
June 2018 and Q2 2018

Kitchens & Bathrooms



Monthly chart indexed on July 2014 – June 2015

Kitchens & Bathrooms - Quarterly

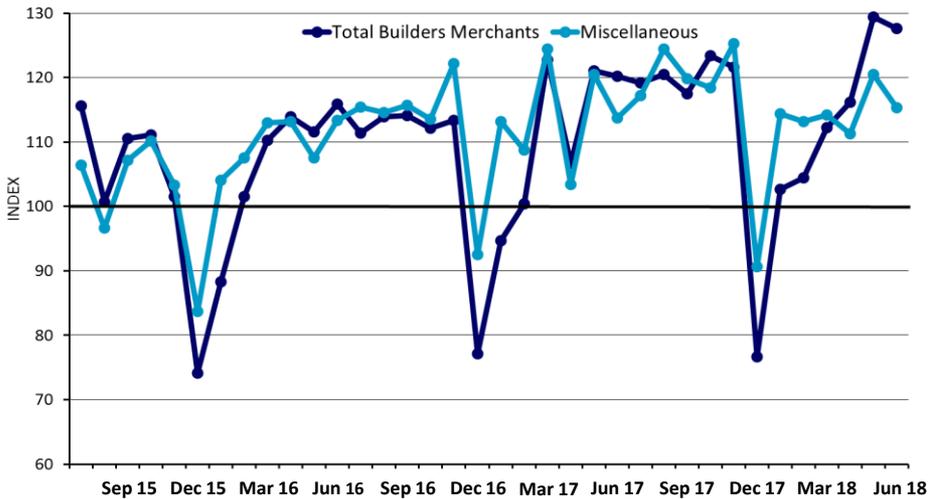


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Monthly and Quarterly Indices

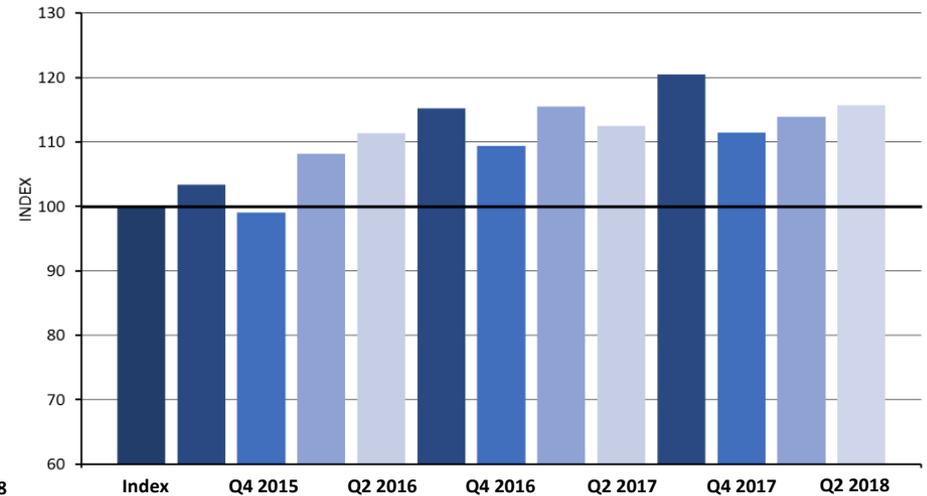
June 2018 and Q2 2018

Miscellaneous



Monthly chart indexed on July 2014 – June 2015

Miscellaneous - Quarterly



Quarterly chart indexed on July 2014 – June 2015

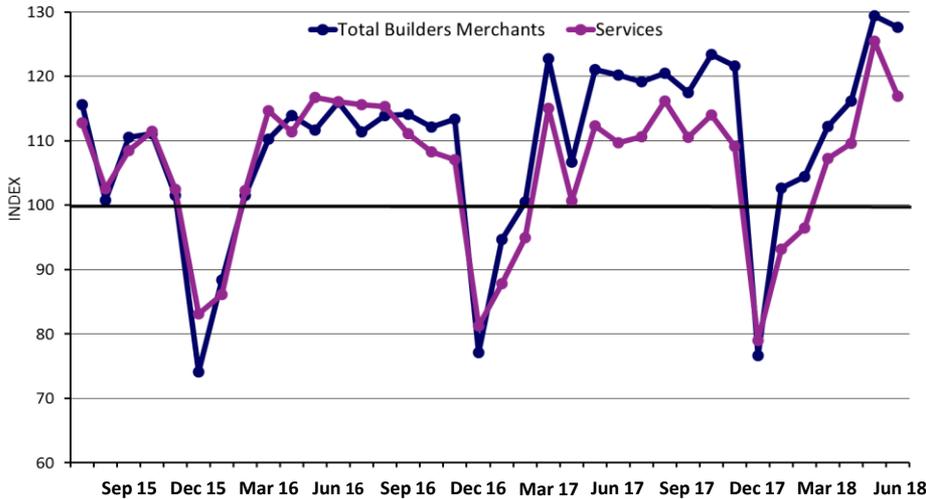
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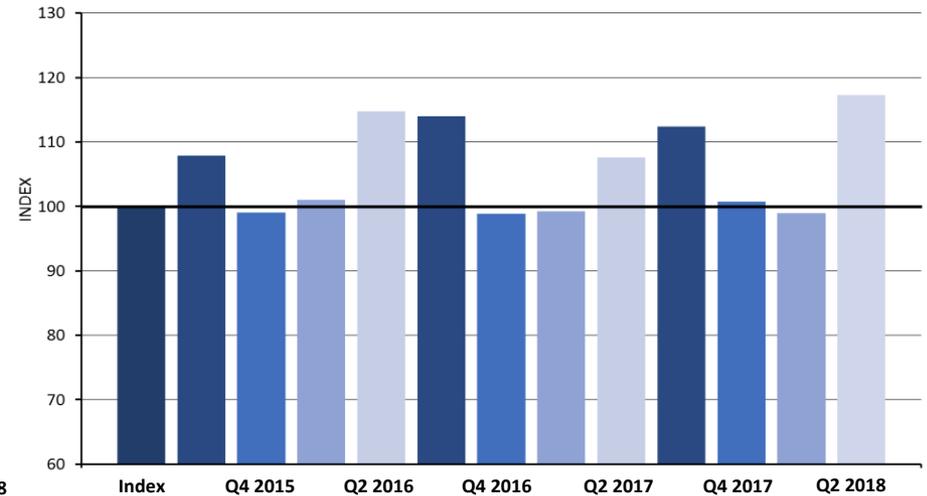


Services



Monthly chart indexed on July 2014 – June 2015

Services - Quarterly



Quarterly chart indexed on July 2014 – June 2015

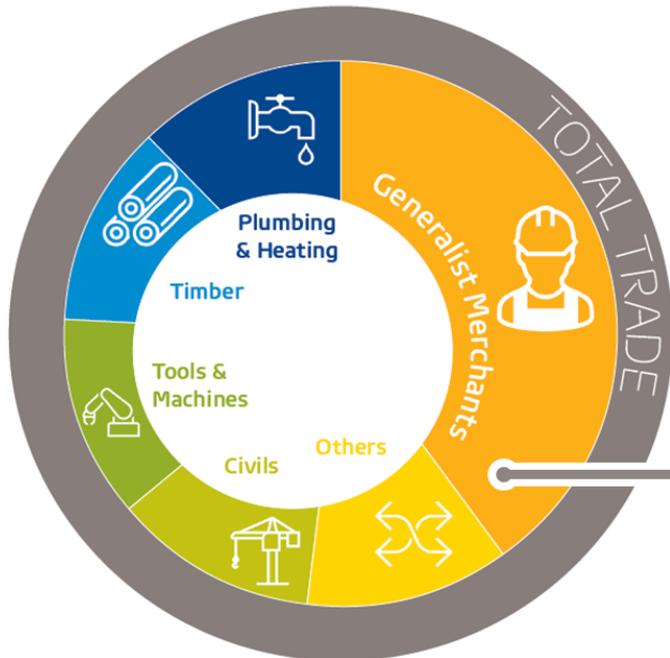
GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to June 2018

GfK's Panel

Generalist Builders Merchant Panel (GBM's)



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

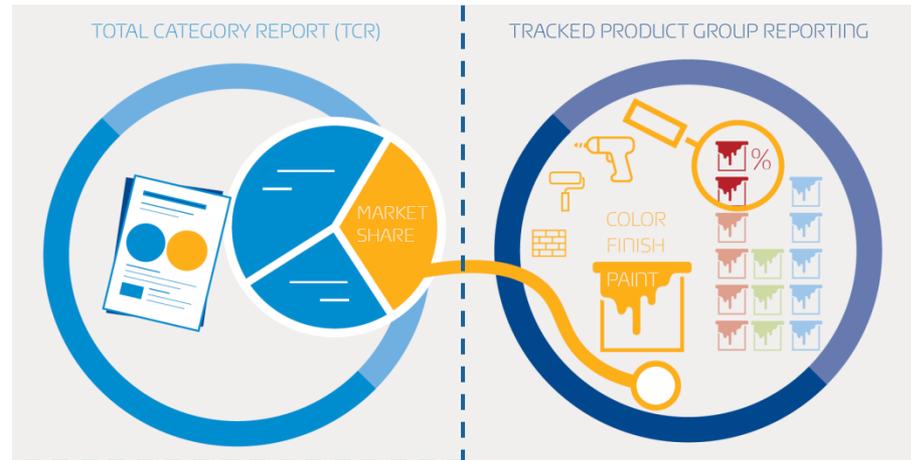
Bathroom (Including Showering)
Fitted Kitchens
Major Appliances

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)

Macro factors impacting Merchants



Bank interest rates

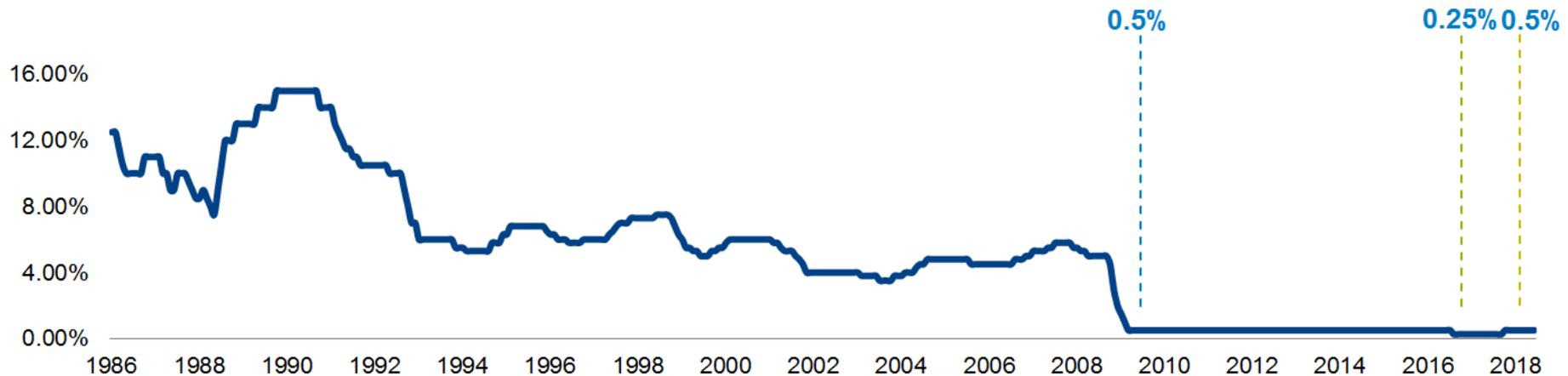
Set monthly by the MPC (Monetary Policy Committee)

▪ The base rate of interest is one of the tools used by the Bank of England to target price stability. Since 1997 when the Bank's Monetary Policy Committee gained autonomy the rate has been between 7.5% and 0.25%

▪ The economic crisis caused the Bank to drop rates to 0.5%, as the inflation pressure was considered less important than the stability of the economy
▪ The further reduction in August 2016 was designed to further promote growth and achieve the Bank's 2% inflation target.

▪ At its meeting on the 4th August 2016, the Bank of England reduced the base rate from the previous historic low of 0.5% to a record-breaking 0.25%

▪ 21st June 2018 the Bank of England Monetary Policy Committee voted 6:3 to keep the Bank Rate at 0.5%



Source: Bank of England

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Macro factors impacting Merchants

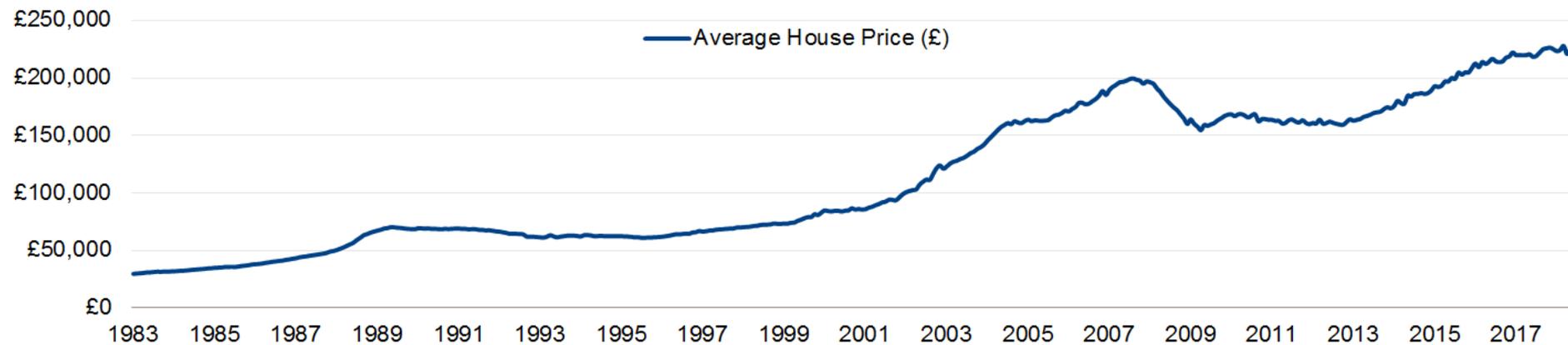


Standardised average house prices

Average Price (year end)		
2000	£84,868	+36%
2005	£163,139	+92%
2010	£168,390	+3%
2013	£174,220	+3%
2014	£189,426	+8%
2015	£208,286	+10%
2016	£222,190	+7%
2017	£225,032	+1%

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

- At the end of May 2018, the average house price in the UK rose to £224,439 from £220,962 in April 2018.



Source: Halifax House Price Index

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Macro factors impacting Merchants



Property transactions

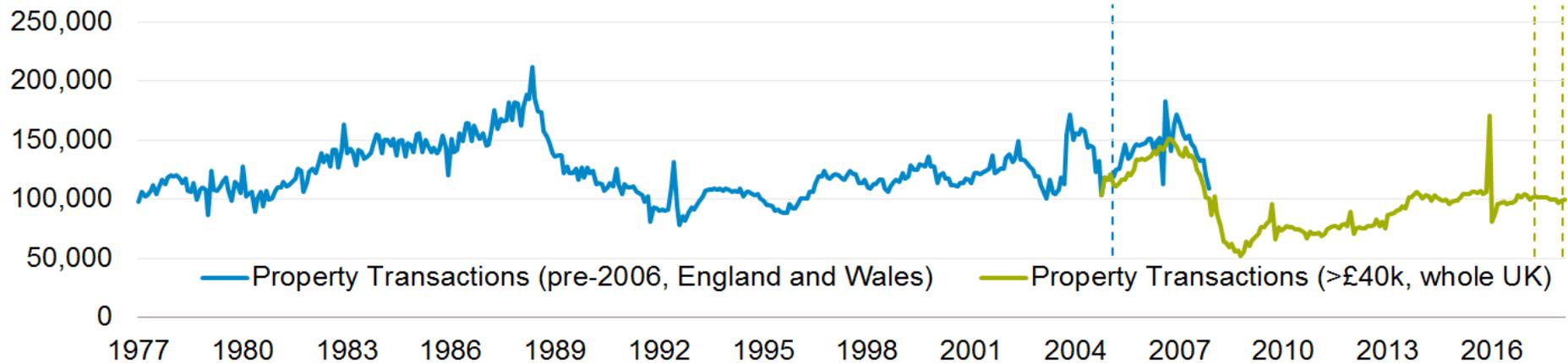
Monthly transactions, residential, seasonally adjusted

Annual total

2010	879,050
2011	883,770
2012	932,000
2013	1,067,700
2014	1,223,120
2015	1,228,710
2016	1,234,500
2017	1,223,400

- 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

- Provisional levels of seasonally adjusted property transactions rose 2.9% in May 2018 compared to the previous month.



Source: HM Revenue & Customs
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Macro factors impacting Merchants



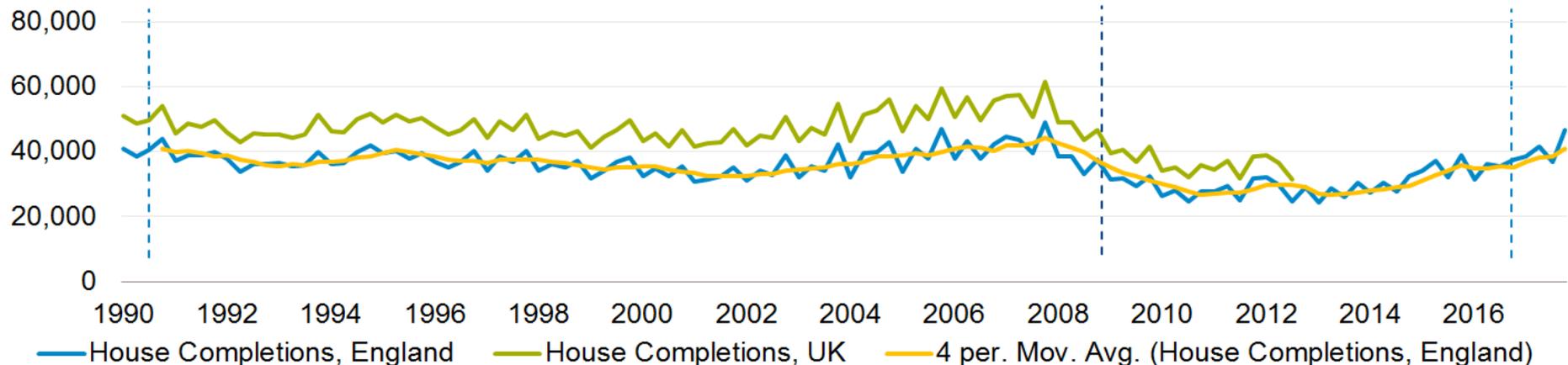
New house builds

Quarterly

▪ Home construction dropped off from the 2007 high, with a large number of construction firms leaving the market. As a result we are now seeing housing price uplifts, as the supply of affordable housing is not meeting current demand

▪ Looking at a 4 period moving average, the recent trend of continued growth had stalled in 2016. However, it appears to have started off 2017 with a period of growth.

▪ In Q4 2017, 46,710 permanent dwellings were completed, compared to Q4 2016 figures of 37,530 (+24.5%)



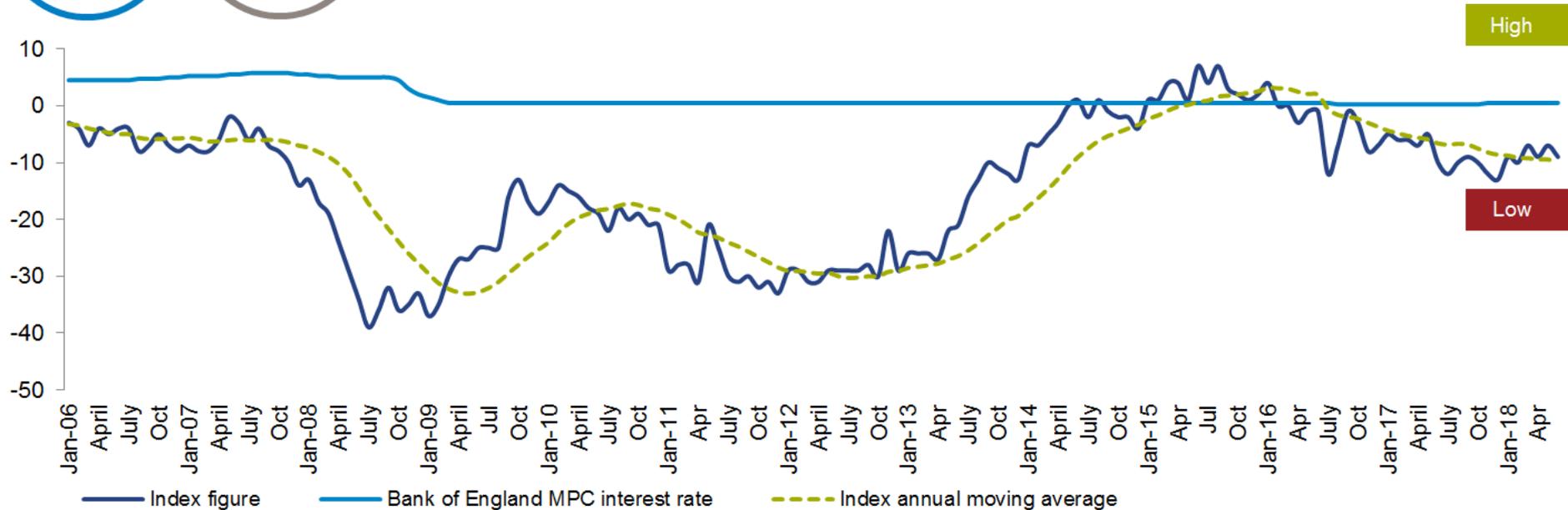
Source: GOV.UK

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Macro factors impacting Merchants



Consumer Confidence Index



The Index Score is calculated using the results of five questions (1,2,3,4, and 8). The mean score from each of these five questions is combined and the Index Score is the average.

Contact us

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