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one **voice**”

Builders Merchant Building Index



Quarter 4 2017

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. This quarter we welcome Paul Roughan, Trade Merchants Sales Director Dulux Trade, BMBI's Expert voice for paint, who joins Experts from The Crystal Group, Keylite Roof Windows, Timbmet, Alumasc Water Management Solutions, Hanson Cement, IKO PLC, Keystone Lintels, Knauf Insulation, Encon Insulation, Ibstock, Natural Paving Products and Heatrae Sadia in providing valuable commentary on market trends and influences.

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, Senior Client Insight Manager

– Trade Panel, GfK



The Builders Merchant Building Index (BMBI) saw strong growth in 2017. Total Q4 2017 sales were up +6.3% on Q4 2016, delivering stronger growth for the quarter than the running average, which in turn helped to push the annual growth numbers. Overall, merchant sales in 2017 finished 4.8% ahead of 2016 by value.

Looking at Q4 in detail, total growth was supported by the two biggest value categories, Timber & Joinery (+7.3%) and Heavy Building Materials (+6.4%). A number of smaller product categories also assisted the strong finish, notably Plumbing, Heating & Electrical, and Tools (both up by +7.7%), Ironmongery (+7.3%) and Kitchens & Bathrooms (+6.6%).

Perhaps not surprisingly, growth in annual sales was also driven by the largest product groups, with Timber & Joinery at +5.4% and Heavy Building Materials at 5.1%. Almost every category recorded sales growth in 2017, with just one minor area, Services, falling back at -2.0%.

December slowed in comparison to both Q4 and the annual totals, but an extra trading day in 2016 hides the true performance. Growth per trading day grew faster than the annual average at +5.7%. Timber & Joinery at +8.6% was a major contributor, but internally focused categories - Plumbing Heating and Electrical +10.1%, and Kitchens & Bathrooms +8.9% - performed strongly year-on-year as the weather reverted to normal after a considerably warmer and dryer December 2016.

A strong performance from Generalist Builders Merchants (GBM) in 2017 was delivered during a period of political and economic uncertainty and a changing value of the pound which compounded trading difficulties. The strength of the new build sector and its vocal political support, alongside the continued strength of the Renovation, Maintenance and Improvement (RMI) market has generated some of this growth, but price inflation has also been a contributing factor.

How will 2018 pan out? Initial reports have shown a weakening in new house building, and concerns over skilled worker shortages have again reared its head. With interest rates expected to rise sooner and faster than predicted, thereby increasing the cost of borrowing, will Generalist Builders Merchants continue to defy market expectations and drive forward again in 2018?

“Total Q4 2017 sales were up +6.3% on Q4 2016, delivering stronger growth for the quarter than the running average. But with interest rates expected to rise sooner and faster than predicted...will Generalist Builders Merchants continue to defy market expectations and drive forward again in 2018?”

Merchants' View

John Newcomb, CEO BMF



Once again, sales through builders' merchants appear to be bucking the general construction trend.

The Office of National Statistics (ONS) and the Construction Products Association (CPA) publish their Quarterly figures a week or so before the BMBI report is finalised. The headlines around their stats speak of construction output falling during the previous quarter, with output forecast to remain flat in 2018. But, as you will read in this report, builders' merchants' sales in Q4 2017 outperformed the same period in 2016, with sales values increasing in every category. The story is much the same when comparing builders' merchants' sales during the whole of 2017 with 2016, with every major category reporting growth.

Essentially it is down to the performance of the sectors mainly served by builders' merchants. While private housebuilding is forging ahead, assisted by Help to Buy, and private domestic RMI work is holding up well, the same cannot be said for the commercial and industrial sectors, which have seen a sharp decline post Brexit, largely due to a lack of clarity as to future requirements.

Fortunately for merchants, the lion's share of our sales are driven by the housing market, both new build and RMI. In both these sectors the ONS and CPA figures concur with the BMBI. According to the ONS, Q4 2017 saw continued growth in new private housing which was up by 8.7% over the same period in 2016, with private housing RMI also up by 2.6%. The CPA was quoted saying that private housing output is now 28.8% higher than its pre-recession peak. By contrast, commercial output is 26.4% below its historic high, whilst industrial output is 28.5% lower.

Will these trends continue in 2018? The Bank of England, predicted to raise interest rates twice more this year, appears to have the confidence to now move towards normalising monetary policy. However, we have yet to see the full impact of Carillion's demise, particularly on their many thousands of sub-contractors. If a significant number go to the wall, the effect is likely to be felt by every sector of the building and construction industry.

“While private housebuilding is forging ahead...and private domestic RMI work is holding up well, the same cannot be said for the commercial and industrial sectors, which have seen a sharp decline post Brexit, largely due to a lack of clarity as to future requirements.”

Monthly: Index and Categories

December 2016* – December 2017

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



MONTHLY SALES VALUE INDEX	Index	2017												
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Builders Merchants	100	77.1	94.7	100.5	122.8	106.7	121.1	120.2	119.2	120.2	117.5	123.4	121.6	76.7
Timber & Joinery Products	100	76.1	99.1	100.9	121.2	102.9	117.1	116.7	116.3	117.3	116.9	124.4	122.1	77.8
Heavy Building Materials	100	77.0	94.0	100.1	123.0	106.9	122.5	121.2	120.6	121.6	119.4	125.8	122.8	75.2
Decorating	100	76.3	92.8	97.0	115.6	98.8	111.0	111.8	114.6	115.6	110.5	115.4	114.9	76.6
Tools	100	74.8	97.6	101.7	120.7	97.2	107.0	109.9	109.8	110.8	110.4	119.2	119.8	75.3
Workwear & Safetywear	100	72.6	109.5	102.7	114.1	85.1	101.4	99.4	95.2	96.2	107.0	112.9	131.0	86.1
Ironmongery	100	84.6	107.5	109.4	129.2	107.5	121.6	124.5	125.6	126.6	123.4	130.6	129.5	85.5
Landscaping	100	62.4	71.0	87.7	129.5	138.1	153.1	146.9	140.8	141.8	117.1	115.8	105.8	60.0
Plumbing, Heating & Electrical	100	94.0	114.9	116.1	128.7	98.3	109.7	110.0	106.6	107.6	120.3	128.9	141.9	97.4
Renewables & Water Saving	100	42.4	68.1	76.2	90.3	68.2	70.2	69.9	66.6	67.6	69.2	78.3	82.2	46.8
Kitchens & Bathrooms	100	83.8	98.1	110.2	123.6	99.3	111.3	118.3	113.7	114.7	114.5	120.2	128.6	85.9
Miscellaneous	100	92.6	113.2	108.8	124.4	103.4	120.5	113.7	117.2	118.2	119.8	118.4	125.3	90.7
Services	100	81.3	87.8	95.0	115.0	100.6	112.4	109.7	110.6	111.6	110.6	114.0	109.2	79.0

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

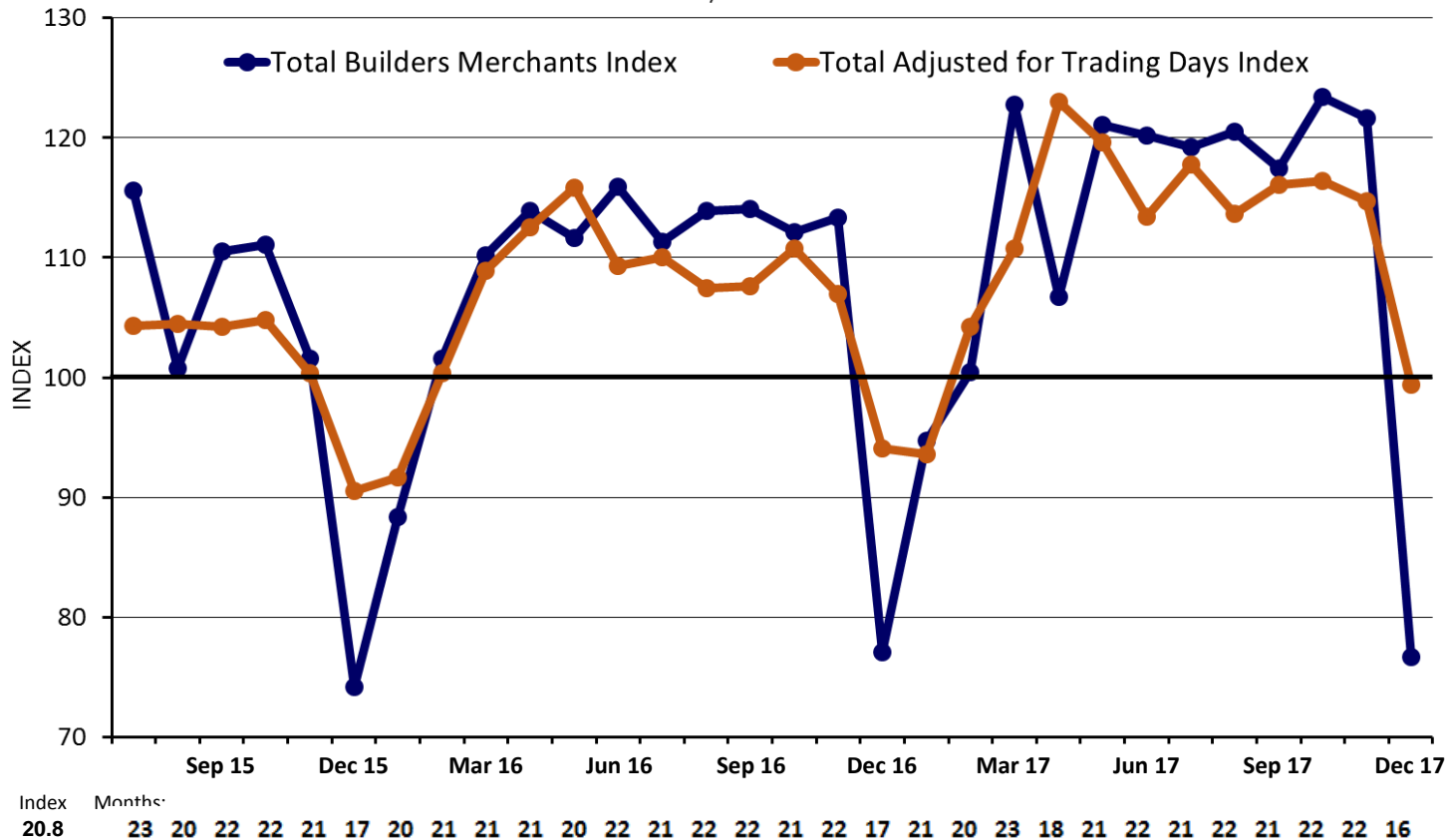
Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

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



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

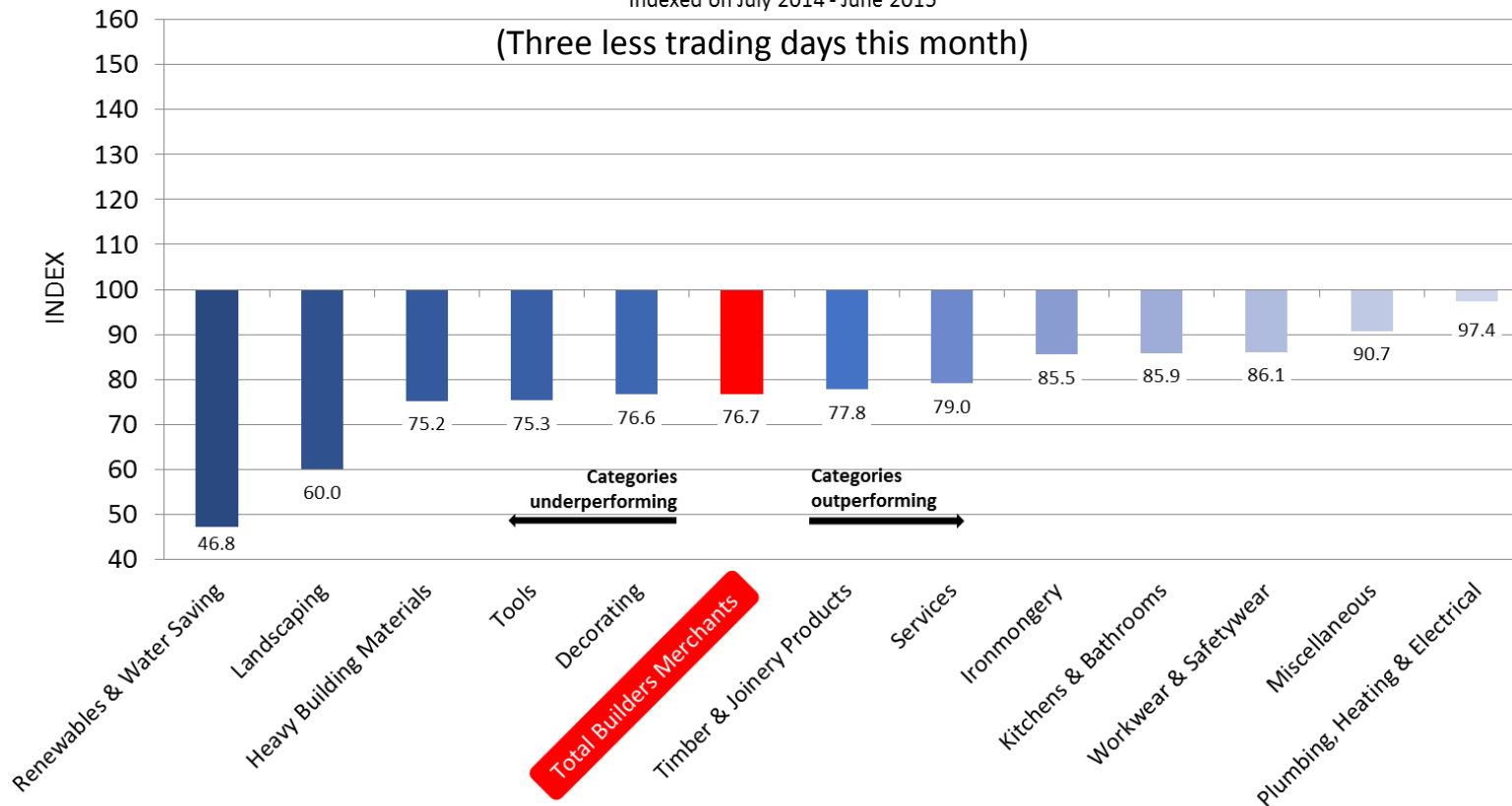
Monthly: Index and Categories

December 2017 index

December 2017

Indexed on July 2014 - June 2015

(Three less trading days this month)



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Monthly: Index and Categories

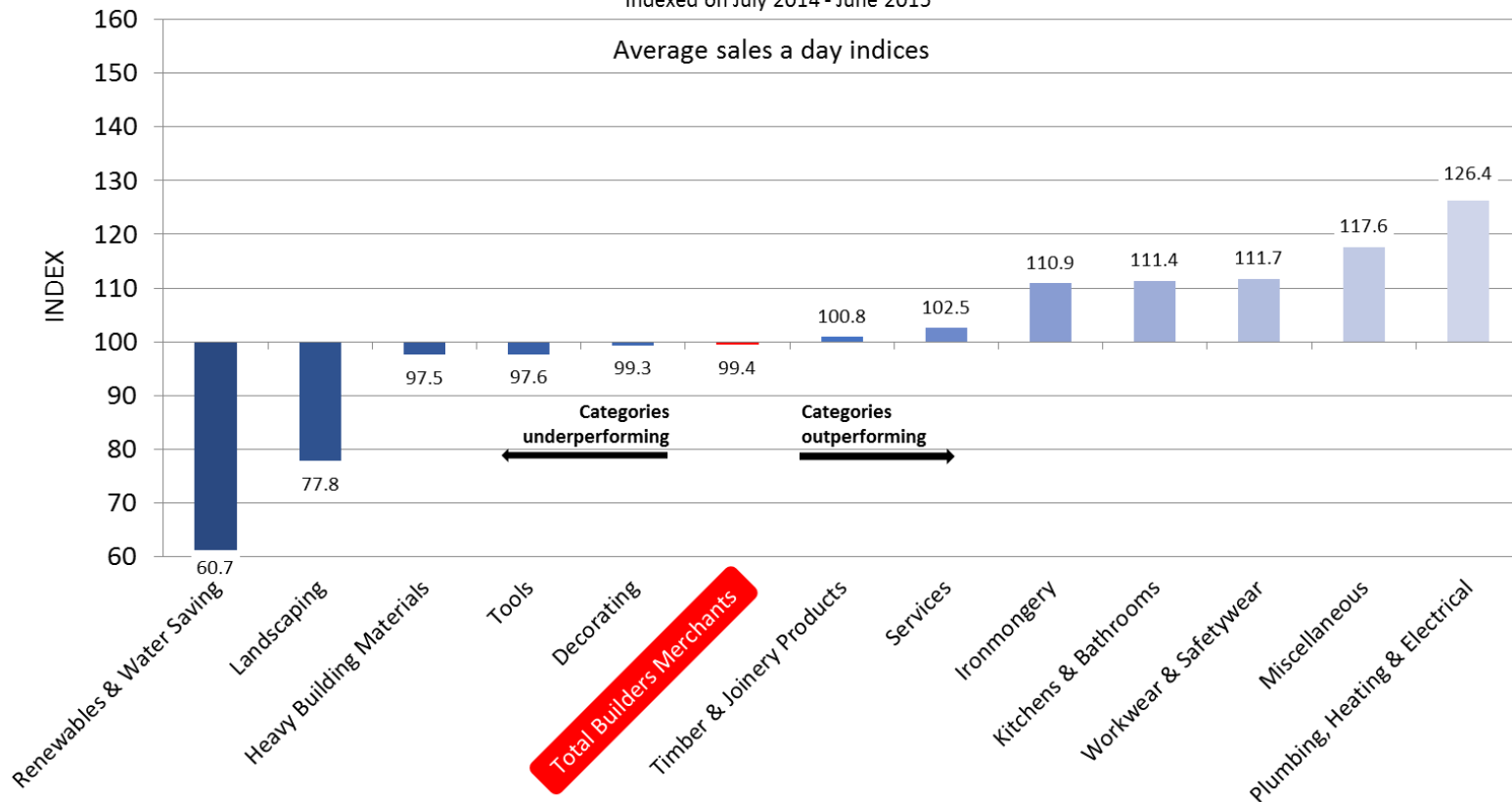
December 2017 index

average sales a day

December 2017

Indexed on July 2014 - June 2015

Average sales a day indices

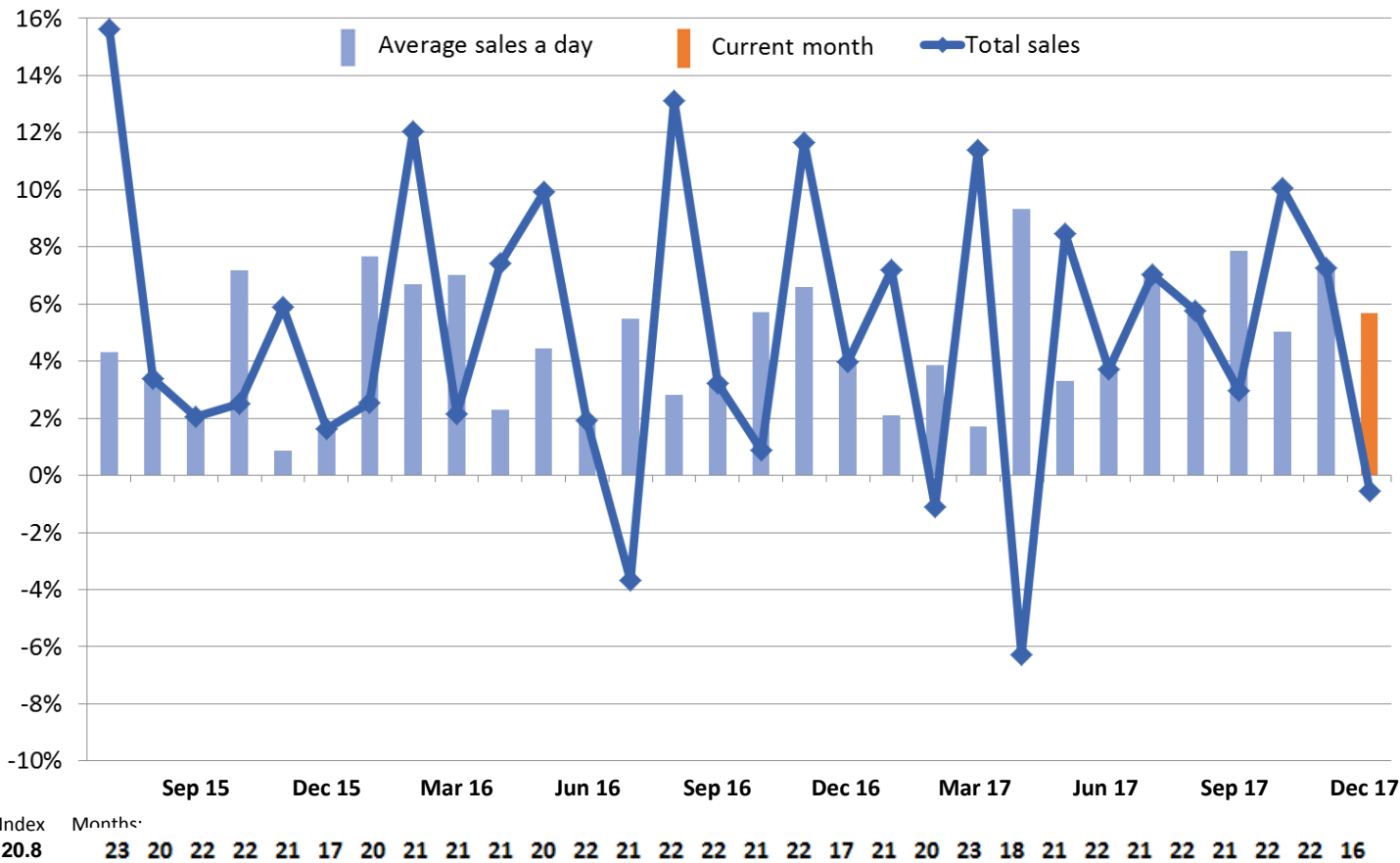


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Monthly: Sales Indices

Adjusted and unadjusted for trading days

Monthly: Year on Year



Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Monthly: This year v last year

December 2017 sales indices

December 2017 index v December 2016 index

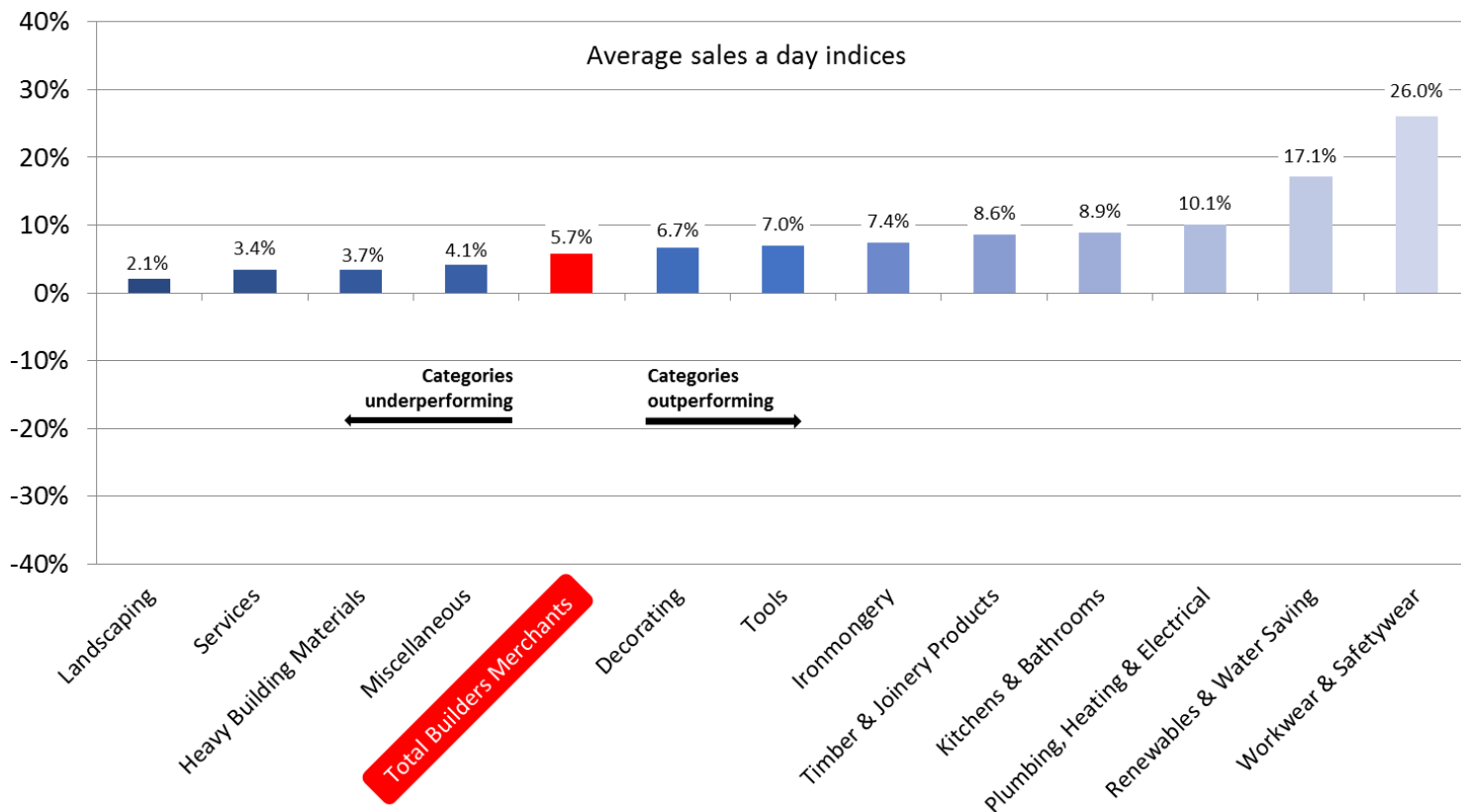


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Monthly: This year v last year

December 2017 average sales a day indices

December 2017 index v December 2016 index

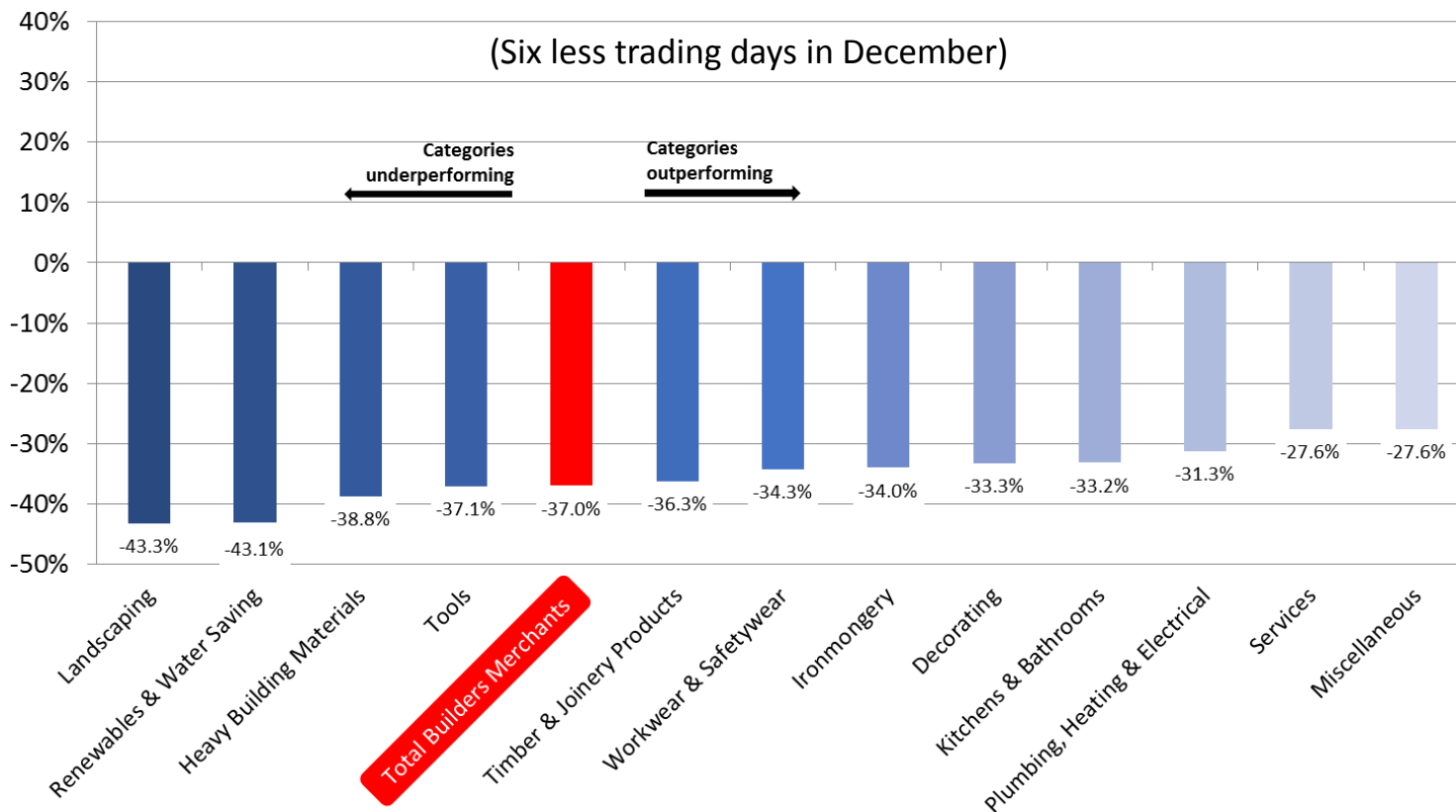


GfK Source: GfK's Builders Merchants Total Category Report July 2015 to December 2017

Monthly: This month v last month

December 2017 sales indices

December 2017 index v November 2017 index

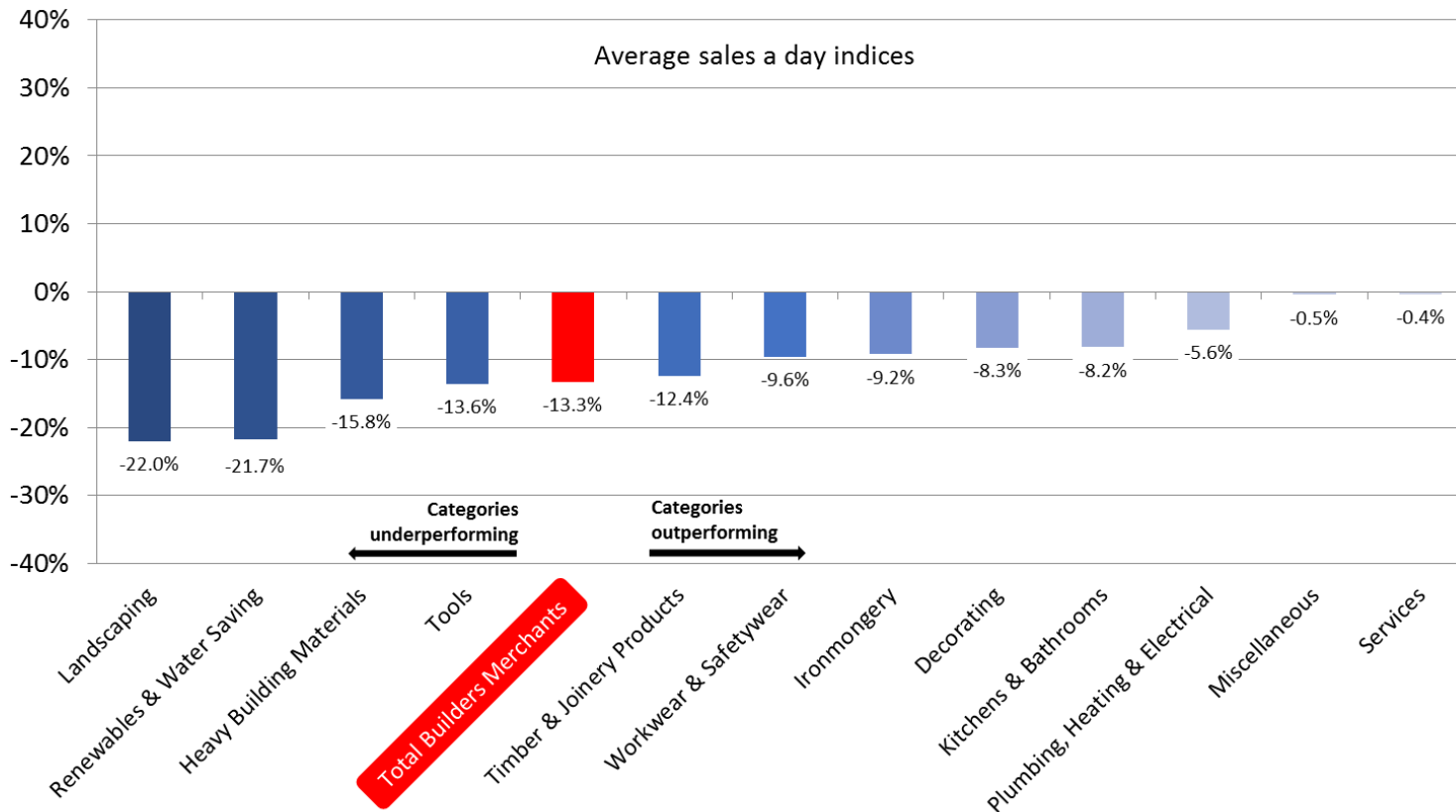


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Monthly: This month v last month

December 2017 average sales a day indices

December 2017 index v November 2017 index



 Source: GfK's Builders Merchants Total Category Report July 2015 to December 2017

Quarterly: Index and Categories

Quarter 4 2016* to Quarter 4 2017

(Indexed on July 2014 to June 2015)



QUARTERLY SALES VALUE INDEX	Index	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Total Builders Merchants	100	100.9	106.0	116.0	119.1	107.2
Timber & Joinery Products	100	100.7	107.1	112.3	117.1	108.1
Heavy Building Materials	100	101.4	105.7	116.9	120.7	107.9
Decorating	100	98.2	101.8	107.2	113.9	102.3
Tools	100	97.3	106.7	104.7	109.8	104.7
Workwear & Safetywear	100	105.5	108.8	95.3	100.9	110.0
Ironmongery	100	107.4	115.3	117.9	125.3	115.2
Landscaping	100	89.8	96.1	146.0	130.4	93.8
Plumbing, Heating & Electrical	100	113.9	119.9	106.0	113.4	122.7
Renewables & Water Saving	100	59.0	78.2	69.4	69.0	69.1
Kitchens & Bathrooms	100	104.7	110.6	109.6	115.2	111.6
Miscellaneous	100	109.4	115.5	112.5	120.5	111.4
Services	100	98.9	99.3	107.6	112.4	100.7

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

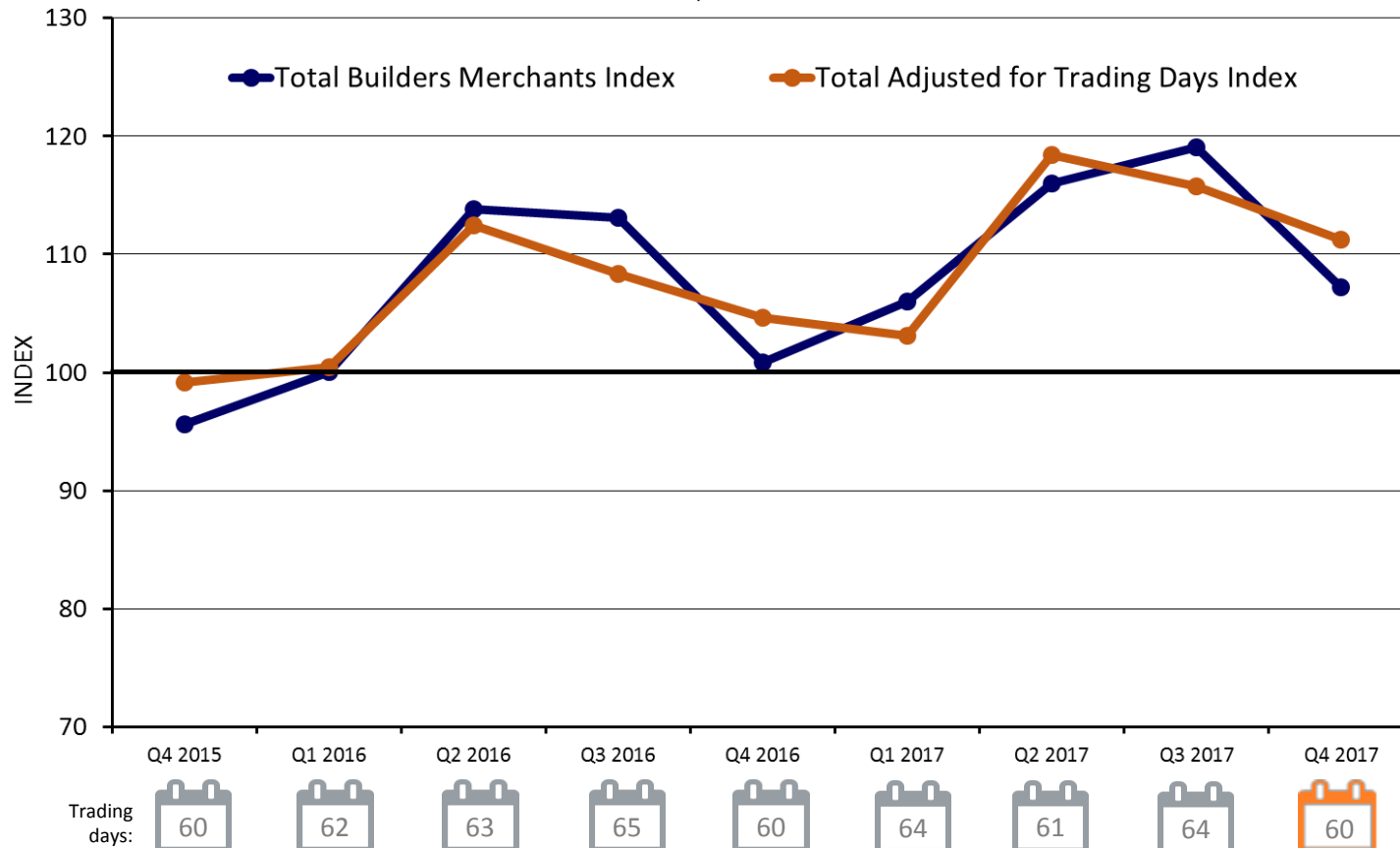
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

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 December 2017

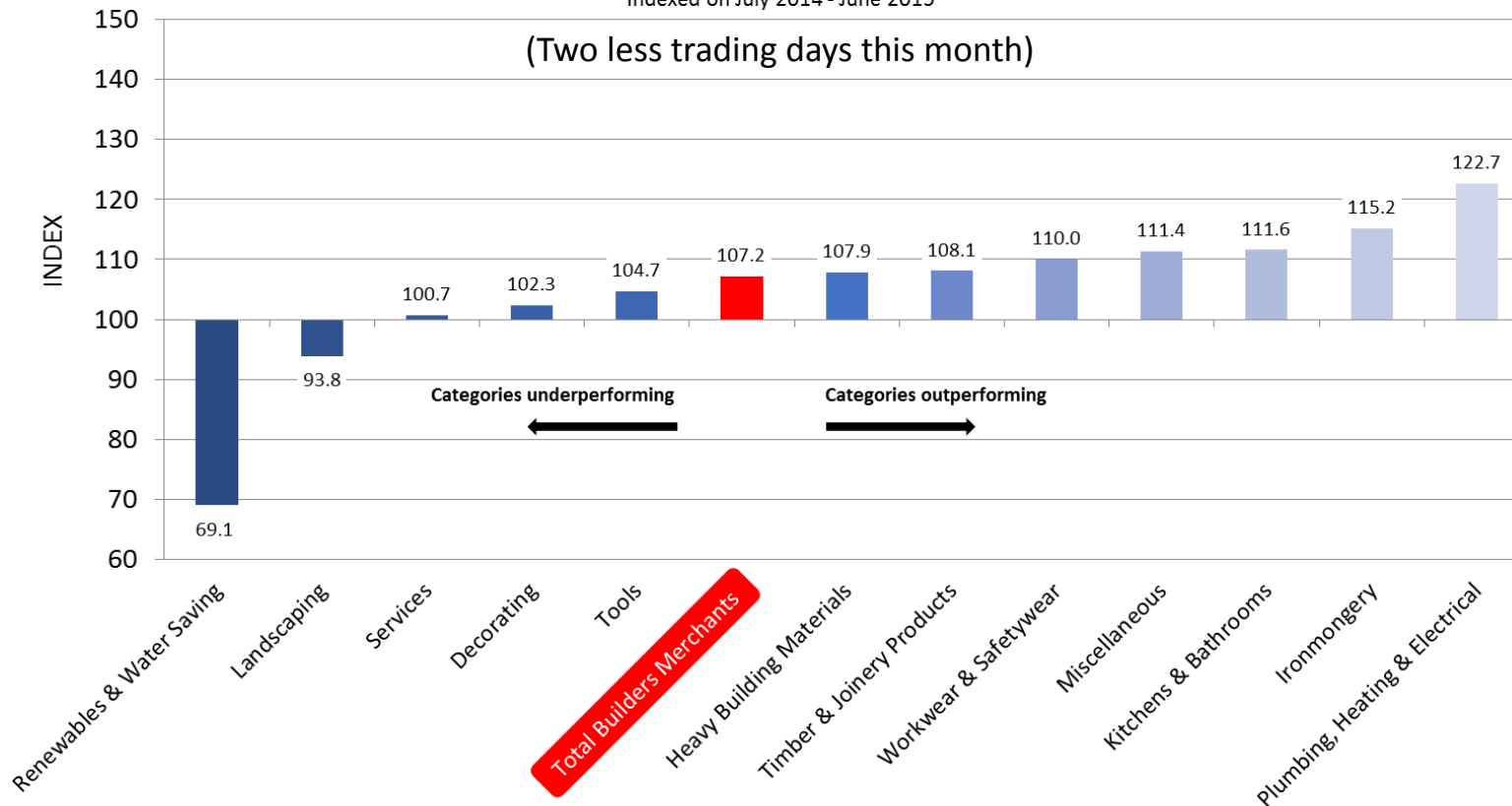
Quarterly: Index and Categories

Q4 2017 index

Quarter 4 2017

Indexed on July 2014 - June 2015

(Two less trading days this month)



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Quarterly: Index and Categories

Q4 2017 index

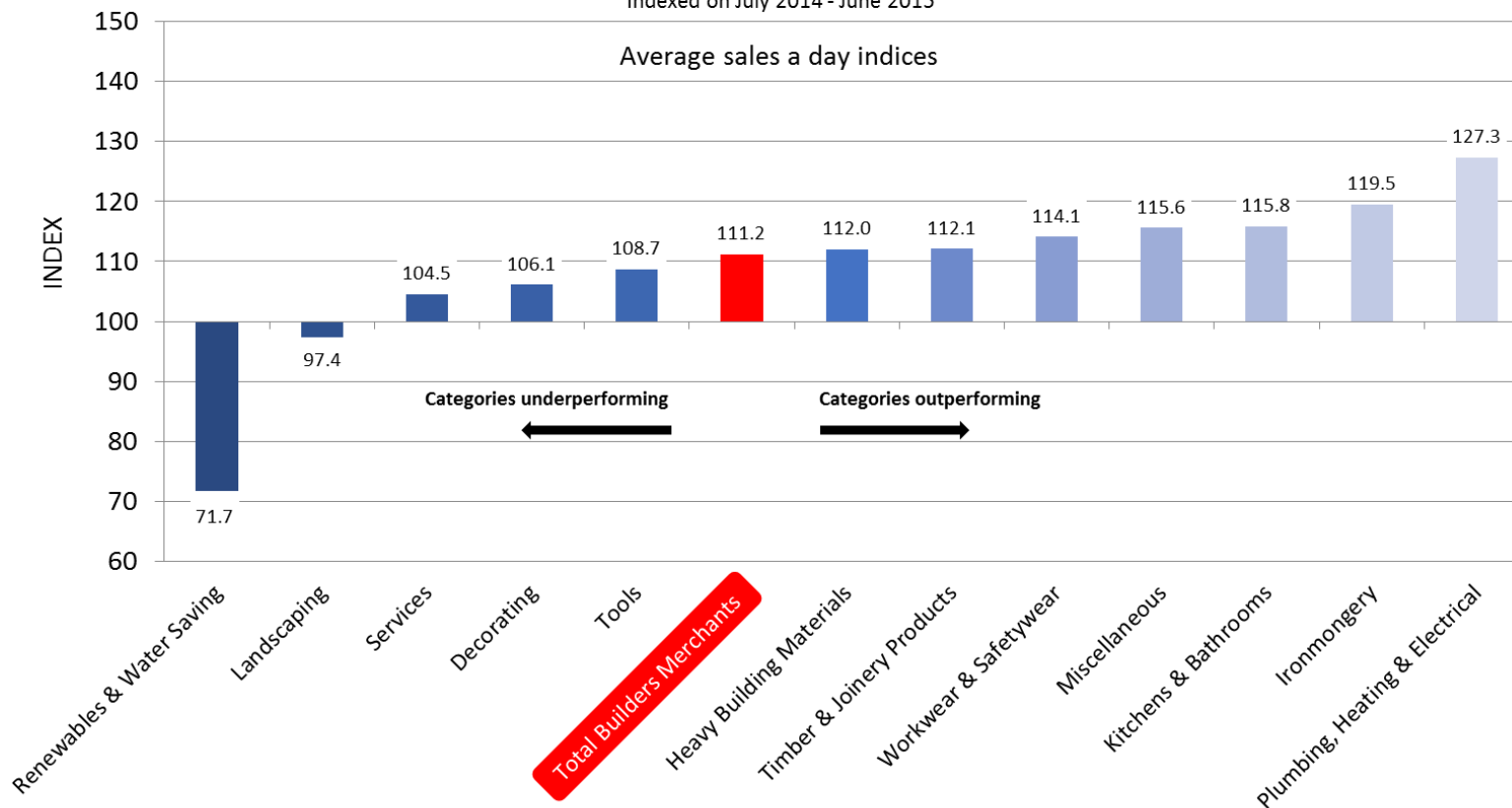
average sales a day



Quarter 4 2017

Indexed on July 2014 - June 2015

Average sales a day indices



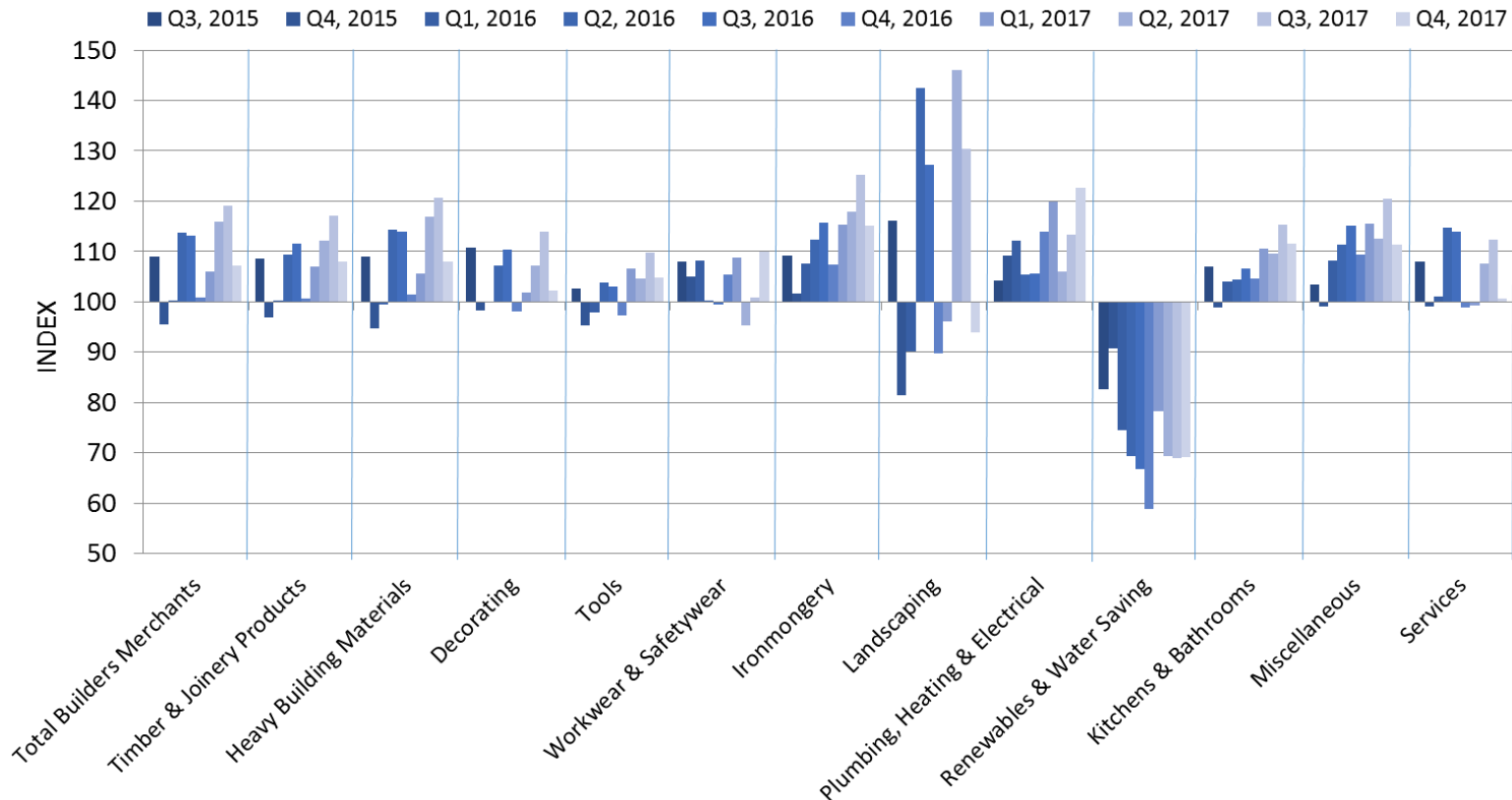
Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Quarterly: Index and Categories

Quarterly indices

Quarterly Indices

Indexed on July 2014 to June 2015

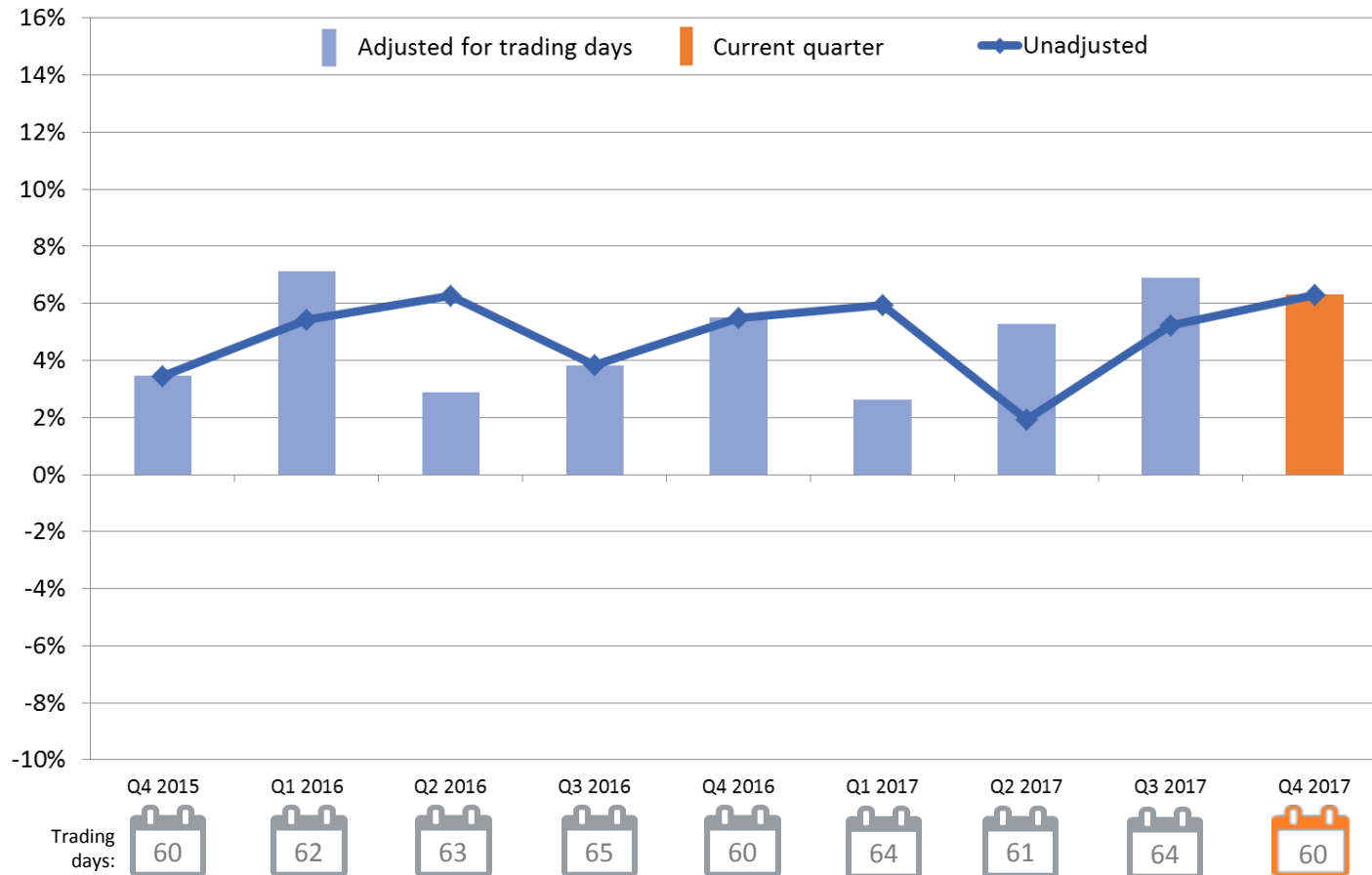


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Quarterly: Sales Indices

Adjusted and unadjusted for trading days

Quarterly Indices: Year on Year

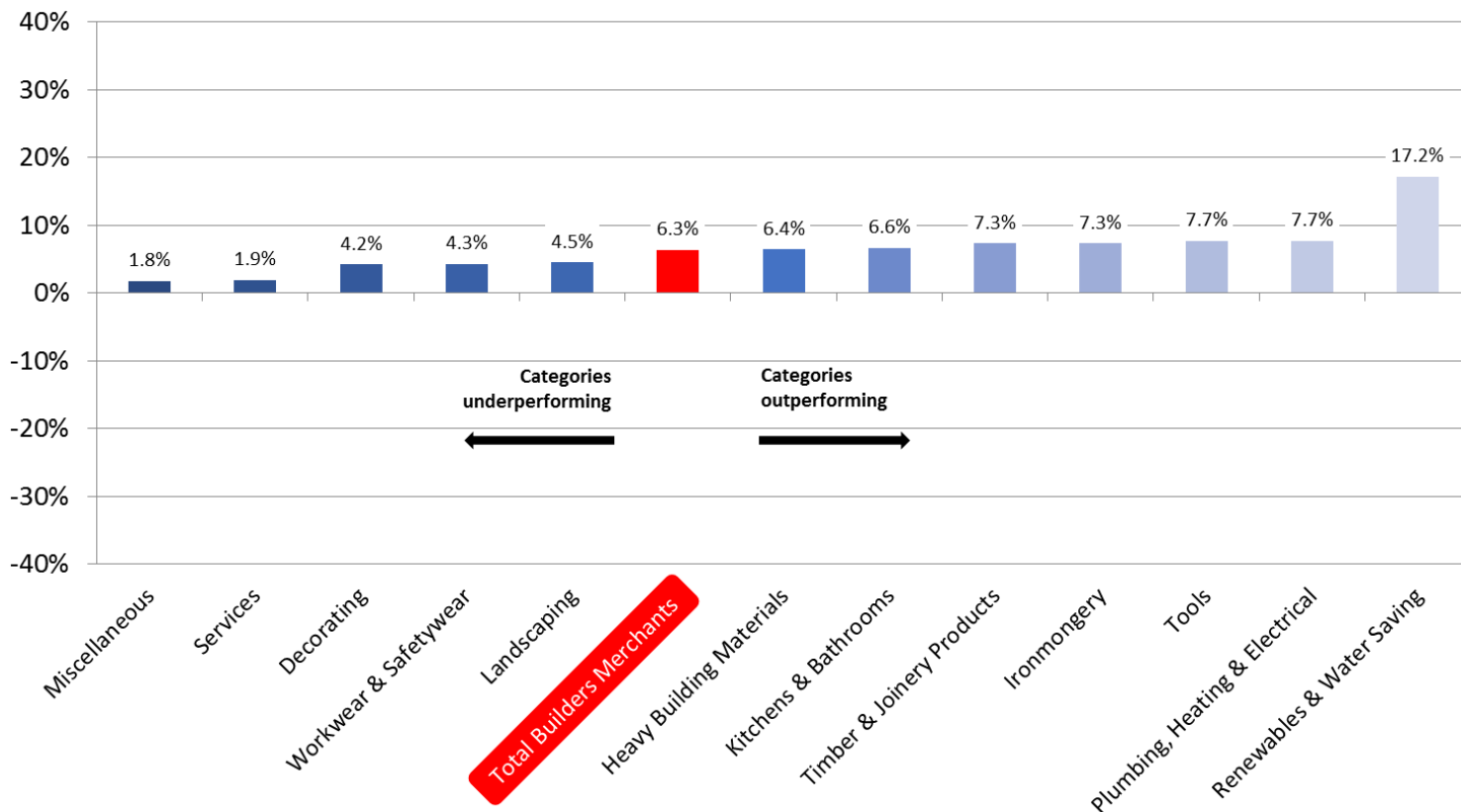


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Quarterly: This Year v Last Year

Q4 2017 sales indices

Quarter 4 2017 index v Quarter 4 2016 index

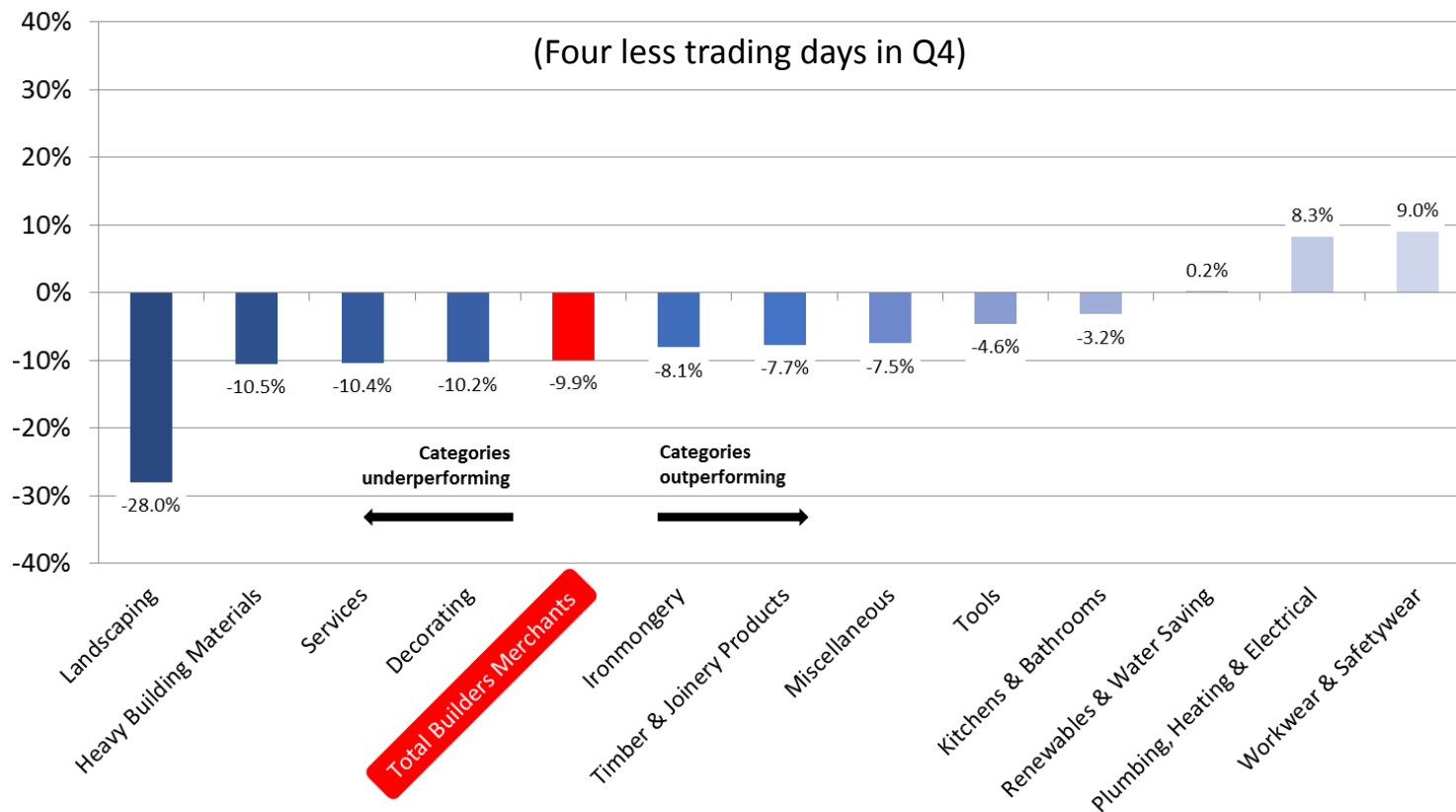


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Quarterly: Quarter on Quarter

Q4 2017 sales indices

Quarter 4 2017 index v Quarter 3 2017 index

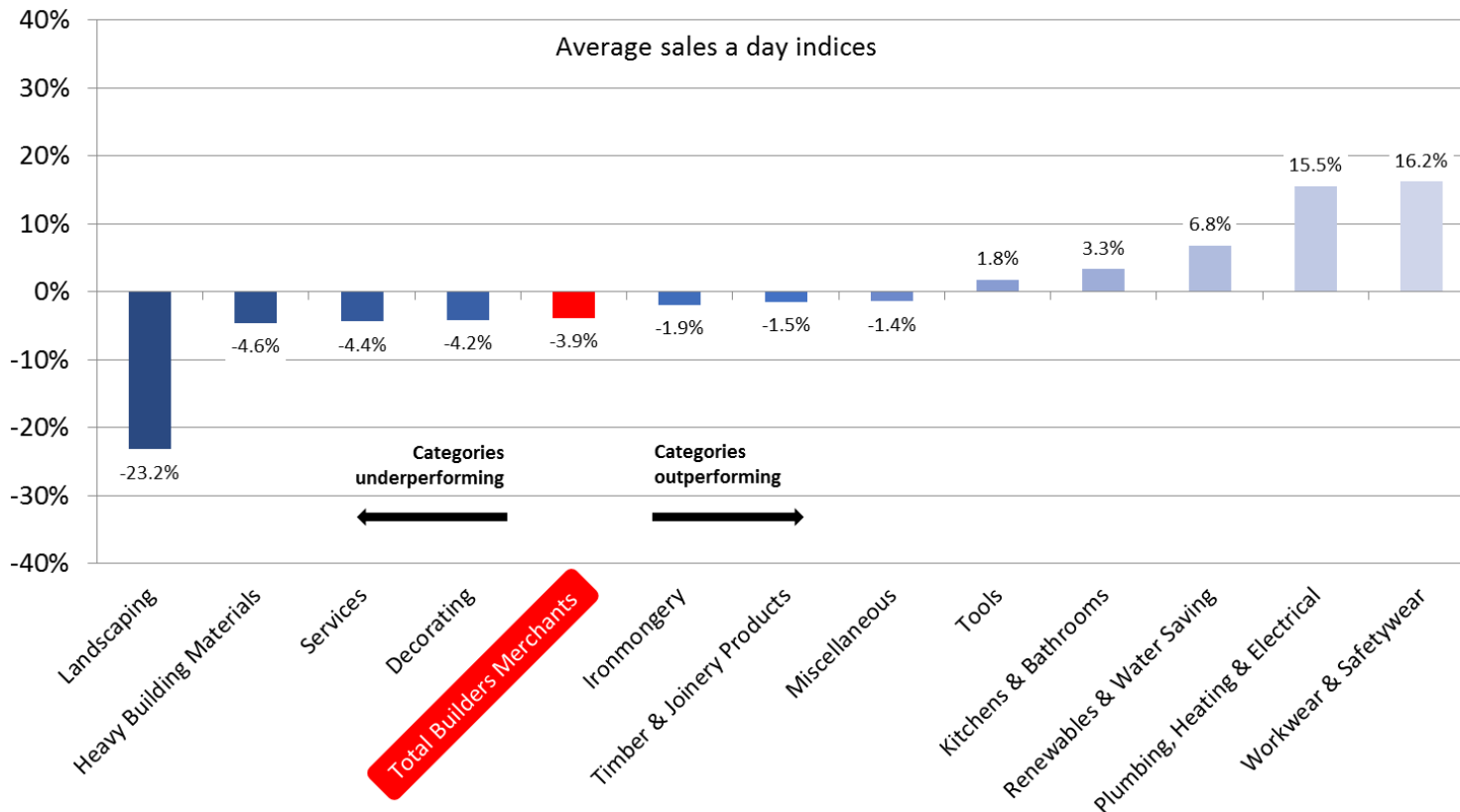


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Quarterly: Quarter on Quarter

Q4 2017 average sales a day indices

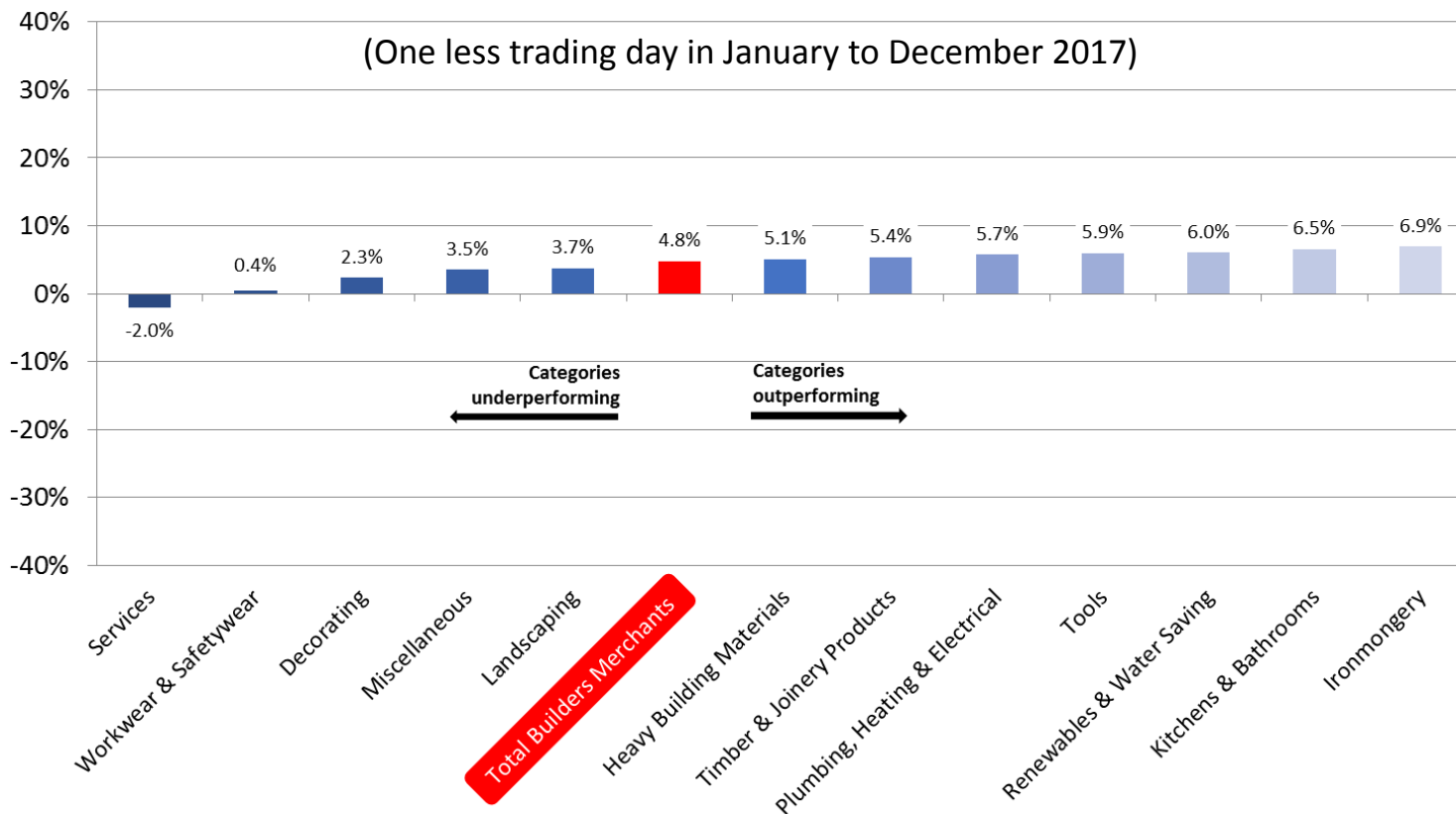
Quarter 4 2017 index v Quarter 3 2017 index



 Source: GfK's Builders Merchants Total Category Report July 2015 to December 2017

Last 12 Months: Year on Year

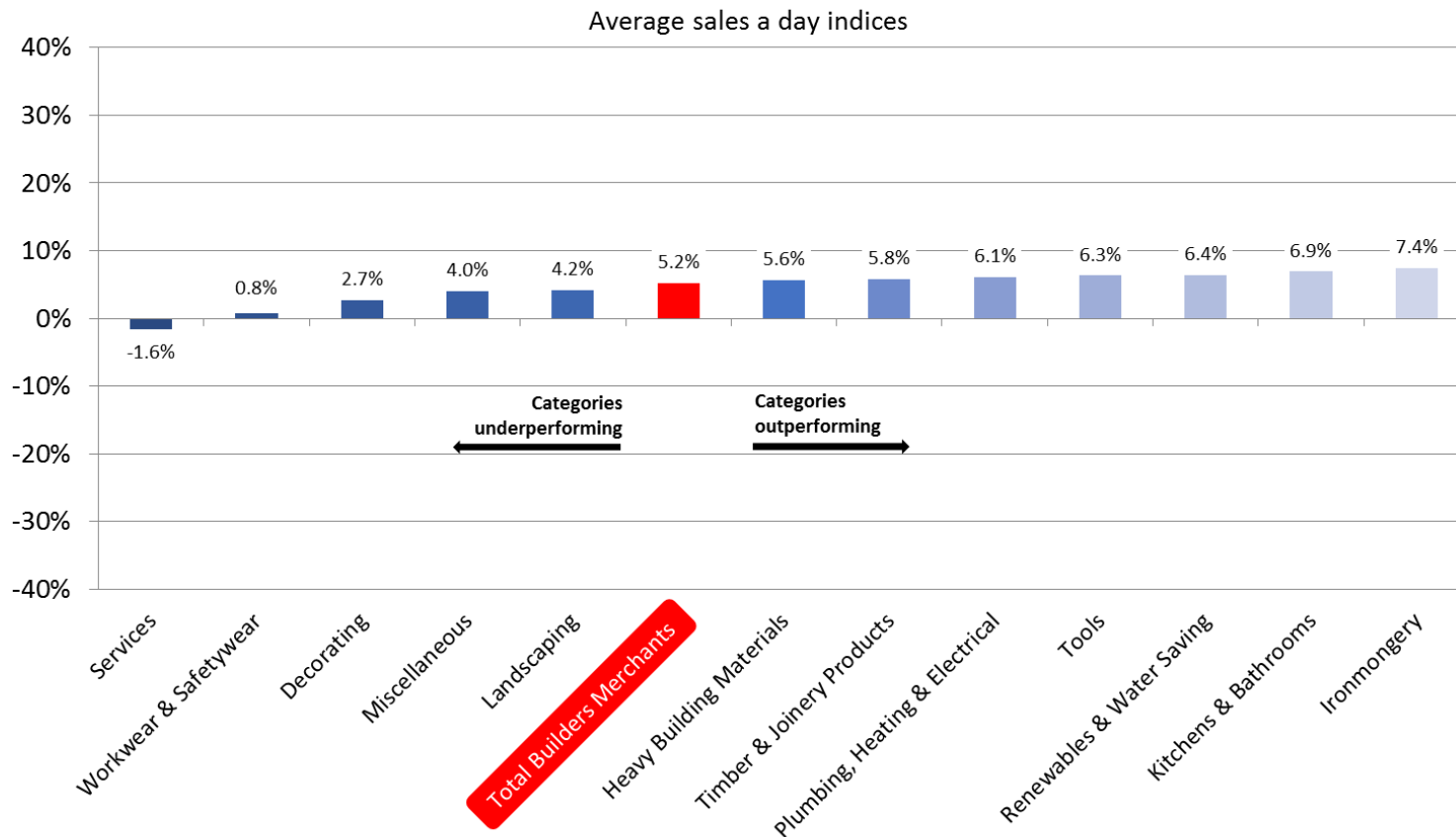
12 months Jan 17 to Dec 17 v 12 months Jan 16 to Dec 16



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Last 12 Months: Year on Year

12 months Jan 17 to Dec 17 v 12 months Jan 16 to Dec 16



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2017

Expert Panel

Paint

(Part of Decorating)



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

Quarter four delivered a mixed performance for decorative paint with December statistics showing a disappointing end to 2017. The retail market in particular was hit hard by weak consumer confidence and a downturn in housing transactions amongst other factors.

Focusing on Trade, the market performed better, finishing the year just short of 1% up over the previous year in terms of volume. However this was the weakest annual growth in the last five years.

By value, trade sales were up over 3%. However, this increase came from price rises from manufacturers rather than other market forces.

Overall the Trade paint market performance was influenced by many factors in 2017, especially exterior paint where the weather disrupted activity for part of the year. A far greater influence however has been a lack of confidence in the economy, and rather gloomy figures on construction output.

There are some positive tailwinds though to offset the headwinds: both disposable income and GfK's Major Purchase Index are up a percentage point and unemployment is at its lowest in 42 years. The market though is volatile and uncertain.

A number of interesting trends are occurring in the paint world. Within the trim categories, the growth of water based coatings is outperforming solvent based coatings. That's great news for applicators and their customers as it means lower odour, faster drying times and easier equipment cleaning. It's also a strong sustainability message as there's less impact on the environment.

A proportion of the market often specifies a 'just good enough' bare minimum rather than a higher performance product with additional customer benefits. So, it's reassuring that sales of durable, scrubbable emulsions are growing faster than standard emulsions. This is important as it adds value back into the market, giving merchants the chance to trade up.

Along with volatility and uncertainty we're seeing important market shifts. Merchants that focus on service, value for money and brand accessibility will attract the generalist, small builders and general contractors, who are the fastest growing part of the market.

“Q4 delivered a mixed performance for decorative paint. The retail market was hit hard by weak consumer confidence. Focusing on trade, the market performed better. By value, trade sales were up over 3%. However, this increase came from price rises from manufacturers rather than other market forces.”

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 fourth quarter of 2017 eased back in construction and the economy as consumer confidence wilted under the threat of uncertainty and political instability. But there was little sign of slowdown in merchants' sales of PVC-U windows and doors. Enquiries slowed but Q417 orders were strongly up on Q416, and up on Q317.

The disruptive effects of online technology, new formats and new ways to buy are turning retail on its head. Many retailers had a torrid 2017 and all the big grocers lost share to Aldi and Lidl, and to Ocado which grew faster than the rest of the online food market.

The turmoil has triggered market restructuring. Tesco is acquiring Booker; Amazon bought Whole Foods; the Coop is buying Nisa; and ASDA is buying B&M. Tesco grew 2.6% in the 12 weeks to the end of January, but Aldi and Lidl both grew 16%. Tesco plans to fight back with a new discount chain. John Lewis is cutting support staff and a difficult year prompted Next to question if it should still have physical stores! Wesfarmers said it may pull the plug on Bunnings UK.

Many retailers are absorbing cost increases because they can't pass them on: consumers have researched online what they could pay before they come in.

It's not a battle between online and bricks and mortar: the first part of the customer journey is mostly online. The challenge is combining them into a slick Omnichannel experience that's how people like to buy. And from their own experience builders are aware of best practice, because who doesn't buy online?

We're all going on an Omnichannel journey with customer showrooms, online software that's more transactional, videos, online configurators, a new sales toolkit and measuring service and training. Ideally merchants will travel with an Omnichannel partner who makes it easy for them to match customer expectations and sell more PVC-U windows, doors and conservatories, more easily at good margins. Buying is changing, and we need to help merchants change how they sell to match how customers want to buy.

“It's not a battle between online and bricks and mortar. We're all going on an Omnichannel journey. The way we buy is changing, and we need to help merchants change how they sell to match how customers want to buy.”

Expert Panel

Roof Windows

(Part of Timber & Joinery Products)



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

The year 2017 finished positively with a strong Q4 performance for roof window sales giving a welcome boost after a relatively flat quarter three. These upbeat figures mean double digit growth for the full year, providing good grounds for thinking we might see strong growth in 2018.

This is in contrast to ONS Construction Output Data which recorded a drop in overall construction output for a third successive quarter. The difference between ONS data and our sector's sales growth is likely to shrink when the ONS figures are revised as their full data comes in. Revisions get little publicity but can be chunky. For example, +0.2% in Q1 is now +2.3%! Q2 has gone from -1.3% to -0.5% with more revisions due, and Q3 has shifted from -0.9% to -0.3% with more to come.

In part too, it's explained by a strong performance in private housing work, and a fifth consecutive month of growth, reaching its highest level on record. Merchants can see these trends turn into demand for roof windows at their counters. During 2017, white PVC-U windows and additional frame material choices were increasingly popular, meeting the demand for products relevant for the modern home. Nationally, housing supply lags demand, prompting expectations that it will continue to generate growth in new build and RMI. But, Brexit is the bogeyman with the potential to rain on the industry's parade, regardless of underlying demand.

RMI could also be hit by a drop in consumer confidence from the uncertainty and anxiety created by chaotic Brexit negotiations. Weak performance on the high street during the Christmas period and sharply falling UK car sales painted a depressing picture of weakening consumer confidence. We hope consumers' concerns don't hit the housing market, particularly if interest rates climb further in the coming months.

Another Brexit reality, the weakness in sterling continues to drive UK pricing, with roof window increases announced in Q4 being implemented in Q1 2018.

However, regardless of these macro factors, we believe the roof window industry will continue to push ahead in 2018. Underlying strong demand plus innovations that benefit homeowners give them more reasons to plan roof windows into their projects.

“2017 finished positively with a strong Q4 performance for roof window sales giving a welcome boost after a relatively flat Q3. These upbeat figures mean double digit growth for the full year, providing good grounds for thinking we might see strong growth in 2018.”

Expert Panel

Timber & Panel Products

(Part of Timber & Joinery Products)



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

The beginning of quarter four for Timber and Panel Products reflected the growth highlighted in the BMBI Q3 2017 report. October was strong with high enquiry levels. However, the market weakened as we moved towards the year end with demand particularly quiet in the lead up to the holiday period and continuing uncertainty.

Construction output continued to fall back from the start of 2018, with both new building and repair work faltering, which impacted on Timber and Panel Products. As expected, shortages particularly of panel products led to supply issues which will influence trade throughout the year. There will also be further price pressure.

Hardwood timber supply was stable during quarter four with the exception of European Oak and Cedar. European sawmills are facing increased pricing pressure on logs, with strong demand from cask and barrel manufacturers. Availability from Eastern European countries, influenced by local legislative changes, is limiting supply.

There has been a resurgence in the cladding market, with good volumes during the quarter. Cedar is the most popular species but, with costs increasing, other species such as Larch and Red Grandis are becoming more popular. The requirement for fire-treating cladding is also escalating, putting pressure on supply and extending lead times.

Looking forward to Q1 2018, we can't see any specific availability problems for hardwood timber, although hardwood decking supply from the Far East may be restricted. Far East sawmills are unable to get logs of the main species, particularly Balau, so merchants should secure stock early when it arrives.

OSB supply is problematic but not getting worse. Importers and distributors are covering volume requirements from further afield but there is no spare capacity. OSB prices have been increasing consistently and the trend is expected to continue.

MDF and chipboard supply is worsening with extended lead times and allocations, specifically for P5 chipboard, which was announced recently. There are no signs of this improving with supply problems expected to continue during 2018. Q4 price increases reflected the shortages, and there will be further increases in 2018. Increases of 8.5% to 20% should be expected in Q1 2018 with further increases likely in quarter two.

“Hardwood timber supply was stable during Q4...and there has been a resurgence in the cladding market, with good volumes during the quarter. However, MDF and chipboard supply is worsening. Q4 price increases reflected the shortages.”

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.

Metal rainwater continued to grow in Quarter 4, with the market up 5% on the previous quarter. Increased demand for colour and bespoke systems, particular in high end domestic and commercial sectors, is keeping this market ahead of the game. Steel rainwater is also gaining ground as both new build and RMI markets recognise the benefits of metal systems for durability, design and performance compared with plastic. So, with the cost of steel similar to plastic rainwater, it's an easy choice for these projects.

However it is a different picture for civils and drainage, where the market is down 3%, mainly caused by delays in large infrastructure projects and a growing skills shortage. Enquiries are strong, and many companies are busy with quotes and rebidding, but converting enquiries into sales is hard going and new projects are slow to emerge.

Over the last three years, the squeeze on contractor margins has been significant. In 2014 the average top 10 contractor pre-tax margins were 2.9% according to the Construction Products Association. By 2017 this had fallen to -0.5%. So Carillion's failure was no real surprise, and it could only have been a matter of time. It may be some months before we really start to feel the impact of its failure, but it has knocked confidence in our sector, bringing it to an all-time low.

However, even in difficult times, there are opportunities to add value and improve margins in civils and drainage with product solutions that deskill installation and combat the skills shortage. Suppliers in all areas of construction are increasingly being asked to devise new product solutions and bespoke systems, rather than standalone products, that make it easier, quicker, better and more efficient for contractors to complete their projects on time and on budget.

The other big opportunity for this market is to think of the aesthetics when developing products. Civils can be sexy and new technology is helping to add value with bespoke solutions that combine practicality and looks.

So while the outlook for the next three to six months is somewhat fuzzy, we expect a slowdown in commercial but the market for civils to improve, mainly driven by the rail and highways sector.

“Metal rainwater continued to grow in Q4. However, for civils and drainage the market is down 3%. Converting enquiries into sales is hard going and new projects are slow to emerge. But even in difficult times, there are opportunities to add value and improve margins with product solutions that deskill installation and combat the skills shortage.”

Expert Panel

Cement & Aggregates

(Part of Heavy Building Materials)



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

The latest Mineral Products Association report shows sales for heavy-side construction products grew marginally in Q4 2017 compared to Q3 2017 and from a low base. Aggregates sales volumes were up by 2.3%, ready mixed concrete (RMC) 1.6% and asphalt 0.8%. Mortar sales continued to grow strongly, up 6% over the quarter. Looking at the full year, we saw sales volumes of RMC decline by 2.6% compared to 2016, whilst asphalt (0.1%) and aggregates (-0.4%) remained broadly flat. Mortar sales enjoyed another year of strong growth, up 11.1% in 2017.

This strong performance in mortar indicates continued activity in housebuilding, but weaker sales across the mainstream materials points clearly to an overall downturn in construction activity. A particular concern for ready mix concrete suppliers is five consecutive quarters of decline in the London RMC market. This is inevitably having an impact on cement and aggregate volumes and could hit merchant sales further down the line.

It looks like 2018 will be a challenging year for builders' merchants who are reliant on the Repair Maintenance and Improvement sector, given the pressure on consumer finances created by rising inflation combined with low wage growth. Brexit negotiations will no doubt continue to cause uncertainty and inhibit investment in our sector.

Throughout 2017 the BMBI expert reports and panel debates have highlighted key issues that our industry faces such as Brexit, increased legislation, lack of investment, material availability, skills shortages and attracting young people to our industry. Hanson UK is addressing these issues by making significant investments in raw material reserves and increased capacity and focusing clearly on recruiting and training craft and higher apprentices and the graduates who will become the business leaders of the future.

The investment of over £80m in two new marine aggregate dredgers and a vertical mill at our Padeswood works to increase cement capacity demonstrates the confidence our parent company HeidelbergCement has in the UK business.

“This strong performance in mortar indicates continued activity in housebuilding, but weaker sales across the mainstream materials points clearly to an overall downturn in construction activity.”

Expert Panel

Roofing Products

(Part of Heavy Building Materials)



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

It's been a mixed picture for roofing in quarter four. Poor weather and storms at the end of 2017 damaged roofs, creating RMI work for roofers. Nevertheless, it's difficult to get a clear picture overall of RMI trends. Political uncertainty and Brexit negotiations have sapped confidence and indecision is holding markets back.

Like other manufacturers, we've become ambassadors for innovation. We're sold on the benefits of innovation to end users, contractors, specifiers and merchants. But innovation also changes markets, and there are downsides to change.

Innovations add value by improving product performance and extending product lifetimes, so customers enjoy more years of trouble-free performance. Higher performing roofing felts mean longer lifetimes which carry better product guarantees, rising to 15 years in some cases. That's a big benefit to customers, but longer lasting products get replaced less often, which reduces the demand and the market for suppliers.

December mortgage approvals were the lowest recorded for three years, but housebuilding continues to grow and should rekindle activity in RMI. Merchants' sales remain positive, but they may become constrained by wage inflation.

In contrast to RMI, poor weather through the winter months was bad news for specification work with many projects on hold because bad weather prevented work on the roof. Longer lasting products with longer guarantees are also impacting on specification work. Some hot melt products now come with 40 year guarantees.

Cost inflation will push more price increases in Quarter 1, and we have yet to see the effects of Carillion's demise on roofing contractors.

New Safe2Torch regulations will drive better safety in flat roofing applications. The correct choice of roofing material for a particular type of roof is one of the biggest issues in roofing – and the larger the project the more important the right choice becomes. So, single ply, mastic asphalt, hot melt or liquids, specifiers and contractors need more dialogue with suppliers who can advise on what is best in the circumstances.

To summarise, private housing and the promise of large infrastructure projects continue to drive construction. We hope we start to see the promise of this specification work materialise!

“It's been a mixed picture for roofing in Q4. Poor weather and storms at the end of 2017 damaged roofs, creating RMI work for roofers. In contrast, the winter months were bad news for specification work with many projects on hold. Cost inflation will push more price increases in Q1.”

Expert Panel

Steel Lintels

(Part of Heavy Building Materials)



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

The Q4 steel lintel market stats – as with the Q3 figures - are slightly distorted with two price increases in the year. Adjusting for December's disappointing performance, Q4 2017 continued the steady trend of previous quarters at around 5% growth. Average daily sales for October and November continued at a strong rate before dropping back in December and maintained the fairly flat trend from March to November. Although only early into 2018, the market is maintaining a steady pace.

The NHBC recently reported that new homes registered in 2017 increased 6% to 160,606 while new home completions rose 4% to 147,278 compared to 2016. The housebuilding sector is expected to continue its modest growth in 2018. However the availability of materials, mortgages and labour combined with rising costs risk planned growth. I previously flagged up concerns about product quality and compliance (lack of compliance) to regulations as house building growth continues. So, I'm delighted to read that the 'NHBC will continue to work with the industry to help raise standards of new homes.'

October enquiries were very strong, boosting the overall Q4 total. This is good news coming after the drop in enquiries in Q3, and good news for growth if these enquiries turn into orders. Specification of correctly certified products is becoming more important for housebuilders to ensure compliance with building regulations and SAP ratings. Both merchants and manufacturers need to be aware of the importance of specification to the finished solution, and the risks of altering specifications.

Builders increasingly want more clarity on various areas to support their final decision when placing orders: manufacturer product availability, product performance, lead times, local merchant stockists and service charters for example.

In a competitive market, customer service and product knowledge still give merchants a hard-to-beat competitive edge, so it's vital that sales and technical teams are fully available to support merchants' teams in keeping that edge.

“Specification of correctly certified products is becoming more important for housebuilders to ensure compliance with building regulations and SAP ratings. Both merchants and manufacturers need to be aware of the importance of specification to the finished solution, and the risks of altering specifications.”

Expert Panel

Mineral Wool Insulation

(Part of Heavy Building Materials)



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

In 2017, the housebuilding industry came under greater scrutiny than ever before: the housing shortfall, the industry's much-discussed skills gap and the ability of young people to buy their first homes. It was also a year when policy focus seemed to take a new direction, moving away from demand-led to supply-led solutions. This was underlined by the Chancellor Philip Hammond in his November Budget, where he committed £15bn of new support to the sector, with particular help aimed at smaller builders and developers.

These supply-led solutions, coupled with existing schemes aimed at stimulating housing demand – the most high-profile being Help to Buy – will drive the market forward in 2018. Those of us in the building products sector should expect increased housebuilding momentum to continue to drive sales.

On the commercial side, it would be remiss of me not to mention the impact that the collapse of Carillion will have during the coming months and even years. The reverberations will be felt throughout the supply chain, right through to building product manufacturers.

A key issue raised by this event is the sustainability of contractors' margins. In a market environment where major contractors are required to feed the top line by focusing on aggressive bidding and winning contracts on poor margins and terms, it only takes a couple of hiccups on projects or payments for businesses to fail.

Sadly, we have not even begun to see the full impact of Carillion's failure through the supply chain.

This 'race to the bottom' mentality is a problem for the entire construction supply chain that must be addressed for our industry to prosper. I hope that 2018 will see us all take some steps forward in this area.

“Supply-led solutions, coupled with existing schemes aimed at stimulating housing demand – the most high-profile being Help to Buy – will drive the market forward in 2018.”

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.

In general the insulation market is strong with good demand and positive indicators. While some commentators see 'doom and gloom' in housing and construction, I believe this is a market with a bright future.

Opportunities for the insulation sector are, of course, linked closely to housing demand. They also come from rising consumer interest and statutory levels in energy efficiency, for new build and existing housing stock.

The government has again stated its commitment to a new housebuilding program – the latest figure standing at 300,000 new homes a year. While there are many supply and labour issues to solve to come even close to achieving this, it is a strong statement of intent. House prices are settling in some metropolitan areas but nationally housing is a growing market, with growing expectations of energy conservation standards.

Such standards may result from the targets in the government's October 2017 'Clean Growth' strategy, to improve the energy efficiency of business and industry by 25% and homes by 13%. This strategy can only fuel demand for more insulation as well as creating demand for new innovative solutions, all adding potential value to the supply chain. In addition to opportunities in the new build sector, the U.K's rented sector includes some of the least energy-efficient housing stock in Europe – a key area where insulation improvements are needed.

In times of uncertainty and opportunity, the sector needs to be resilient, for example in dealing with continuing PIR insulation product shortages. However, while spikes and shortages continue, a good distributor should be always on hand to advise on alternatives.

Finally, the demise of Carillion shows that "big is not always beautiful" and hopefully lessons will be learnt by businesses of all sizes. Market focus may now be less on price and more on quality, delivery and partnership leading to a more sustainable industry model.

“The insulation market is strong with good demand and positive indicators. The Government has stated its commitment to a new house building program...and its ‘Clean Growth’ strategy can only fuel demand for more insulation.”

Expert Panel

Bricks

(Part of Heavy Building Materials)

IBSTOCK



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

Demand for bricks is at a high level and brickmakers in Great Britain (GB) are producing more.

BMBI Q4 data shows builders' merchants' sales performed strongly in the quarter, 6.3% higher than the same period last year. The largest product sector, Heavy Building Materials (+6.4%), which includes bricks, did slightly better than the total market.

Anecdotally, builders' merchants report brisk sales in January 2018, although in the North and Scotland weather has adversely affected some building activity.

In the private housing sector, proportionally the largest user of facing bricks, housing starts continued to rise during 2017. It's estimated that the annualised number of housing starts was around 200,000 – still a long way short of the numbers required to meet demand, and way short of government targets.

Latest NHBC figures (Q3 2017) also show a greater proportion of detached (33%) and semi-detached (28%) houses being built, and fewer flats and maisonettes (21%). This leads to more bricks being required to build the average unit. Indeed, these are the highest (detached and semi-detached) and lowest (flats and maisonettes) percentages in nearly 20 years.

Consequently, demand for bricks is at a high level. During 2017, GB brick manufacturers despatched 157 million more bricks than they collectively produced. That has clearly resulted in depletion of stocks at many factories, and therefore longer availabilities. These figures exclude additional volumes of imported bricks, which continue to rise to supplement demand.

GB brick manufacturers are increasing production levels at their factories wherever possible, and in November 2017 produced the highest monthly volume in over two years. There are still stocks of bricks readily available for customers at some factories and Ibstock's brand new soft mud brick factory in Leicestershire is now producing bricks. It will be increasing output up to 100 million bricks a year by the end of 2018.

The imbalance in supply and demand is expected to continue throughout 2018 and it's important that builders' merchants work closely with their customers to plan their direct-to-site brick needs as early as possible. I'd also continue to advise merchants to consider their ongoing depot stock requirements and place accurate schedules for key products in 2018.

“GB brick manufacturers are increasing production levels at their factories wherever possible, and in November 2017 produced the highest monthly volume in over two years.”

Expert Panel

Natural Stone Landscaping Products

(Part of Landscaping)



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

Winter weather conditions in the final quarter were mild enough to see products continue to move from merchants to landscapers and their sites across the U.K. For a seasonal product sector, it was a positive end to the year. We estimate 2017 market volumes up by about 4%.

Shipping prices usually ease around this time of year but we have yet to see any major changes. The rupee is looking promising against the pound but it's too early to comment on the effect of exchange rates on prices.

The definitive colour trend for 2017 has been 'grey' – from stone and polished concrete to Italian porcelain. Early pre-season merchant orders indicate this trend will continue in 2018. Product brochures for 2018 have been arriving early to merchants with ranges including true vitrified Italian porcelain and even cheaper vitrified ceramics hoping to stir up the market prices.

I am confident that vitrified paving is here to stay, as a growing market, offering an affordable option for most projects. Many branches are now stocking vitrified paving ranges, providing an alternative to direct to site trading. This stock on the ground should see an upturn in sales, and even more confidence in this growing market sector.

Artificial grass is another recent market entry that gives landscapers an interesting alternative. Branches stocking it stand to benefit, although lower quality lines are fast becoming a commodity. While some prices are being driven down, quality may suffer. Merchants may buy solely on price but if landscapers look for higher-end artificial grass elsewhere, branches may be stuck with unsaleable lower price roll stock.

The newest landscaping market for merchant distribution is resin driveway construction. It's a cottage industry being handled increasingly by landscapers who expect their local merchants to hold stocks. Let's hope this trend develops, adding more sales in 2018 for forward-thinking merchants.

“The newest landscaping market for merchant distribution is resin driveway construction. It's a cottage industry being handled increasingly by landscapers who expect their local merchants to hold stocks. Let's hope this trend develops, adding more sales in 2018 for forward-thinking merchants.”

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.

The performance of the water heating market in quarter four was somewhat mixed compared to Q4 2016. Products such as electric heating boilers and boiling water dispensers (Hot taps) performed well with recent increased consumer interest. It was more of a challenging performance for electric commercial water heaters and hot water cylinders.

Package solutions containing storage water heaters, heating interface units and system manifolds among other products for multi occupancy dwellings grew strongly however. Such pre-plumbed system packages can offer a welcome solution to the skilled labour shortage. They offer a robust, quality-assured method of delivering water heating which is less reliant on the skills of the individual installer. The industry continues its struggle with labour pressures from both long-term issues such as an ageing workforce where large numbers can be expected to retire within a few years, as well as more recent pressures from Brexit and departing foreign workers. Product systems that are factory assembled and pre-designed off site – in all industry sectors – will become increasingly sought by contractors.

Recent press focus on reducing plastic waste offers opportunities to increase interest in 'Hot tap' products: those that can deliver instant boiling and /or chilled and filtered water. Several campaigns have started to encourage consumers to refill personal water bottles at home and on the high street – rather than create waste with single-use bottles. These campaigns have been boosted by the announcement that the Queen has added her weight with the phasing out of single-use plastic containers on royal estates.

The campaigns could encourage more homeowners, shops and commercial premises to offer chilled and /or filtered water 'on tap'. The product ranges in this sector all offer environmental, cost-saving, and time-saving benefits. They are attractive, high added-value products for domestic and commercial kitchens that offer innovative market opportunities serving aspirational buyers.

Looking forward, Brexit negotiations continue to create uncertainty in the construction sector, and overall the market remains challenging. In water heating, however, we see strong growth developing in the new areas of opportunities such as package solutions for multi occupancy dwellings and Hot taps.

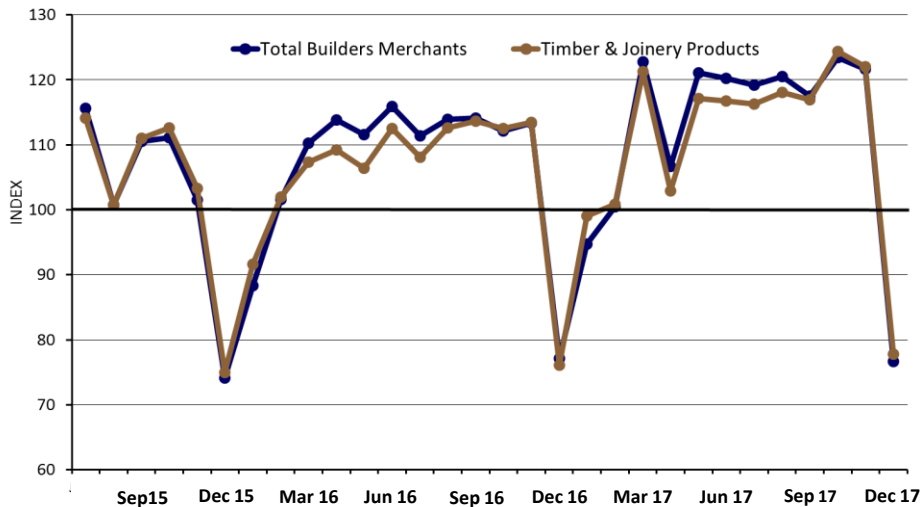
“Brexit negotiations continue to create uncertainty in the construction sector, and overall the market remains challenging. In water heating, however, we see strong growth developing in the new areas of opportunities such as package solutions for multi occupancy dwellings and Hot taps.”

Monthly and Quarterly Indices

December 2017 and Q4 2017

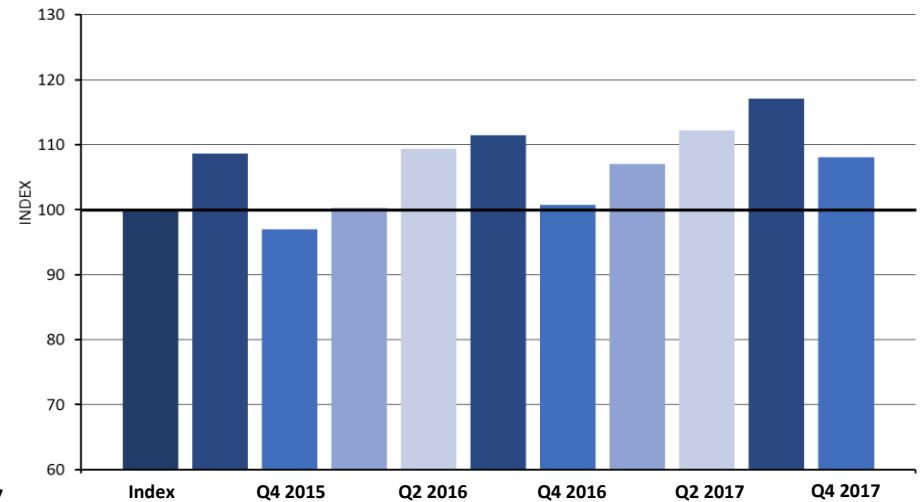


Timber & Joinery Products



Monthly chart indexed on July 2014 – June 2015

Timber & Joinery Products - Quarterly



Quarterly chart indexed on July 2014 – June 2015

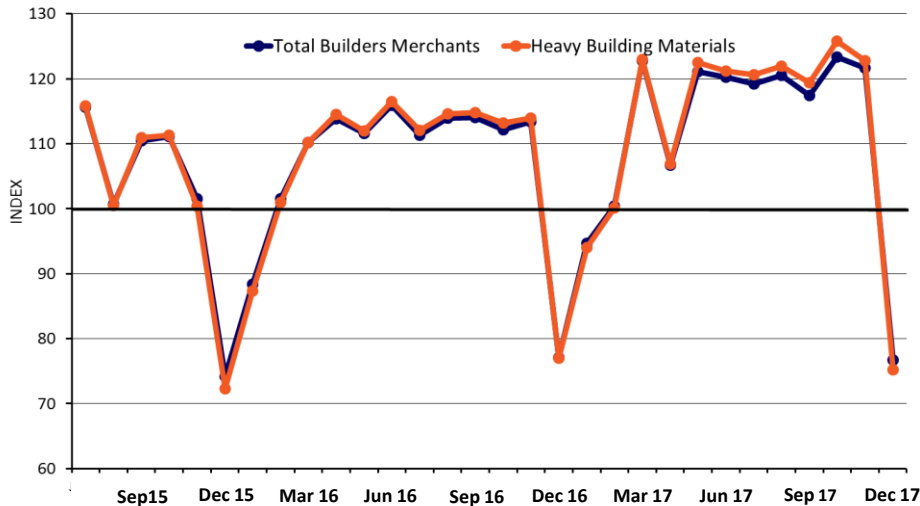
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December 2017 and Q4 2017

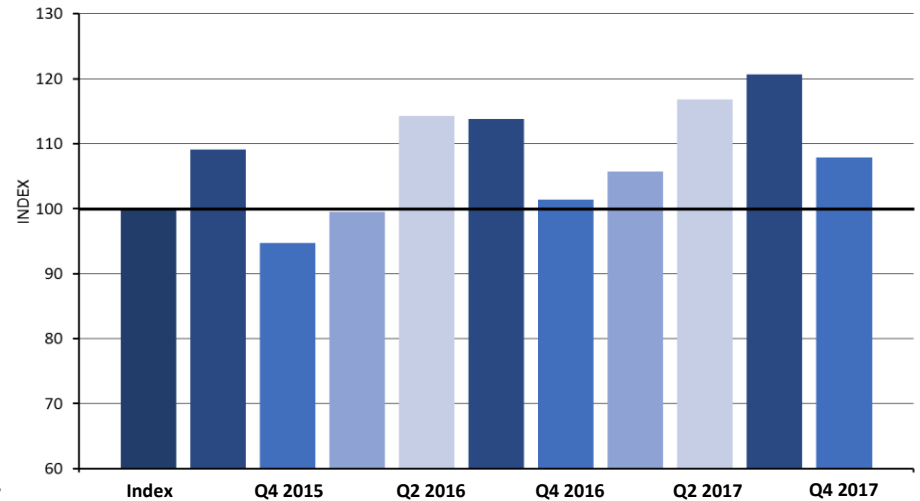


Heavy Building Materials



Monthly chart indexed on July 2014 – June 2015

Heavy Building Materials - Quarterly



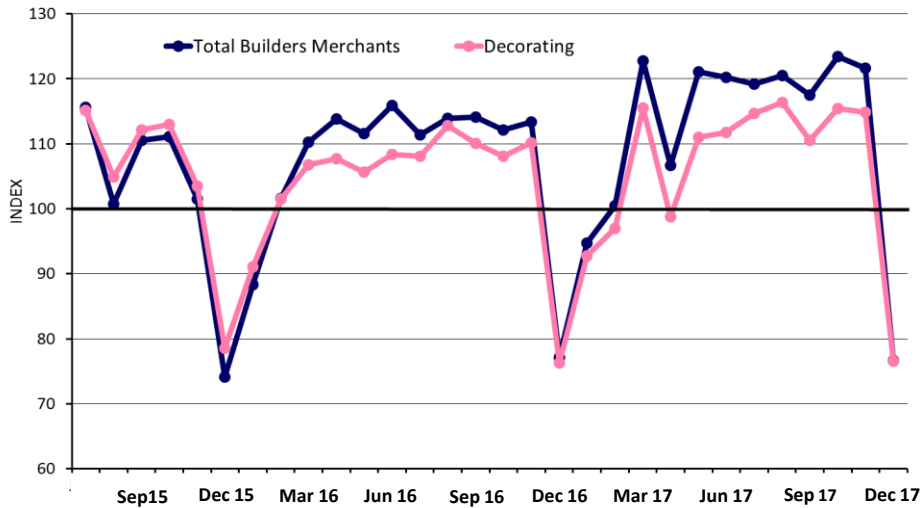
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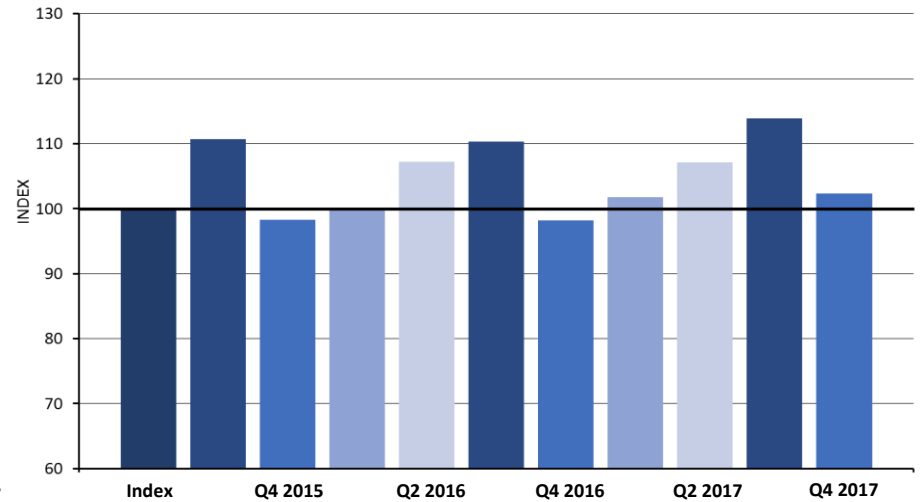
December 2017 and Q4 2017

Decorating



Monthly chart indexed on July 2014 – June 2015

Decorating - Quarterly



Quarterly chart indexed on July 2014 – June 2015

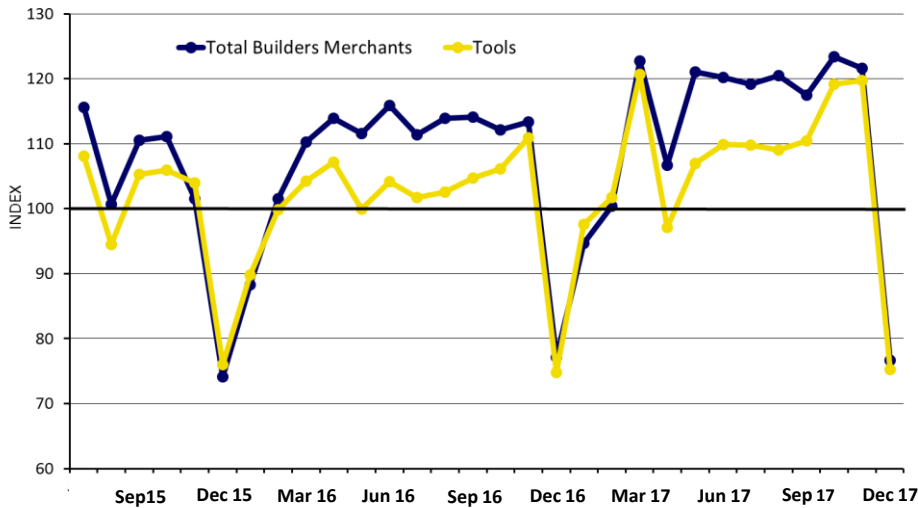
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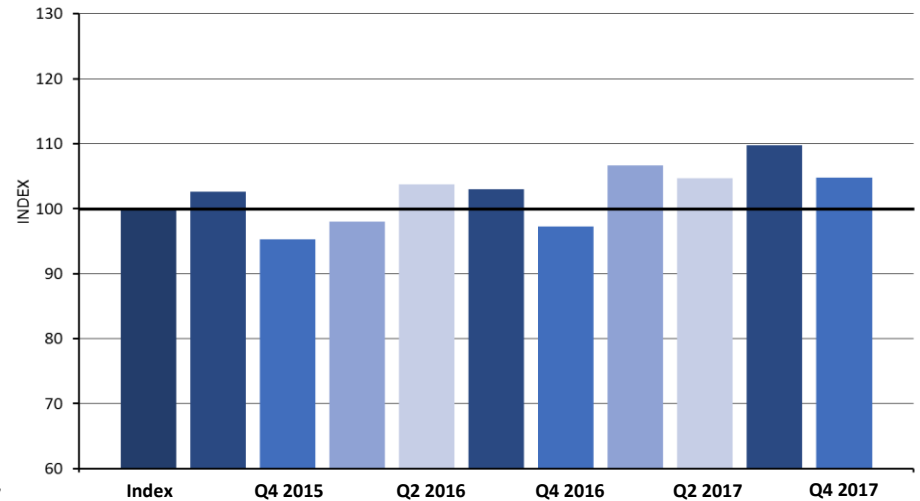


Tools



Monthly chart indexed on July 2014 – June 2015

Tools - Quarterly



Quarterly chart indexed on July 2014 – June 2015

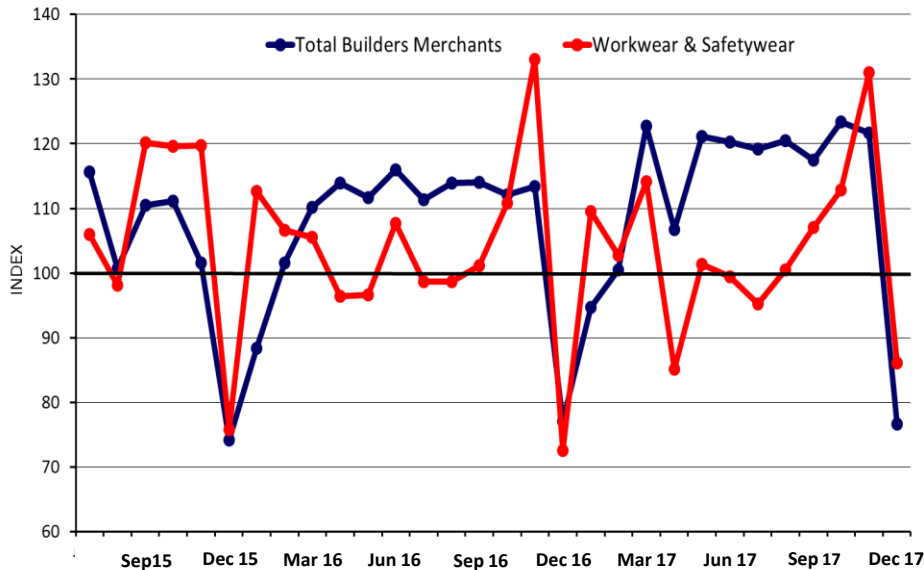
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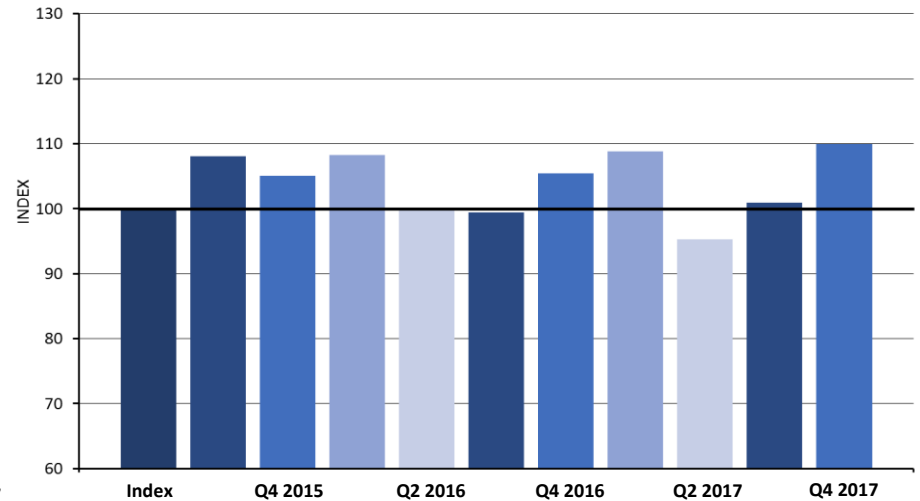


Workwear & Safetywear



Monthly chart indexed on July 2014 – June 2015

Workwear & Safetywear - Quarterly



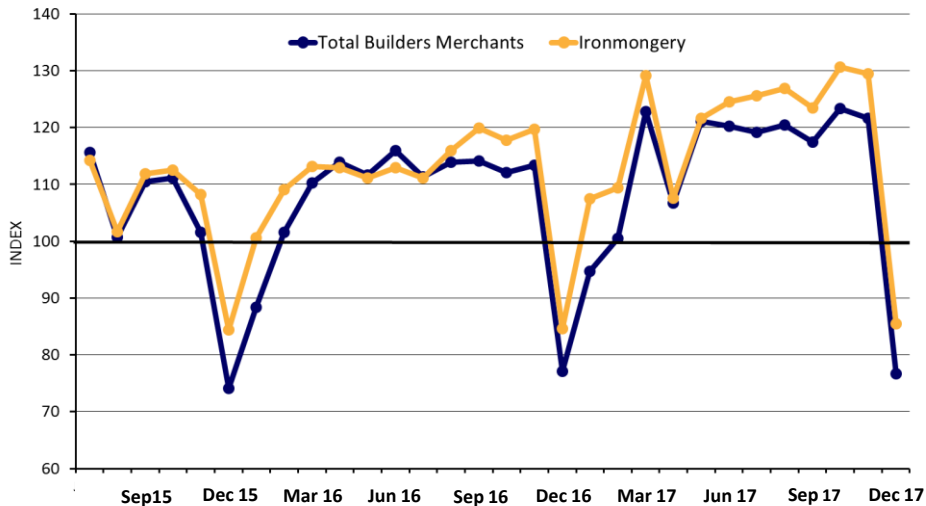
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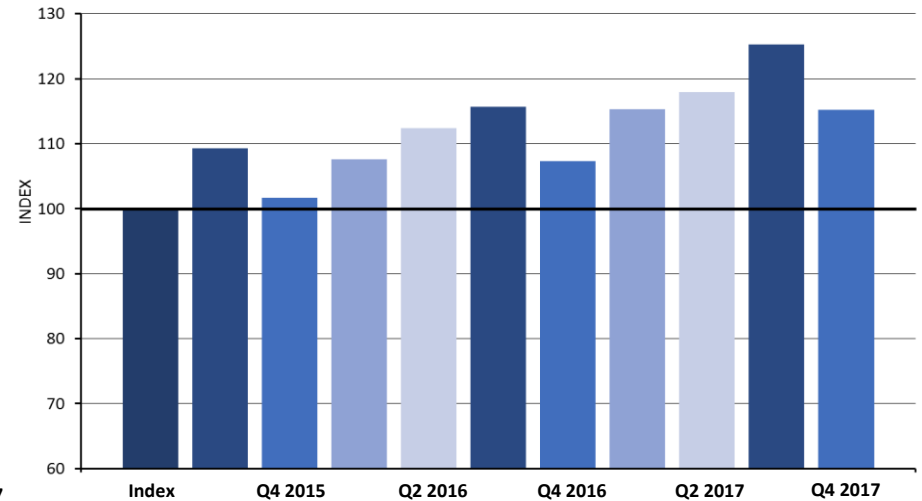
December 2017 and Q4 2017

Ironmongery



Monthly chart indexed on July 2014 – June 2015

Ironmongery - Quarterly

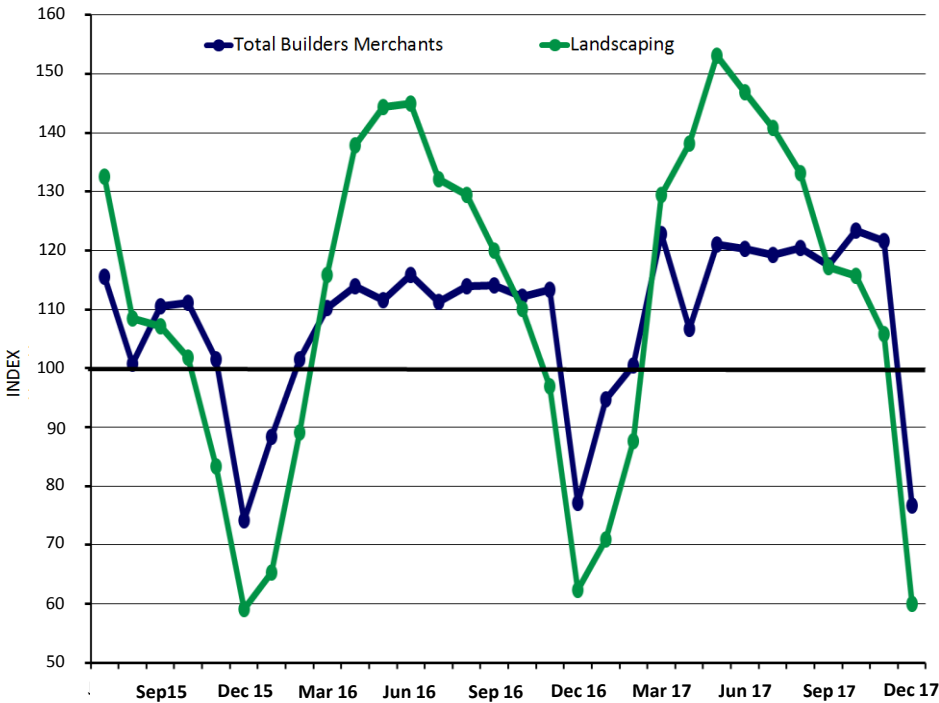


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Monthly and Quarterly Indices

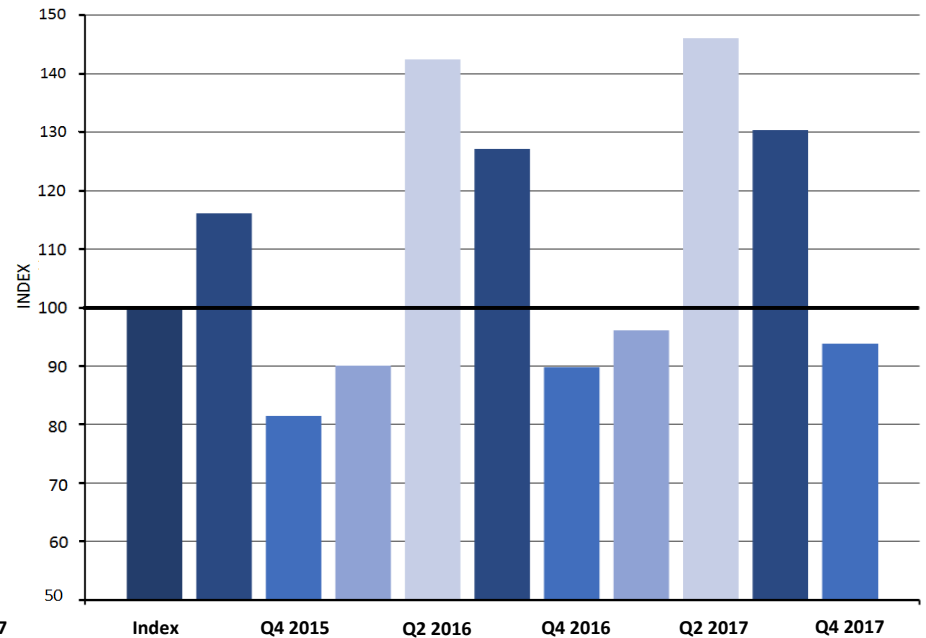
December 2017 and Q4 2017

Landscaping



Monthly chart indexed on July 2014 – June 2015

Landscaping - Quarterly



Quarterly chart indexed on July 2014 – June 2015

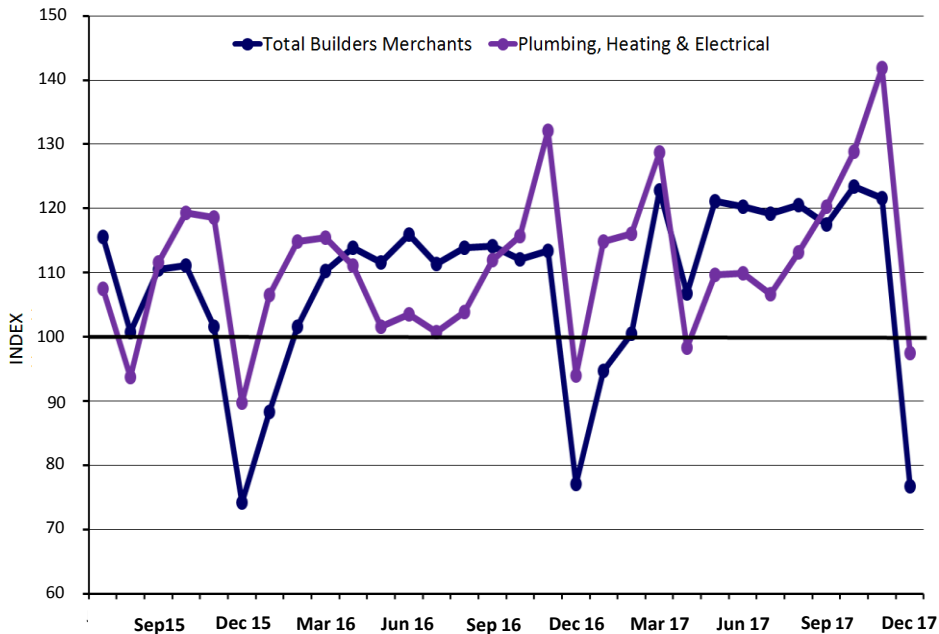
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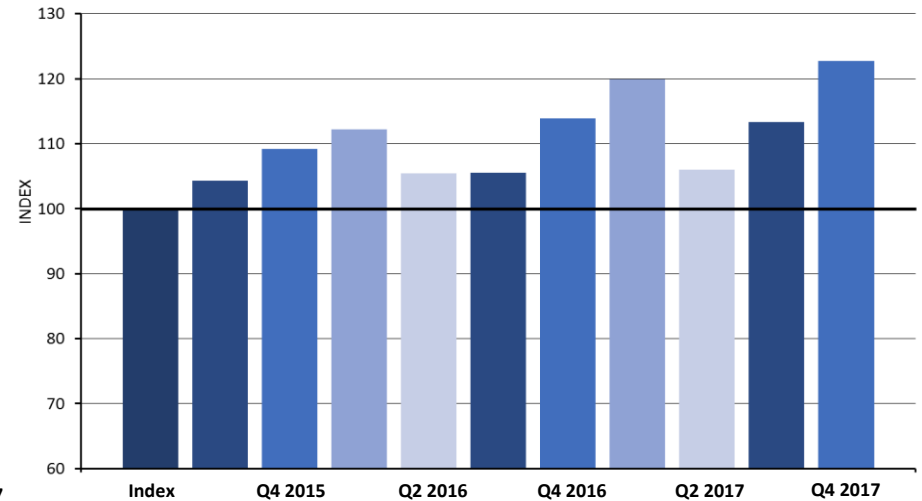


Plumbing, Heating & Electrical



Monthly chart indexed on July 2014 – June 2015

Plumbing, Heating & Electrical - Quarterly



Quarterly chart indexed on July 2014 – June 2015

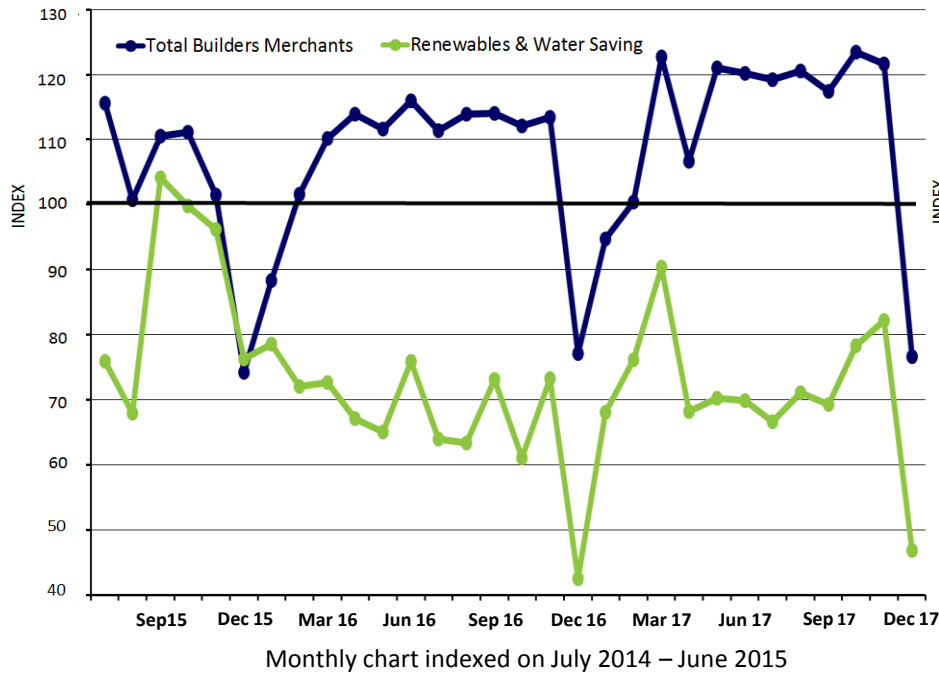
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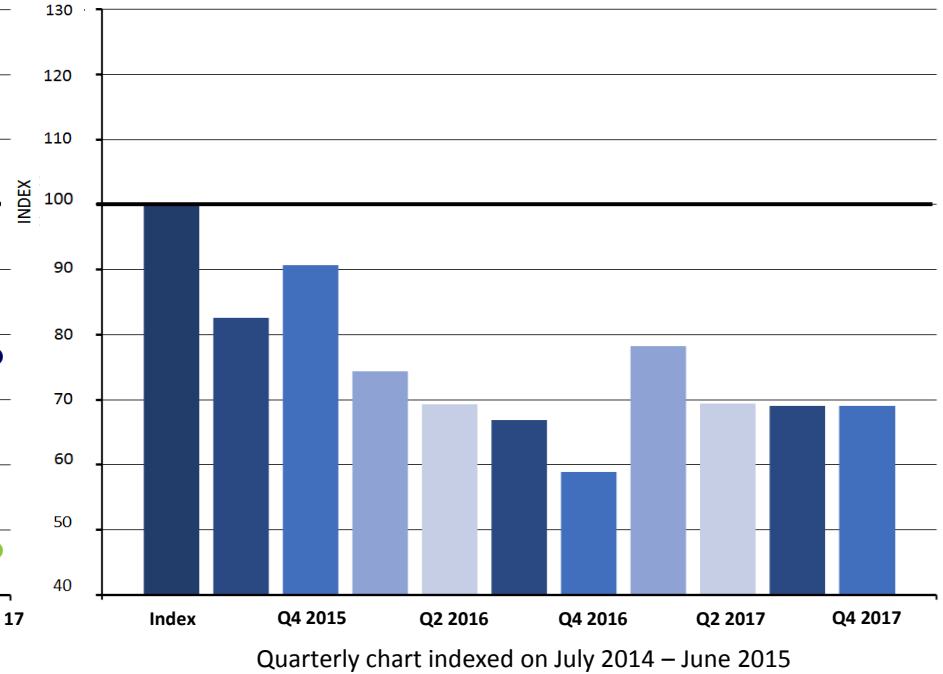
December 2017 and Q4 2017



Renewables & Water Saving



Renewables & Water Saving - Quarterly

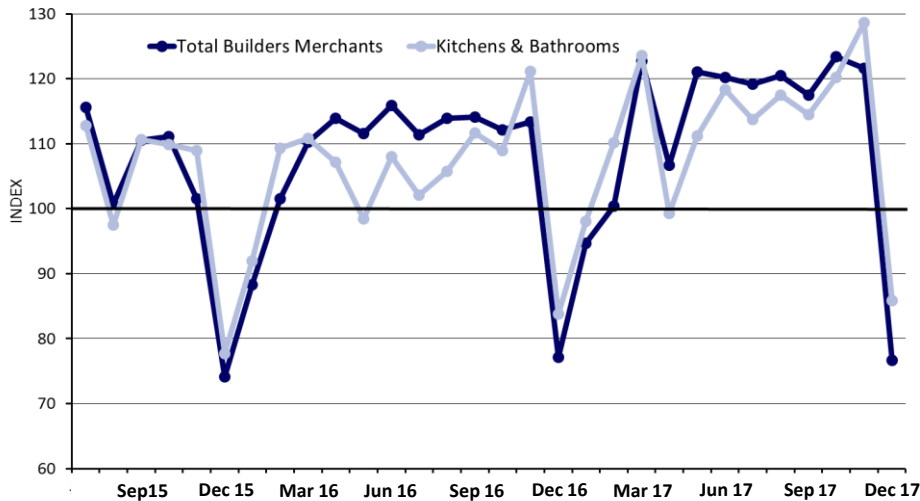


GfK Source: GfK's Builders Merchants Total Category Report July 2015 to December 2017

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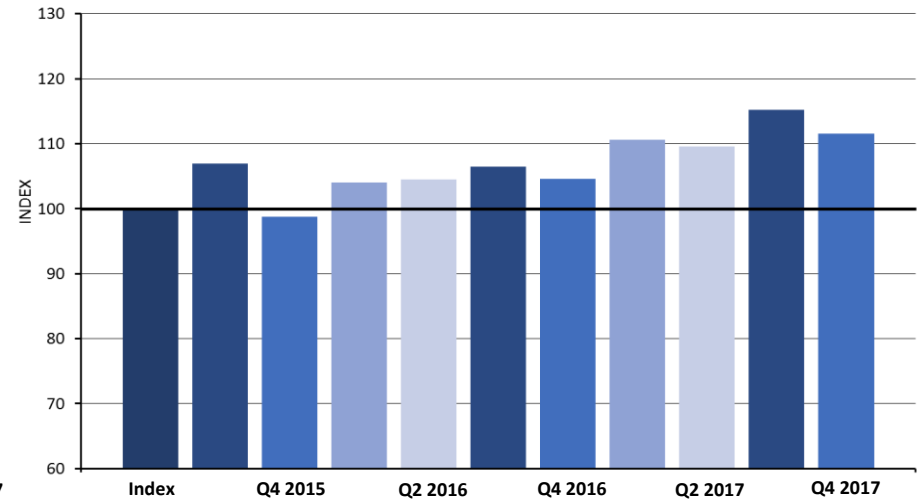
December 2017 and Q4 2017

Kitchens & Bathrooms



Monthly chart indexed on July 2014 – June 2015

Kitchens & Bathrooms - Quarterly



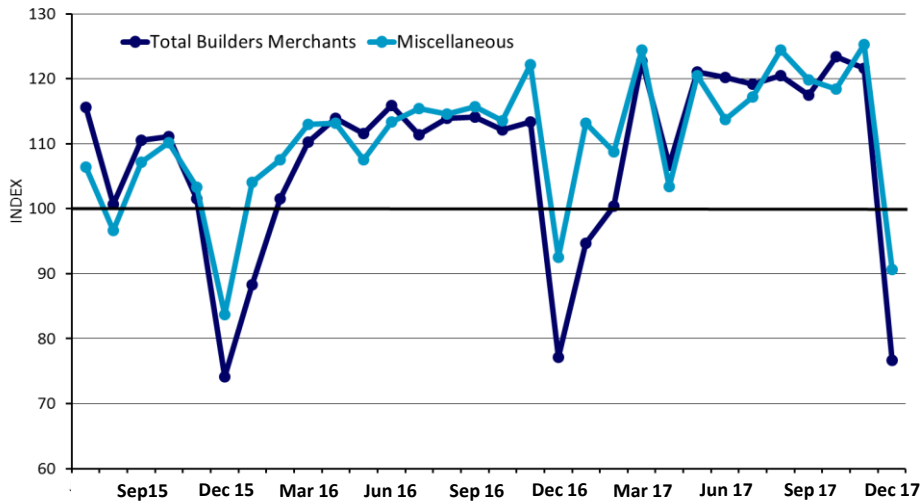
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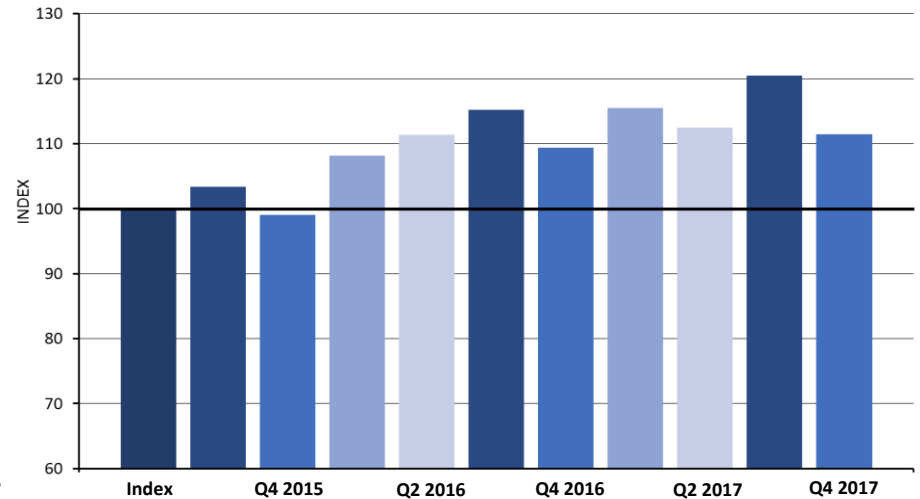


Miscellaneous



Monthly chart indexed on July 2014 – June 2015

Miscellaneous - Quarterly



Quarterly chart indexed on July 2014 – June 2015

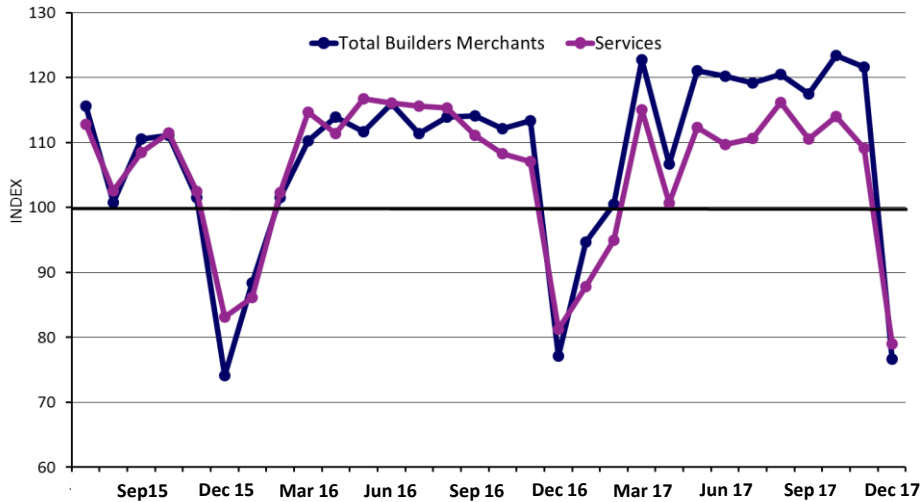
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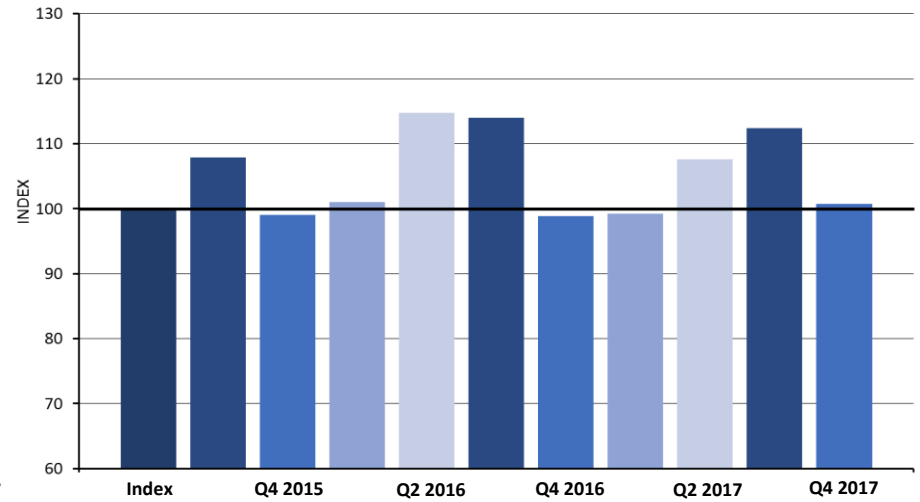


Services



Monthly chart indexed on July 2014 – June 2015

Services - Quarterly



Quarterly chart indexed on July 2014 – June 2015

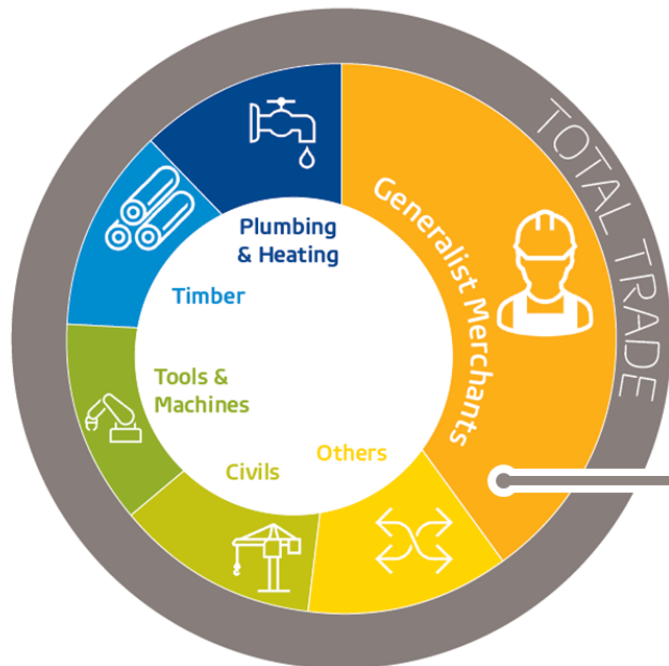
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GfK's Panel

Generalist Builders Merchant Panel (GBM's)



The Multiple Generalist Builders Merchants Channel



Generalist Builders Merchants

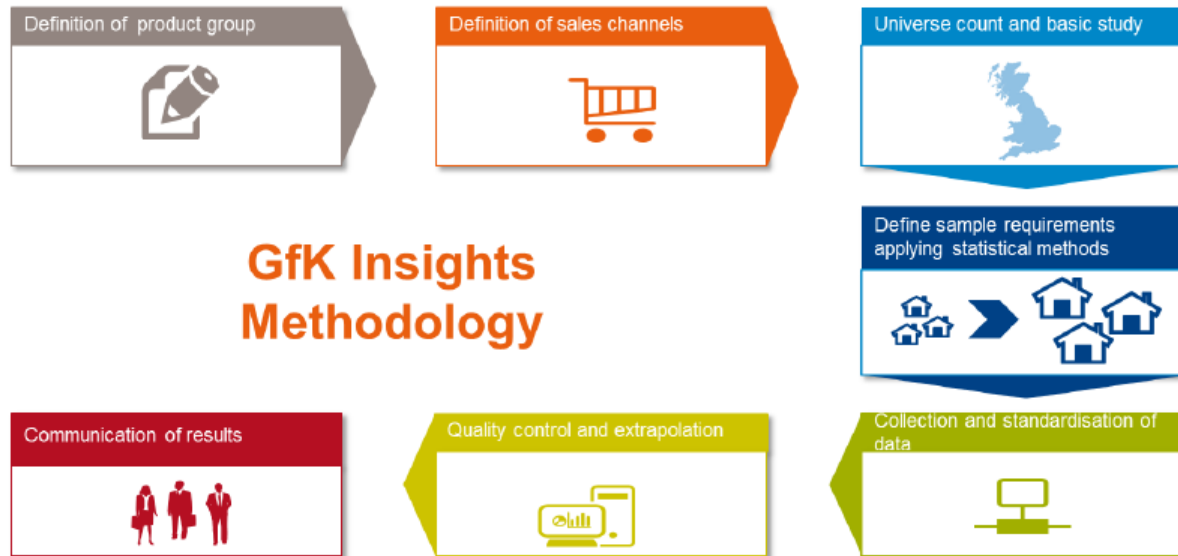
Builder Merchants handle an extended range of building materials and components (e.g. doors, windows, interior furnishing materials, insulation materials, tiles, cement, mortar, adhesives, sealants, nails, hardware products, pipes, ironware, paint) and generate their turnover with professional end users.

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

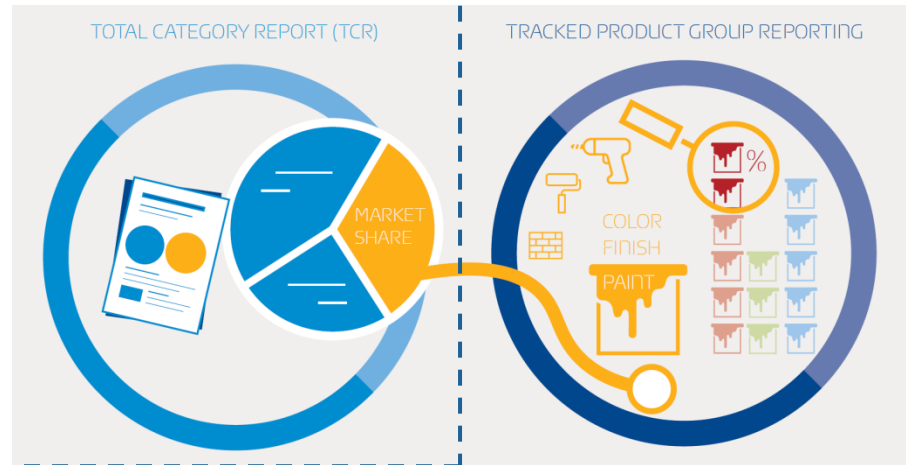
Bathroom (Including Showering)
Fitted Kitchens
Major Appliances

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

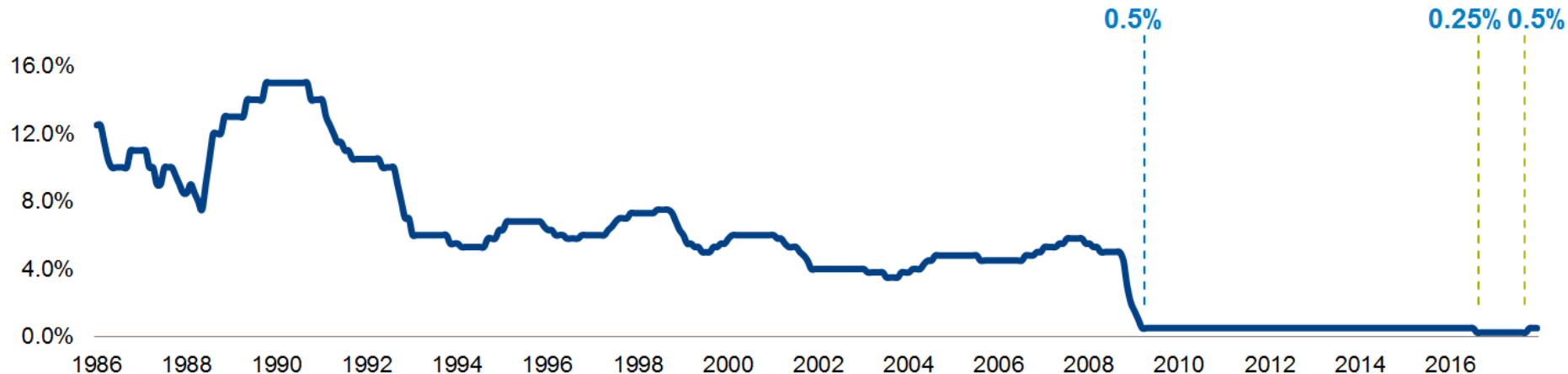
Set monthly by the MPC (Monetary Policy Committee)

▪ 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%

▪ 14th December 2017 the Bank of England Monetary Policy Committee voted 9:0 to keep the Bank Rate at 0.5%



Source: Bank of England © GfK February 16, 2018

Macro factors impacting Merchants



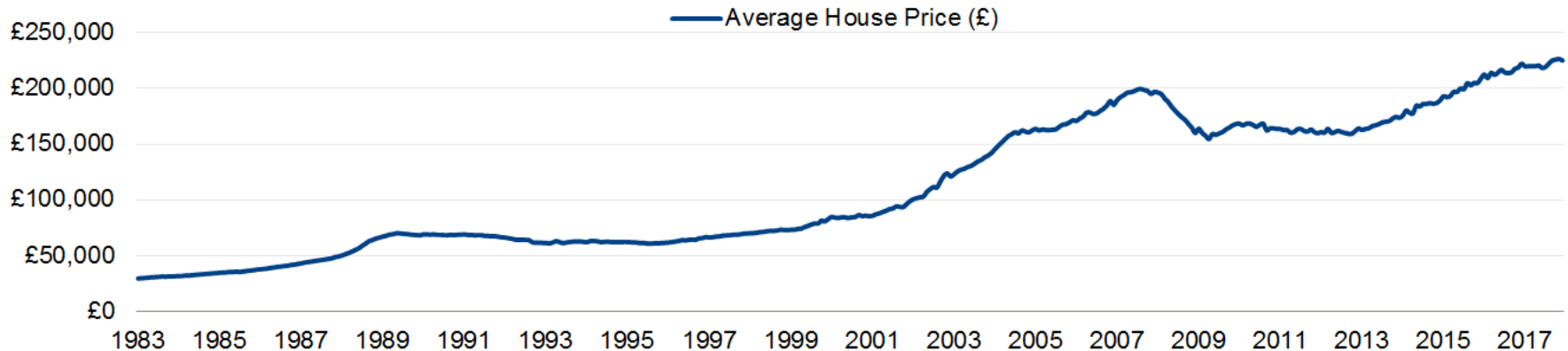
Standardised average house prices

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 December 2017, the average house price in the UK fell to £225,032 from £226,408 in November 2017.



Source: Halifax House Price Index © GfK February 16, 2018

Macro factors impacting Merchants



Property transactions

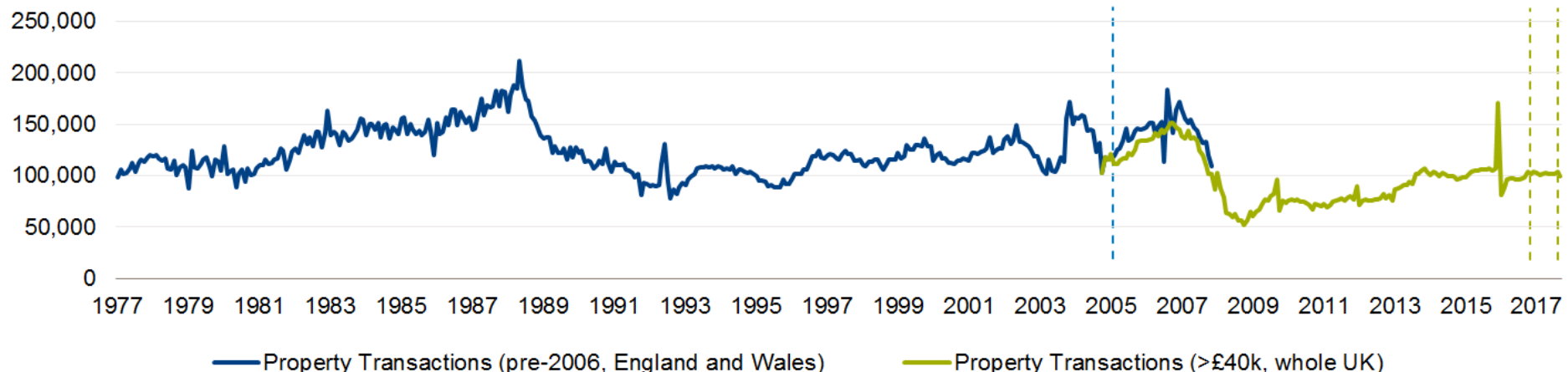
Monthly transactions, residential, seasonally adjusted

Annual total

2009	847,540
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 fell 2.6% in December 2017 compared to the previous month.



Source: HM Revenue & Customs © GfK February 16, 2018

Macro factors impacting Merchants



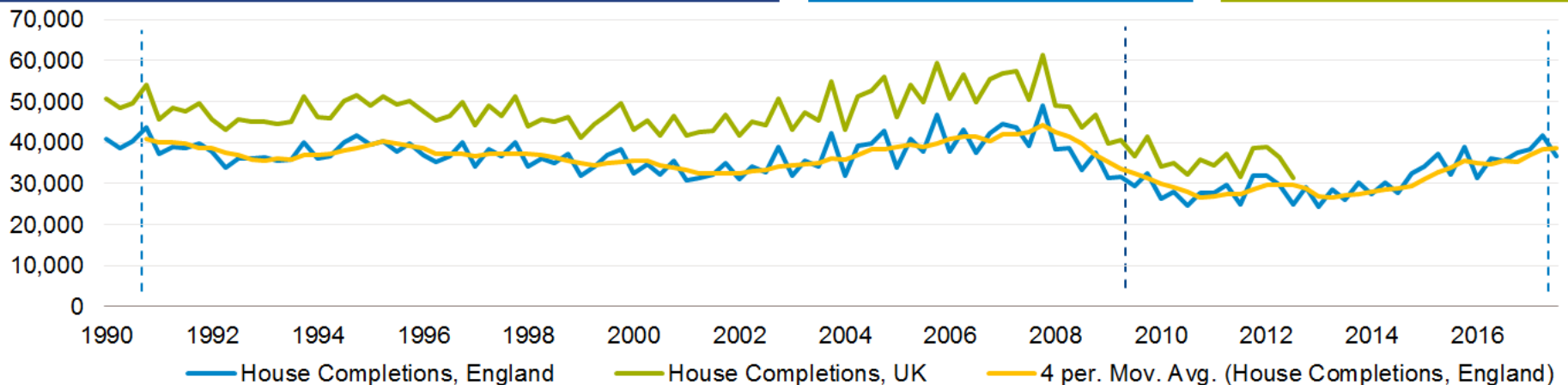
New house builds

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 Q3 2017, 36,610 permanent dwellings were completed, compared to Q3 2016 figures of 35,490 (+3.3%)

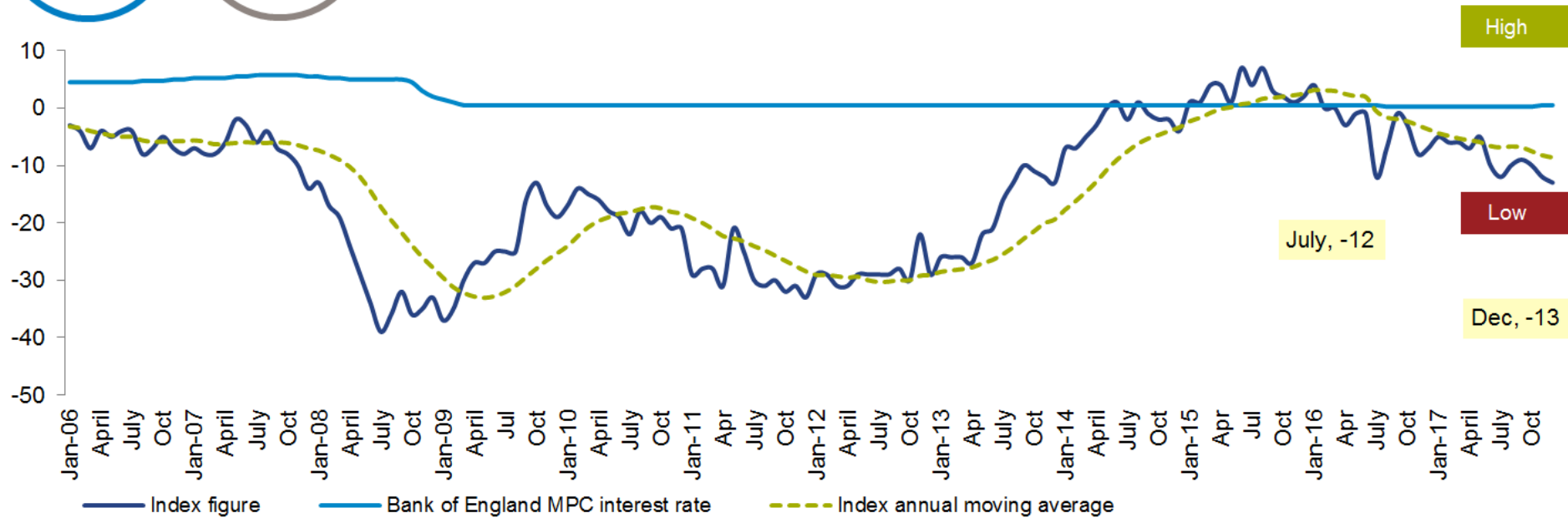


Source: GOV.UK © GfK February 16, 2018

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.

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Contact us

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