

MARKET UPDATE

Each quarter we will bring you an update on the heating market, with a focus on boiler sales. This update replaces the quarterly Boiler Sales Update which HHIC used to distribute as a separate publication.



Highlights

- Domestic gas boiler sales volumes fell by nearly 8% in the third quarter of 2008 compared with the same period in 2007
- Condensing boiler share of the market reached 99% in July and August
- Band A boilers have continued take an increasing share of the market

Boiler sales still make up the majority of market sales for domestic heating. HHIC has also been collecting sales statistics on solar panels for water heating in the domestic market since 2006. This has been in cooperation with the Solar Trade Association. While this data does not yet fully cover all UK sales, we will now be including a regular update in this section of the Journal to provide an indication of market trends. Also with the government expected to introduce some form of initiative in 2009 to stimulate take up of renewable products, it will help provide a measure of market reaction.

This report provides information on UK sales of gas boilers from manufacturers during the second quarter of 2008. These are compared with sales in 2007 and also historical trends.



Gas Boiler Sales Q3 2008 v Q3 2007

	Q3 2008			Q3 2007			Annual Comparison		
	Jul	Aug	Sep	Jul	Aug	Sep	Oct07-Sep08	Oct06-Sep07	% change
Total boiler sales (000's)	124.8	121.3	143.5	135.9	131.4	151.9	1615	1614	0
% condensing	99	99	98	97	97	97	97	94	

The year so far

The table clearly indicates that total sales of gas boilers for the twelve months to September 2008 were almost identical to those in the year ending September 2007. Similarly the total sales for the first nine months of 2008 are very similar to those in the same period in 2007. The year had started strongly with sales up 4% in the first six months of the year. Since then there has been a significant slow down with sales in the last three months 7.7 % lower than the same quarter last year. There is little doubt that this downturn reflects the current housing and economic difficulties and the downward trend is expected to continue.

Condensing boilers achieved a 99% share of the market for the first time in July. This level was maintained in August and only decreased slightly to 98% in September. The Band A share of the condensing boiler market has also continued to grow, increasing from 83% in Q3, 2007 to 88% in Q3 2008. Although sales of condensing boilers are strong, less than 25% of UK homes currently have a condensing boiler and it will take many years before the market is fully transformed at current replacement rates.

The share of the market supplied by combi boilers has again grown slightly. For the first nine months of 2008 the combi was responsible for 74% of total gas boiler sales, up from 73% in the same period in 2007.

Solar Water Heating

Sales (sq m – aperture area)	Q2 2008	Q2 2007	Comparison 2008 to 2007
Flat plate	6900	4071	+69%
Vacuum tube	1065	1232	-14%
Total	7965	5303	+50%

The table shows encouraging growth in sales of solar panels from suppliers that contribute to these statistics. The market is however growing from a very small base and is tiny compared with many other European countries. Total sales in 2007 from those contributing to the HHIC statistics service was almost 20,000 sq metres. Sales in the first half of 2008 were up 58% on the same period in 2007.

Economic Overview

The heating market is influenced by a range of factors many of which involve decisions based on economic factors. Some of these are outlined below.

Inflation

Recent changes in RPI and CPI annual rates were as follows:

	Jun 08	Jul 08	Aug 08
CPI change (%)	3.8	4.4	4.7
RPI change (%)	4.6	5.0	4.8

The most recent largest upward pressure on both CPI and RPI came from housing and household services due to a rise in average gas and electricity bills this year compared with 2007. There were further large upward pressures from food and non alcoholic beverages. The main downward pressures were transport costs due to falls in prices of petrol and lubricants and also communications where telephone charges were unchanged this year but had risen the previous year. A further downward trend in RPI came from housing with reduced mortgage interest payments and depreciation.

Source: Office for National Statistics

Interest Rates

Bank of England base rate was static at 5.0% during Q3 2008. In Q3 2007 base rate had been at its highest level for over six years at 5.75%. In October the base rate was reduced to 4.5% as part of concerted action to address the global financial and banking crisis.

Source Bank of England

Domestic Fuel Prices

The most recent figures available from the Department for Business, Enterprise & Regulatory Reform (BERR) are for Q2 2008 and these are compared with Q2 2007.

Domestic Fuel Prices Indices

	Gas	Electricity	Heating oils
Q2 2008	221.5	181.6	347.1
Q2 2007	207.0	165.6	206.1
% comparison	+7.0	+8.8	+68.4

Overall the price paid for fuel and light has risen in real terms by 9.8% between Q2 2007 and Q2 2008. During that period domestic gas prices rose by 4.9% while those for electricity rose by 7.5%. The price of heating oils increased by 65% between Q2 2007 and Q2 2008. Average annual standard credit gas bills in England and Wales in 2008 were £573, up 3.6% on 2007. In Scotland average annual standard credit gas bills were very similar at £575, up 5.1% on 2007 For electricity average annual standard credit bills in England and



Wales in 2008 were £403 and in Scotland were £419 up 5.8% and 4.5% respectively on 2007.

Source: BERR

House Prices

	07	08
July	£184,270	£169,316
August	£183,898	£164,654
September	£184,723	£161,797
Average	£184,297	£165,256

Source: Nationwide

New Build Homes

There were 25,097 applications to start new homes during the period June to August 2008, a 51% reduction on the same period a year ago. Of the total, 14,665 related to the private sector, showing a 65% decrease over the same period in 2007. Housing association applications in the same period showed an increase in applications to start social housing projects with new starts rising by 8% to 10,432.

New build completions totalled 41,118 during the three months ending August 2008 which equates to a reduction of 16% over the same period last year.

Source NHBC

Housing and Property Transactions

NHBC has also reported that the average number of new homes sold each day in the UK during the period June 2008 to August 2008 was 458 a reduction of 21% on the same period a year ago.

Source: NHBC

The total number of property transactions fell to 97,000 in June 2008, a reduction of 35% from May 2007. The average reduction over the three months ending June 2008 was 34%.

Source Construction Products Association