

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 have continued to struggle with sales volumes down by 6.7% in the last 12 months compared to the previous year.
- Solar Thermal sales continue to rise, this quarter total sales are up 13.1% on the previous quarter



Total gas boiler sales for the third quarter were 378,384, 2.9% down on last year. This reflects that trading conditions have still not returned to normal. September figures struggled to reach the sales numbers historically seen at the beginning of the heating season. However it was a particularly warm period which may explain the lower numbers. The poor sales seen in July also had a negative effect on the quarterly sales total, depressing the numbers further despite a relatively positive August. All eyes will be on the important fourth quarter for indications on the health of the gas boiler market in the U.K.

Quarter 3 saw continued strong growth in the Solar Thermal market. This was another month of positive growth with figures up 25% year on year and up 13.1% on the previous quarter. The Solar Thermal market has so far showed signs of avoiding the squeeze of the recession, so it will be interesting to see how sales fair in the 4th quarter and whether sales show any signs of plateauing.

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.

Gas Boiler Sales Q3 2009 v Q3 2008

	Q3 2009			Q3 2008			Annual Comparison		
	Jul	Aug	Sept	Jul	Aug	Sept	Q2 08-Q3 09	Q2 07-Q3 08	% change
Total boiler sales (000's)	110.8	127.0	140.6	124.9	121.3	143.5	1507	1616	-6.7
% condensing	99.0	99.3	99.0	98.5	98.6	98.4	98.5	97.1	+1.3

Inflation

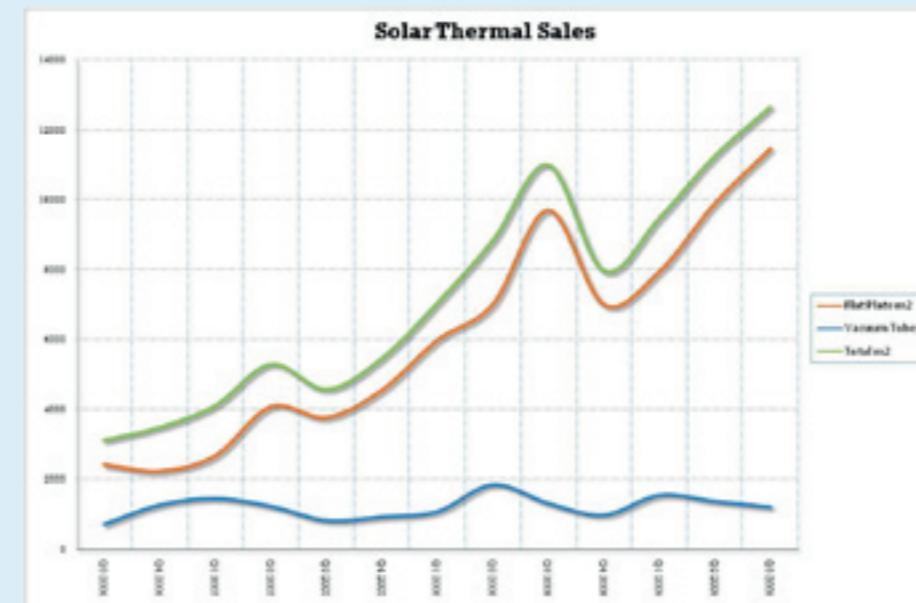
Recent changes in RPI and CPI annual rates were as follows:

	Jun 09	Jul 09	Aug 09
CPI change (%)	1.8	1.8	1.6
RPI change (%)	-1.6	-1.4	-1.3

The largest downward pressure affecting the change in the CPI annual rate came from housing and household services. The largest effect came from gas, where prices were little changed between July and August this year

but rose significantly a year ago. There was also a large downward effect from electricity, where prices were unchanged this year but rose significantly a year ago. Gas and electricity bills both rose in late July last year when major energy suppliers increased their gas and electricity tariffs. Partially offsetting these downward effects was a large upward contribution from liquid fuels where the price of kerosene rose this year but fell a year ago, reflecting movements in the price of crude oil.

By far the largest upward contribution to the change in the CPI annual rate came from



Solar Thermal Heating Sales Q3 2009 v Q3 2008

	Q3 2009	Q3 2008	Q3 09-Q4 08	Q4 08 - Q4 08	% change
Flat Plate	11450.61	9687.25	36267.22	27206.70	+25.0%
Vacuum tube	1210.17	1314.90	5111.28	5170.28	+1.2%
Total	12660.78	11002.15	41378.50	32377.18	+21.8%

transport. The largest effect came from fuels and lubricants where prices rose between July and August this year, but fell a year ago at the fastest ever rate for a July to August period.

In the year to August, annual inflation for the Retail Prices Index (RPI) fell by 1.3 per cent, compared with a fall of 1.4 per cent in July. The main factors affecting the CPI also affected the RPI, however the different methods used to measure the price of new cars in the CPI and RPI resulted in a larger upward contribution to the RPI (compared to the CPI) from the purchase of vehicles.

Source: Office for National Statistics

Interest Rates

The Bank of England's Monetary Policy Committee voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5%.

Source: Bank of England

Domestic Fuel Prices

The most recent figures available from the Department for Energy & Climate Change (DECC) are for Q2 2009 and these are compared with Q2 2008.

Domestic Fuel Prices Indices:

	Gas	Electricity	Heating oils
Q2 2009	274.7	195.4	230.9
Q2 2008	221.5	181.6	347.0
% comparison	+24	+7.8	-33.5

Overall the prices paid for all fuel and light increased by 8.3 per cent between July 2008 and July 2009.

Domestic electricity prices, including VAT, rose by 6.8 per cent in the year to July 2009.

Domestic gas prices, including VAT, increased by 23.5 per cent between July 2008 and July 2009.

There was an increase in the price of coal and smokeless fuels, which rose 19.7 per cent on the year to July 2009. The price of heating oils fell by 42.0 per cent on the year to July 2009. Petrol and oil fell by 15.4 per cent between July 2008 and July 2009.

Source: BERR

House Prices

	08	09
July	£169,316	£158,871
August	£164,654	£160,224
September	£161,797	£161,816
Average	£165,118	£160,159

The third quarter saw a continued improvement in house price trends across all UK regions, but especially in the South East, South West and Northern Ireland. While the annual rates of change are still negative across all UK regions, most regions saw a substantial improvement this quarter. Indeed all regions saw an increase in prices between the second quarter and third quarter. For the UK as a whole, prices rose by

3.7% in the third quarter, leading to an increase in the annual rate of change from -11.7% in the second quarter to -3.0%. Source: Nationwide

New Build Homes

During the three months June to August 2009 NHBC received 24,246 applications to build new homes in the UK, an increase of 2.5 per cent on the previous rolling quarter (23,661).

Of the applications to start new homes in the combined private and public sectors in the UK during the three months to the end of August, 15,271 were related to private sector activity - 4 per cent higher than the same three-month period a year ago (14,665).

Public sector figures for the three months to the end of August totalled 8,975 - 14 per cent lower than the same period a year ago (10,432).

New build completions in the combined private and public sectors in the UK totalled 30,668 for the three months to the end of August 2009 - 25 per cent lower than the same period a year ago (40,955).

Source: NHBC

Housing and Property Transactions

The average number of daily sales of new homes in the UK recorded by NHBC during June to August 2009 was 342 - 25 per cent lower than the same period a year ago (458).

Source: NHBC

The total number of property transactions was up, to 76,000 in July 2009, an increase of 10.1% from the previous month.

Source: Construction Products Association

