MARKET UPDATE

Each quarter we will bring you an update on the heating market, with a focus on boiler sales. Boiler sales still make up the majority of market sales for domestic heating. We are now also collecting market statistics on solar thermal and will introduce information on this sector in future issues.

This report includes information about the last 12 months to provide the context for the quarterly report and will also a focus on the first quarter of 2007.

UK gas boiler sales in 2006 were 1.56 million with sales up 6.3% on 2005. This represented something of a recovery in the market. 2005 had, however, been a disappointing year in which there had been a marked turndown in sales. This corresponded with revised Building Regulations coming into force in England and Wales which made condensing boilers the minimum standard for domestic gas boilers. In 2007 the market has generally remained steady with sales at similar level to 2006.

The year so far

Whilst there have been individual monthly variations, Q1 sales in 2007 were almost exactly the same as in Q1 2006. The annual comparison shows a 6.3% improvement in sales, but this only represents a recovery following the decline in the market which coincided with the introduction of revised Building Regulations in England and Wales.

Combination boilers continue to dominate the market accounting for over 73% of sales in Q1 2007.

Whilst the overall market is fairly steady, there has continued to be strong signals that it is the contract market that is keeping sales at current levels, with ongoing investment into the public sector and social housing.

In contrast, the private owner occupier market appears to have declined, with more consumers opting to have their existing boilers repaired rather than replacing them. A major focus of HHIC activity is on new initiatives to stimulate the owner occupier market so that consumers can benefit from the reductions in energy consumption and costs from replacing older, inefficient boilers with new high efficiency condensing products.

Gas Boiler Sales Q1 2007 v Q1 2006

	Q1 2007			Q1 2006			Annual Comparison		
	Jan	Feb	Mar	Jan	Feb	Mar	Apr 06-Mar 07	Apr 05-Mar 06	% change
Total boiler sales (000's)	119.4	117.9	133.1	115.9	112.7	141.0	1564.2	1471.3	+6.3
% condensing	92	92	94	85	86	86	90	82	

Whilst the boiler market in the UK has held up fairly well, across much of Europe there has been a major downturn in sales. An analysis of the European market will be included in the next issue of HHIC Journal.

Condensing boilers

In England and Wales the transition of the market to condensing boilers is now largely complete and here the proportion of condensing products is now well over 95%. Sales of condensing boilers in Scotland and Northern Ireland had also been growing and with recent changes to Building Regulations in both these countries, condensing boilers are expected to quickly reach similar levels to England and Wales.

Overall SEDBUK band A boilers have accounted for 83% of condensing boiler sales during the Q1 2007.

Economic Overview

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

Inflation

The Retail Price Index continued to increase with a 4.8% increase during the 12 months to March 2007.

RPI Q1 2007 vs Q1 2006

	Jan	Feb	Mar
2007	201.6	203.1	204.4
2006	193.4	194.2	195.0

Source: National Statistics

Meanwhile CPI annual inflation, the Government's target measure reduced from 2.8% in April to 2.5% in May 2007. The main downward pressure came from falling gas and electricity bills.

Source: National Statistics

Interest Rates

Bank of England base rate had increased to 5.25% during Q1 2007 following a series of quarter point increases during 2006. The rate in Q1 2006 had been 4.5%

Source Bank of England

Domestic Fuel Prices

The most recent figures available from the DTI are for Q4 2006 and these are compared with Q4 2005. By the end of 2006 the number of domestic electricity customers that had transferred away from their home supplier had increased 12.8 million (51%) whilst 10.5 million (51%) had changed their gas supplier.

Domestic Fuel Prices Indices

	Gas	Electricity	Heating oils
Q4 2006	215.4	165.4	197.3
Q4 2005	152.8	130.0	206.9
% comparison	+41.0%	+27.2%	-4.6%

- For gas, average standard credit bills rose by £87 in 2006 compared to 2005. Average direct debit bills increased by £71 and prepayment bills by £97
- For electricity, average standard credit bills rose by £53 compared to 2005. Average direct debit bills increased by £44 and prepayment bills by £55

Source: DTI

House Prices

According to Nationwide, house prices in England and Wales rose by over 8% in Q1 2007, compared with the same period in 2006.

	06	07
January	£158,478	£173,225
February	£158,573	£174,706
March	£162,083	£177,083
Average	£159,711	£173,226

Source: Nationwide

New Build Homes

NHBC reports that 51,465 new homes were started in the three months from February to April 2007. This is a 4% increase on the same period last year.

Of this total, 41,736 related to private sector activity and this was 2% less than the same period in 2006.

Housing association volumes at 9,729 showed an increase of 46% on the same period last year.

The number of new homes completed showed little change at 43,329 in the three months to April 2007 against 43,522 completed in the same period in 2006.

Housing and Property Transactions

The latest information for housing and property transactions available from the Office of National Statistics is for Q3 2006. For England and Wales transaction in this quarter were 486,000 (non seasonally adjusted) which was about 9% higher than the same period in 2005. For the twelve months ending Q3 2006 transactions were up about 16% on the previous twelve month period.

Source: National Statistics

Highlights

- Some recovery in boiler sales in 2006 following the decline in 2005
- Market steady in early 2007 with Q1 sales very similar to those in Q1 2006
- Contract market continues to appear buoyant
- Condensing boilers now consistently over 90% of the market and set to rise further with recent changes to Building Regulations in Northern Ireland and Scotland.