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.

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 provides information on sales of gas boilers from manufacturers in the second quarter of 2007. These are compared with sales in 2006 and also historical trends.

Highlights

- Boiler sales up by 7.7% in Q2 2007 compared with Q2 2006 and up over 8% for the year to date
- The usual dip in demand for boilers in the summer has been much less marked this year suggesting a change to seasonal buying patterns
- The contract market continues to appear buoyant whilst the owner occupier replacement market is patchy
- The condensing boiler share of the market continues to grow, driven by recent changes to Building Regulations in Scotland

Gas boiler sales from manufacturers for Q2 2007 are shown in the chart. These show a marked increase over the same period in 2006 and contrast to Q1 when sales were very similar to 2006.

The Year So Far

The pattern of gas boiler sales in 2007 is showing something of a difference from normal trends. Whilst sales during January to April followed the usual seasonal pattern, sales in May and June were both well above sales recorded in those months for any of the last five years. Indications are that this pattern has continued into July. As a result sales in Q2 were up some 7.7% on 2006 and sales for the first half of the year are up 3.8% on the same period in 2006.

The surge in sales during the summer appears to be due to a number of factors:

- Early stocking by the distribution sector in advance of the start of the heating season
- Strong social housing market with a number of large contracts from Local Authorities and Housing Associations
- Poor weather in May and June

The prevailing view is that the owner occupier market remains generally very weak. There are also large regional variations with some parts of the country seeing extremely low demands for replacement boilers, whereas in others, installation order books are full for many months.

Gas Boiler Sales Q2 2007 v Q2 2006

	Q2 2007			Q2 2006			Annual Comparison		
	Apr	May	Jun	Apr	May	Jun	Jul 06-Jun 07	Jul 05-Jun 06	% change
Total boiler sales (000s)	115.1	131.2	124.2	109.3	115.4	119.4	1590.5	1471.1	+8.1
% condensing	94	95	95	87	85	87	92	85	

Condensing Boilers

The condensing boiler share of the market has continued to increase and reached 95% in both May and June. A contributory factor has been the change to Building Regulations in Scotland which from 1 May 2007 made the use of condensing boilers a requirement in all new and replacement installations apart from defined and very limited exceptions.

The share of the condensing boiler market provided by SEDBUK Band A boilers has also increased slightly and averaged 84.4% during the quarter, up from 83% in Q1.

Ecomomic 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

For Q2 the changes in RPI and CPI annual rates were as follows:

	Apr	May	Jun
CPI change (%)	2.8	2.5	2.4
RPI change (%)	4.5	4.3	4.4

The main downward contribution to the change in CPI came from food and non alcoholic beverages. Other large downward effects included housing and household services with gas and electricity bills both continuing to fall.

For RPI the main downward pressure came from household goods with other downward effects coming from reductions in gas and electricity bills

Source: Office for National Statistics

Interest Rates

Bank of England base rate had increased from 5.25% to 5.5% in May. During Q2 2006 rates had been steady at 4.5%.

Source Bank of England

Domestic Fuel Prices

The most recent figures available from the Department of Business, Enterprise and Regulatory Reform are for Q1 2007 and these are compared with Q1 2006. During the first quarter a further 300,000 households had transferred away from their home supplier, making the total 13.1 million (52%) since competition was introduced. For gas the number of additional customers that had transferred was 100,000, bringing the total to 10.6 million (51%).

Domestic Fuel Prices Indices

	Gas	Electricity	Heating oils
Q1 2007	£221.0	£168.9	£193.0
Q1 2006	£160.2	£135.3	£212.7
% comparison	+38.0	+24.8	-9.3

Source: DBERR

House Prices

According to Nationwide, house prices in England and Wales rose by over 10% in Q2 2007 compared with the same period in 2006.

	06	07
April	£163,573	£180,314
May	£164,632	£181,584
June	£165,730	£184,070
Average	£164,978	£181,989

Source: Nationwide

New-build Homes

The number of applications to start new homes increased by 5% to 54,935 in the three months to the end of May, compared with the same three months last year. This total included 10,638 applications for Housing Association starts, an increase of 42% on the same period in 2006. This was in contrast to the private sector, which had decreased by 1% over the same period in 2006.

The number of new homes completed during the three month period to the end of May was 46,646, an increase of 2% over the same period in 2006.

Source NHBC

Housing and Property Transactions

The number of property transactions during the period January to May 2007 was 781,000 and this was up 8.3% on the same period in 2006. The total number of transactions in 2006 was 1.77 million, up 16% on 2005.

Source: Construction Products Association