EUROPEAN VALUATIONS

MARKET SECTOR INSIGHTS – SEPTEMBER 2023 (Q3)

Doors & Windows Market

“The growth of the residential sector in Europe is fuelling demand for doors and windows.”

Global Outlook

According to a report by Arizton Advisory and Intelligence, the Europe doors and windows market was valued at $61.2 billion (£59.7 billion) in 2022 and is expected to reach $78.1 billion (£76.2 billion) by 2028, growing at a CAGR of 4.13% from 2022 to 2028. The region is one of the leading markets globally in terms of installation of doors and windows in new builds and growth in demand for doors and windows in renovation and retrofit projects. The demand for doors and windows in renovation and retrofit activities, especially from individual customers, accounted for almost 59% of the total revenue and around 57% of total units in Europe in 2022.

The report explained, “As the current building stock of the region is energy inefficient, residential dwellings, institutions and industries are increasingly adopting eco-friendly or green technologies to reduce the risk of environmental pollution and carbon footprint from buildings in the Europe doors and windows market.”

The growth of the residential sector in Europe is fuelling demand for doors and windows. The residential construction industry in Western European countries, such as the UK and France, and Central and South European countries is likely to grow at a CAGR between 2% and 5% during the forecast period. The rise in the construction of new residential properties is expected to propel the demand for new doors and windows, boosting the replacement of old ones and their thresholds and frames. Such factors will further propel the demand for multi-glazed windows and doors as they are among the latest trends in the Europe doors and windows market.

UK Door Market

Research and Markets’ forecast for the UK door market from 2023 to 2027 explained that the use of advanced technologies and equipment in the manufacturing of construction materials and the presence of many market players in the region are expected to increase demand in the UK door market. Other factors boosting demand are the availability of sustainable construction solutions and the UK construction market’s expertise in architecture, design, and engineering technology to produce quality products.

Additionally, the UK government’s support of the construction industry by providing financial assistance to consumers to increase their affordability through initiatives like the Help-to-Buy Equity Loan Scheme and . the Funding for Lending Scheme is expected to create significant growth opportunities for the UK construction market.

North America's increasing spending on entertainment-related equipment such as toys, hobbies and playground equipment is boosting growth in the region. Additionally, the rising gift-giving market trend is further driving market growth.

The market in Europe is primarily driven by the presence of adequate import facilities of sports-related equipment in countries such as the UK and Germany. Such import facilities allow these countries to supply a wide variety of toy products to their distribution outlets, which is likely to support consumption rates in the region.

Doors & Windows Market

Alongside the monthly decrease, construction output was flat in the three months to July 2023.

According to the latest release by ONS, monthly construction output is estimated to have decreased 0.5% in volume terms in July 2023; this follows a 1.6% increase in June 2023, with the monthly value in level terms in July 2023 at £15,546 million.

The decrease in monthly output came solely from a 1.3% decrease in repair and maintenance, with new work increasing 0.1% on the month.

At the sector level, five out of the nine sectors saw a fall in July 2023, with the main contributors to the monthly decrease being private housing repair and maintenance, and private housing new work, which decreased 3.9% and 2.2%, respectively.

Anecdotal evidence suggested the effect of heavy rainfall and lower-than-average temperatures in July 2023 leading to delays in planned work; additional evidence indicated a continued slowdown in the housing sector.

Alongside the monthly decrease, construction output was flat in the three months to July 2023; this came from a 0.3% increase in new work, offset by a 0.4% decrease in repair and maintenance.

UK Construction Sector Outlook

The UK construction industry is expected to experience an acute recession this year driven by double-digit falls in the two largest construction sectors: private housing new build and private housing repair, maintenance, and improvement (rm&i). According to the Construction Products Association's (CPA) latest forecast, construction output will fall by 7.0% in 2023 before recovering slowly in 2024 with growth of just 0.7%. With a flatlining UK economy, falling real wages, and mortgage rates now expected to continue rising over the next six months, households are likely to endure a difficult year and the demand for both new housing and improvements works will be hit hard. Infrastructure activity is expected to remain at high levels due to major projects already down on the ground. Even in this sector, however, output is likely to fall marginally compared to last year following the government announcing delays to roads and rail projects.

Private housing output is worth £41 billion per year to the UK economy and is forecast to be the worst-affected construction sector in 2023. In this sector, activity was already forecast to fall due to the lagged impacts of the government's calamitous Mini Budget and the resultant spike in mortgage rates last year, which led to a 30-40% fall in demand in 2022 Q4. Whilst demand started to recover during the first quarter of this year as mortgage rates fell, this proved to be a mere blip and over the Summer, the Bank of England raised interest rates once again, in turn raising market expectations of peak interest rates beyond 6.0%. Given the impact of this on mortgage rates, demand will be badly affected in both the general housing market and house building sector. House builders are likely to continue focusing on completions to meet the lower levels of demand rather than starting any new developments. This is not only down to the high levels of uncertainty in demand over the next 12-18 months, but also owing to house builders being hit by a raft of government-imposed policies such as nutrient and water neutrality which are affecting supply and financial viability. Overall, private housing starts are forecast to fall by 25.0% in 2023. Completions and output are expected to fall by 19.0% before a recovery

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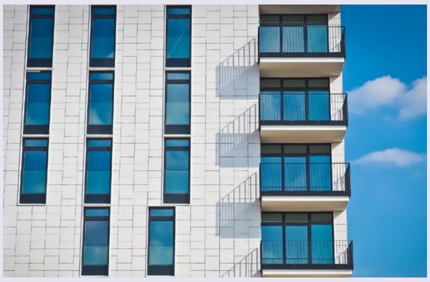

“Since March 2022, however, activity has been falling due to persistent inflation, rising interest and mortgage rates, and falling real wages.”

starting in the second half of next year, which will see a rise of 2.0% in 2024 overall.

Private housing rm&i is worth £29 billion each year to the UK economy and activity reached historic highs between 2020 and early 2022 due to increased working from home and a ‘race for space’. Since March 2022, however, activity has been falling due to persistent inflation, rising interest and mortgage rates, and falling real wages. Households have been forced to pause or cancel small, discretionary improvements as a result. This was partially offset by growth in energy-efficiency activity, such as insulation and solar photovoltaic work, as homeowners with substantial savings prioritised investing in their homes following rising concern over energy prices since Russia’s invasion of Ukraine. This work is also likely to remain strong this year although government schemes for energy-efficiency retrofit of the existing housing stock such as ECO4 and ECO+ - now rebranded as the Great British Insulation Scheme - appear to be missing their targets once again. Larger home improvements activity remained strong last year but planning applications for new larger home improvements fell by 19.0% in 2022 as a result of homeowners being hit by rising mortgage payments and falling real wages. As a result, this is likely to lead to a fall in activity this year. Overall, private housing rm&i output is forecast to fall by 11.0% this year before growth of 2.0% next year in line with a recovery in household finances.

Commenting on the Summer Forecasts, CPA Economics Director, Professor Noble Francis said: “More than half of construction activity is provided by the three largest sectors: private housing new build, private housing repair, maintenance and improvement (rm&i) and infrastructure. Both housing new build and rm&i had already taken a hit in 2022 Q4 due to falling real wages, the rising cost of living, economic uncertainty, and the effect of the Government’s calamitous Mini Budget on mortgage rates. Further interest rate and mortgage rate rises this year, as well as falling real wages, are likely to lead to sharp falls in demand within the house building and improvements sectors. Exacerbating this for the construction industry are government announcements of delays to roads and rail projects, despite infrastructure activity remaining relatively high.

Raw Materials Pricing

According to the latest national statistics on timber price indices produced by Forest Research, released in May 2023, the Coniferous Standing Sales Price Index was 31.5% lower in real terms (27.0% lower in nominal terms) in the year to March 2023 compared with the previous year. The average price for coniferous standing sales was £31.13 per cubic metre overbark standing in nominal terms in the year to March 2023, a decrease from £42.55 in the year to March 2022.

The Softwood Sawlog Price Index was 34.9% lower in real terms (30.4% lower in nominal terms) in the 6 months to March 2023, compared with the corresponding period in the previous year. The average price for softwood sawlog sales was £53.53 per cubic metre overbark in nominal terms in the 6-month period to March 2023, a decrease from £67.25 in the 6 months to September 2022 and £76.89 in the 6 months to March 2022.

-Economic Outlook-

Over the past three years, the world has been faced with many unprecedented situations ranging from pandemic health crises to record-setting inflation, rising interest rates, falling global wage growth, extreme weather events and geopolitical conflicts. This has resulted in economic volatility and fears of an impending recession.

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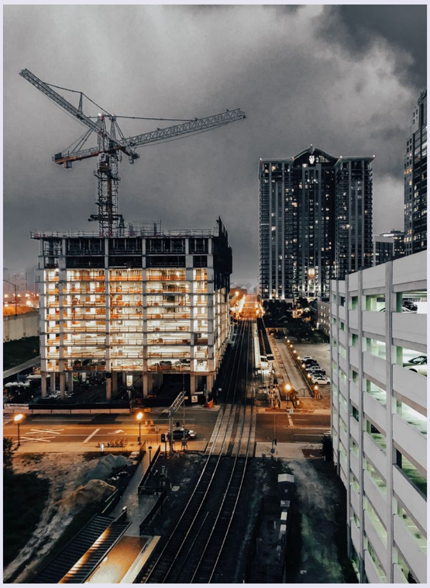

“Airlines have also pushed through price increases, driven primarily by high fuel and labour costs.”

Consumer Demand

According to the Economist Intelligence Unit (EIU), a research and analysis division of the Economist Group, consumer spending patterns have undergone much change since the pandemic started. The cost-of-living- crisis has added to the shifts. One category that has consistently fared well is food, beverage, and tobacco—initially because of increased home consumption during the lockdowns and thereafter driven by high food prices.

Since countries started reopening from lockdowns, and especially after Russia's invasion of Ukraine, high cost of energy has pushed up utility costs for consumers. Consequently, they are now spending significantly more (compared with 2020 levels) on housing and household fuels.

In-person services appears to be the brightest category in 2023, with consumer spending on hotels and restaurants registering the biggest increase compared with 2020 levels. This is partly because of pent-up demand following the marked slowdown in spending in this category during the pandemic lockdowns. This sustained demand has allowed many hotels and restaurants to push through sharp price increases to offset their higher wage, energy and food costs.

Airlines have also pushed through price increases, driven primarily by high fuel and labour costs. After rising by an average of about 29% in 2022, airfares in the US rose by over 20% again in the first quarter of 2023. Despite higher fares, global air traffic was up by over 52% year on year in March 2023, according to the International Air Transport Association (IATA), a trade body. However, air traffic that month was still only at 88% of March 2019 levels, suggesting scope for further growth, especially driven by the opening up of China.

Inflation Remains High

As per IMF's latest World Economic Outlook, since 2021, inflation has risen faster and more persistently than expected. In 2022, inflation in advanced economies reached its highest rate since 1982. Despite a slight decline in the consumer price index in July and August, US inflation reached one of its highest levels in about 40 years, with prices in August 8.3 percent higher than those one year earlier. Euro area saw inflation reach 10 percent in September, while the UK saw annual inflation of 9.9 percent. Emerging market and developing economies are estimated to have seen inflation of 10.1 percent in the second quarter of 2022 and face a peak inflation rate of 11.0 percent in the third quarter: the highest rate since 1999.

The reverberations of last year's strong demand recovery and a continued rebalancing of demand toward services such as travel have driven up inflation. Although futures prices have fallen, the delayed pass-through of past increases in food and energy prices from global commodity markets to consumer prices may continue to drive inflation yet higher in the short term. In Europe, a significant impact from war-related energy shocks compounds these effects, whereas in Asia, a more moder ate impact on food prices is helping to keep inflation from rising as much as elsewhere

Increased consumer spending on in-person services, food and utilities is happening at the expense of household goods such as furniture and appliances, as well as apparel. These are all items that consumers splurged on during the lockdowns of 2020-21, leading to a lack of pent-up demand. The focus on essentials will see consumers slow down spending on these categories, offsetting increased cost of travel and recreational services.

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"Relative to the April forecasts, the IMF's upward revision for Britain is the largest for any major advanced economy."

Inflation is Easing but Remains High

According to the IMF's latest World Economic Outlook update, inflation is easing in most countries but remains high, with divergences across economies and inflation measures. Following the buildup of gas inventories in Europe and weaker-than-expected demand in China, energy and food prices have dropped substantially from their 2022 peaks, although food prices remain elevated. Together with the normalization of supply chains, these developments have contributed to a rapid decline in headline inflation in most countries. Core inflation, however, has on average declined more gradually and remains well above most central banks' targets. Its persistence reflects, depending on the particular economy considered, pass-through of past shocks to headline inflation into core inflation, corporate profits remaining high, and tight labour markets with strong wage growth, especially in the context of weak productivity growth that lifts unit labour costs. However, to date, wage-price spirals—wherein prices and wages accelerate together for a sustained period—do not appear to have taken hold in the average advanced economy, and longer-term inflation expectations remain anchored.

In response to the persistence of core inflation, major central banks have communicated that they will need to tighten monetary policy further. The Federal Reserve paused rate hikes at its June meeting but signalled further ones ahead, and the Reserve Bank of Australia, Bank of Canada, Bank of England, and European Central Bank have continued to raise rates. At the same time, in some other economies, particularly in East Asia, where mobility curbs during the pandemic restricted demand for services longer than elsewhere, core inflation has remained low. In China, where inflation is well below target, the central bank recently cut policy interest rates. The Bank of Japan has kept interest rates near zero under the quantitative and qualitative monetary easing with yield curve control policy.

UK Economic Forecast

The International Monetary Fund confirmed its latest forecast for British economic growth this year, saying cheaper energy, better relations with the European Union and calmer financial markets had improved the outlook since the start of 2023.

Britain's gross domestic product is expected to grow 0.4% this year and 1.0% in 2024, in line with IMF staff forecasts made in May as part of an annual assessment of the country.

However, the latest outlook is an upward revision from the last time the IMF updated its global growth forecasts in April, when it predicted Britain's economy would shrink 0.3% this year.

The IMF said the revision arose from stronger household consumption and business investment as a result of "falling energy prices, lower post-Brexit uncertainty, and a resilient financial sector as the March global banking stress dissipates".

Relative to the April forecasts, the IMF's upward revision for Britain is the largest for any major advanced economy. However, in outright terms only Germany's GDP - which is predicted to contract by 0.3% - is forecast to fare worse.

Global Economic Forecast

According to the IMF's latest World Economic Outlook update, global growth is projected to fall from 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024 on an annual average basis. Compared with projections in the previous World Economic Outlook, growth has been upgraded by 0.2 percentage point for 2023, with no change for 2024. The forecast for 2023–24 remains well below the historical (2000–19) annual average of 3.8 percent. It is also below the historical average across broad income groups, in overall GDP as well as per capita GDP terms.

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World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2022	PROJECTIONS 2023	2024
World Output	3.5	3.0	3.0
Advanced Economies	2.7	1.5	1.4
United States	2.1	1.8	1.0
Euro Area	3.5	0.9	1.5
Germany	1.8	-0.3	1.3
France	2.5	0.8	1.3
Italy	3.7	1.1	0.9
Spain	5.5	2.5	2.0
Japan	1.0	1.4	1.0
United Kingdom	4.1	0.4	1.0
Canada	3.4	1.7	1.4
Other Advanced Economies	2.7	2.0	2.3
Emerging Market and Developing Economies	4.0	4.0	4.1
Emerging and Developing Asia	4.5	5.3	5.0
China	3.0	5.2	4.5
India	7.2	6.1	6.3
Emerging and Developing Europe	0.8	1.8	2.2
Russia	-2.1	1.5	1.3
Latin America and the Caribbean	3.9	1.9	2.2
Brazil	2.9	2.1	1.2
Mexico	3.0	2.6	1.5
Middle East and Central Asia	5.4	2.5	3.2
Saudi Arabia	8.7	1.9	2.8
Sub-Saharan Africa	3.9	3.5	4.1
Nigeria	3.3	3.2	3.0
South Africa	1.9	0.3	1.7
Memorandum			
Emerging Market and Middle-Income Economies	3.9	3.9	3.9
Low-Income Developing Countries	5.0	4.5	5.2

“World trade growth is expected to decline from 5.2 percent in 2022 to 2.0 percent in 2023, before rising to 3.7 percent in 2024, well below the 2000–19 average of 4.9 %.”

Advanced economies continue to drive the decline in growth from 2022 to 2023, with weaker manufacturing, as well as idiosyncratic factors, offsetting stronger services activity. In emerging markets and developing economies, the growth outlook is broadly stable for 2023 and 2024, although with notable shifts across regions. On a year-over-year basis, global growth bottomed out in the fourth quarter of 2022. However, in some major economies, it is not expected to bottom out before the second half of 2023.

World trade growth is expected to decline from 5.2 percent in 2022 to 2.0 percent in 2023, before rising to 3.7 percent in 2024, well below the 2000–19 average of 4.9 %. The decline in 2023 reflects not only the path of global demand, but also shifts in its composition toward domestic services, lagged effects of US dollar appreciation—which slows trade owing to the widespread invoicing of products in US dollars—and rising trade barriers.

These forecasts are based on several assumptions, including those regarding fuel and nonfuel commodity prices and interest rates. Oil prices rose by 39 percent in 2022 and are projected to fall by about 21 percent in 2023, reflecting the slowdown in global economic activity. Assumptions regarding global interest rates have been revised upward, reflecting actual and signalled policy tightening by major central banks since April. The Federal Reserve and Bank of England are now expected to raise rates by more than assumed in the previous World Economic Outlook––to a peak of about 5.6 percent in the case of the Federal Reserve—before reducing them in 2024. The European Central Bank is assumed to raise its policy rate to a peak of 3¾ percent in 2023 and to ease gradually in 2024. Moreover, with near-term inflation expectations falling, real interest rates are likely to stay up even after nominal rates start to fall**.**

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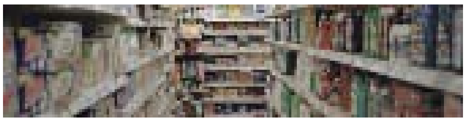

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