

**D&G Consulting**

Factual Market Research

**PVC-U Window Profile in  
the UK**

**Summary Quarterly  
Tracker**



**Q4 2010**

# February 2011

## Introduction

The quarterly window profile tracker from D&G Consulting is produced to help companies in the UK to follow the quarter by quarter changes to PVC window profile volumes as a positive aid to their planning processes. This is the ninth quarter the Tracker has been published. Before the first report (Quarter 1 2009) we had built up a record of changes quarter by quarter from the start of January 2008 - see Chart 2.

We also set out each time to provide an overview of the quarter and issues affecting the industry currently and in the near future.

## Overview of Quarter 4

After PVC-U window profile volumes increased in Quarter 3 2010 over Quarter 2 there were high hopes that the improvement would continue into Quarter 4, especially as VAT was due to rise in January 2011 providing a hoped for rush to beat the increase. However, Quarter 3's good results, which were the best in volume terms since Quarter 2 2008, proved to be a false dawn as there was a dramatic volume decline in consumption of PVC window profile in Quarter 4 of an estimated 12% when compared to Quarter 3. Also, compared to the same quarter in 2009 there was a decline of 7%. It will not be until the 2011 results are known before we can put some or the entire decline down to the period of extremely bad weather in December.

Has the coalition Government's announced cut backs and job losses spooked consumers into drawing in their spending? Quarter 1 2011 should give us a firm indication especially as there has not been a repeat of the very bad weather experienced in January 2010.

The volume of PVC-U window profile consumed, year to date, is 1.4% down on 2009. This is very much in line with the forecasts we have been running with throughout the year. As stated above at one time mid-year there were indications that 2010 in volume terms would be marginally better than 2009. But it seems that the combination of bad weather and government cut backs has put the pace of recovery into reverse.

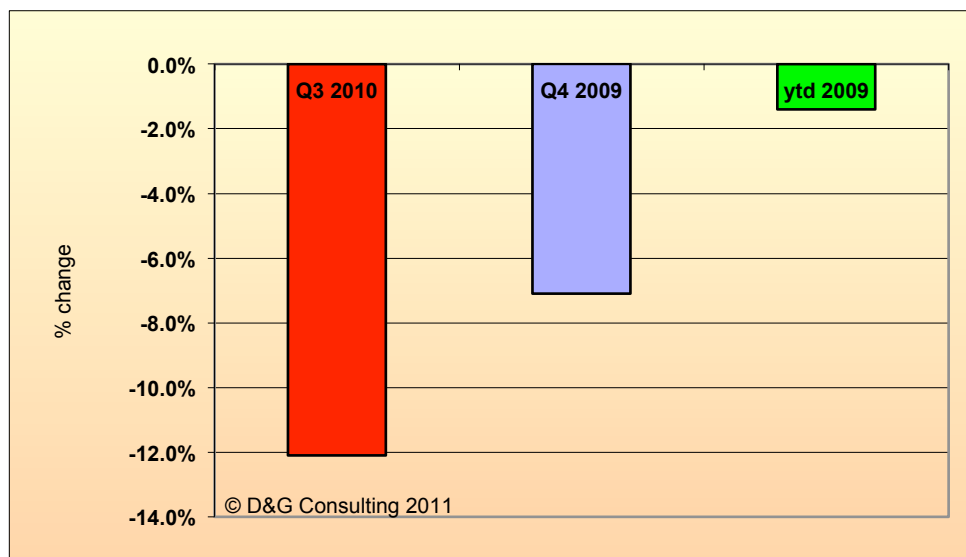
Returning to the short term prospects, in last quarter's report we quoted the Ernst and Young ITEM Club's view of the UK economy over the next few months which was "Gradual recovery should follow a 'soft patch' over the winter. So far the ITEM Club's short term prediction may well be apt for the window industry. (*We will be publishing our Spring Forecast in early March which will cover the period to 2014*).

## Commentary

Chart 1 below shows the percentage change in the volume of PVC-U window profile consumed in the UK for:

- Quarter 4 2010 compared to Quarter 3 2010.
- Quarter 4 2010 compared to Quarter 4 2009.
- 2010 year to date compared to 2009 year to date.

**Chart 1: Summary of Results for Quarter 4**



The key points from Chart 1 are:

- Q4 2010 saw an estimated decrease in PVC-U window profile consumed in the UK of 12.1% compared to Q3.
- Compared to Q4 2009, Q4 2010 saw a decrease in PVC-U window profile consumed in the UK of 7.1%
- Year to date at Q4 2010 PVC-U window profile volumes consumed in the UK decreased by 1.4% compared to 2009.

Chart 2 below shows the quarterly index of PVC-U window profile over the years 2008 to 2010 to date.

**Chart 2: Volumes by Quarter – Index of tonnes Consumed**

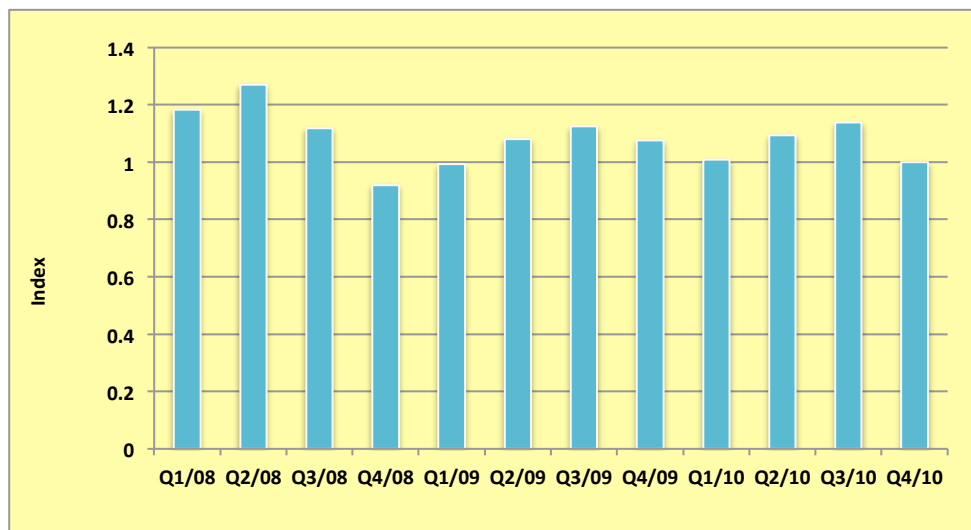


Chart 2 above shows the pattern of UK consumption of PVC-U window profile in the UK. First the dramatic decline starting after the first half of 2008 and bottoming out in Q4 of 2008 – which is still the lowest recorded quarterly volume. Since then the last two years has been a flat wave pattern with no positive sign of sustained recovery.

Chart 3 below which show an index of consumption per operating day. Operating days for this purpose are assumed to be five days per week less bank holidays and Christmas (essentially the fabricator and installers' pattern). We have assumed for Christmas no working through the period December 22<sup>st</sup> to December 31<sup>st</sup>, and for the New Year the holiday continuing until January 10<sup>th</sup>. This shows the affects of the big freeze in January 2010 which all but meant the industry was badly affected for two weeks.

**Chart 3: Index of Daily PVC-U Window Profile Consumption: Q1 2009 = 1**

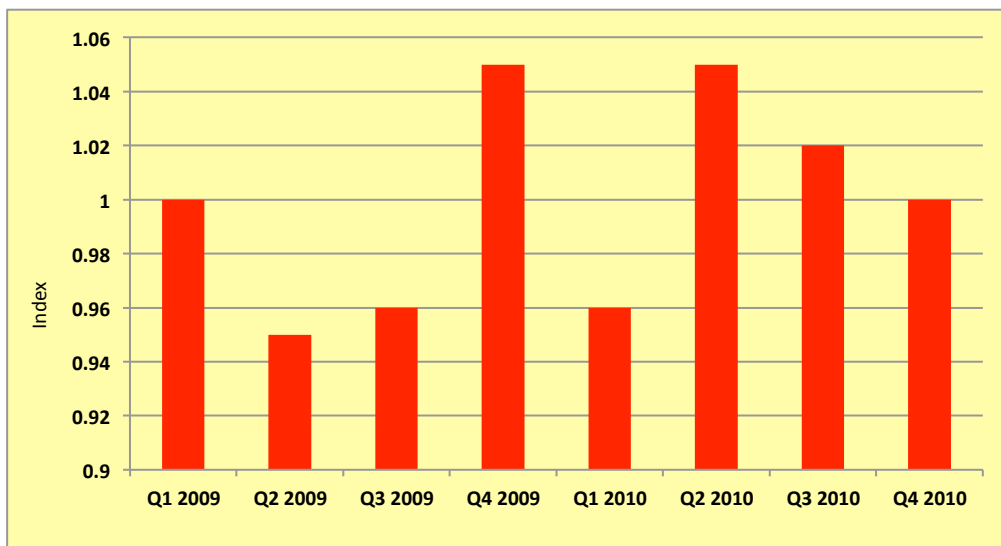


Chart 3 above shows what, economy watchers were beginning to suspect, that once the coalition Government announced its intentions to enact severe cut backs to government spending with the accompanying job losses, consumers would be cutting back on all but essential spending with big-ticket items (which usually includes windows, doors and conservatories) being especially hard hit.

### **Imports and Exports**

Import volumes of PVC window profile in Q4 2010 were down by an estimated 22% year to date compared to 2009 year to date. The main reason has been the strength of the Euro which has put a brake on imports.

Volumes for both imports and exports of PVC-U window profile are small, especially export volumes which remain significantly down compared to two years ago. This is because the main country the UK has exported to is the Republic of Ireland (ROI). The ROI has seen a

big reduction in demand for window profile on the back of the decline in the construction industry – especially new build housing - and there are no signs of recovery. So those companies from the UK involved in supplying completed windows and/or profile into the ROI have felt the impact of the collapse in house building volumes.

## **House Building and Housing Improvement**

In the UK house building in 2010 fell once again to a total of 127,000 units - 70% of the 2008 level. Those fabricators and systems companies who have been over reliant on house building have seen their volumes fall more than the industry average. The Financial Times on October 23<sup>rd</sup> last year reported that “With job worries on the rise, buyers are staying away in droves”. Stephen Stone the chief executive of Crest Nicholson said “People just don’t want to commit at the moment. There is too much uncertainty and buyers are more concerned about whether or not they are going to have a job in six months. Moving into a new place isn’t a priority”. On the subject of social housing the FT reported “Cuts in social housing announced (by the Chancellor), a lack of clarity on planning and the prospect of soaring unemployment will do little to warm the spirits of the house building bosses as they prepare for what looks like being a harsh winter”. House building volumes are not expected to perk up until well into 2013.

Housing Improvement – usually reported in the construction industry as Repair, Maintenance and Improvement (RMI) - remains the most important ‘sector’ for PVC-U window and doors. Next important in volume terms is conservatories. Both housing improvement and conservatories have had a challenging 2010. Then there is in the future the spectre of cuts in public spending announced by the new Government and whether the last Government’s Decent Homes Initiative will remain untouched is most unlikely after the Chancellor announced a 50% cut in social housing spend. The forecast for housing RMI post the Chancellor’s spending review is to see RMI volumes fall between 3% and 5%. First time window replacement to the UK housing stock is to a large extent saturated with only listed buildings, the anti PVC-U ‘brigade’, homes belonging to people not able to afford (or get loans) to change windows and some public (social) housing left to replace. This means the industry now has to major in on the second time replacement cycle with the emphasis on energy saving.