

Market Overview



Update

20 May 2020

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UK inflation:

The benchmark EUR/GBP rate is clipping off seven week highs as UK inflation data, released earlier this morning, undershot market expectations. The April CPI inflation figures gives us a further taste of how coronavirus is influencing prices faced by consumers. The figures presented today do however represent the price picture in the midst of the restrictive coronavirus lockdown period. This brought with it a number of challenges for the Office for National Statistics (ONS) in compiling the numbers. These include 90 items represented in the CPIH basket (16.3% weight) which were unavailable and where price collection could occur the ONS has had to resort largely to online data to collect information. As such today's inflation rate should be interpreted with this in mind, amidst the possibility that such methods could have affected price readings. UK CPI inflation fell to +0.8% (yoy) in April from 1.5% in March, a little below the +0.9% consensus and above Investec forecasts of 0.6%. Core CPI declined more moderately to 1.4% yoy down from 1.6% yoy the previous month. It's no real surprise that the big downward driver was energy, both in terms of lower petrol prices and the effect of the utility price cap. The recreation and culture category (e.g. video game consoles) did however provide an offsetting upward effect.

COVID-19 update:

Global cases rose by 2.0 per cent to just under 4.9m with a 1.5% rise in global fatalities to just over 320,000. Brazil has now surpassed the UK as the third worst impacted nation with a daily rise in cases of 6.5% and a 6.7% rise in fatalities, both still sadly in a sharp upward trajectory. In the US, we saw a much more modest 1.3% rise in cases and a 1.8% rise in the number of fatalities, a spike over the previous five day average of 1.1%. In the UK, there was a 1% rise in cases and a 1.6% rise in fatalities. Good news from the continent as sub 1% growth rates continue to add to the somewhat more upbeat mood. In Spain, one of the initial European hotbeds of the pandemic, the numbers continue to drop significantly. Both new cases and fatalities are now at a 0.2% growth levels while the rise in German daily cases sits at 0.7% with a slight rise in fatalities to 1%.

Residential sector:

The head of the Construction Industry Federation has said that new working protocols on building sites could add €10,000-€15,000 (in the region of 5% by our estimates) to the cost of building a new house. Tom Parlon was speaking at the recently-convened Dáil Covid-19 committee. He also said that the measures could add up to 10 weeks to the time required to build a property. In a trading statement last week, Cairn Homes cautioned that new site measures would negatively impact site efficiency and that "project timelines will be extended and as a consequence, there will be an impact on both site preliminary and management costs". Cairn, like other builders, commenced a gradual return to site operations this week.

The Central Bank of Ireland has projected that housing output might fall to 16,000 this year as a result of the pandemic, which would be a one-third reduction from previous estimates, but it's not inconceivable that this could turn out to be an optimistic assessment depending on the approach taken by developers (and their financiers) over the remainder of the year. This shock to new supply will not help the housing shortfall problem in the long-run and it is likely to push against downward pressure on prices in the short-run.

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