Tender Price Inflation Report (London)

2nd Quarter 2019

Tender Price Inflation

With no immediate sign of a resolution to the Brexit stalemate, uncertainty in the industry and the wider UK economy continues to prevent projects from going ahead, leading to a sharp drop in output in June. According to one survey, UK construction firms have almost a third less work in the pipeline than a year ago. Although not the only influence, this is causing tender inflation forecasts to remain low for the foreseeable future.

- Brexit-related hesitation among developers is only one factor in a slow market.
- General economic slowdown combines with political reasons for drops in tender price inflation predictions.
- Some clients are pressing ahead despite political uncertainty.
- A strong pipeline is waiting for when a resolution to Brexit is reached.

Persistent political uncertainty continues to bite

June 2019 saw the sharpest drop in construction output since the financial crisis according to the IHS Markit/Cips construction purchasing managers' index. Construction output has been muted for some time and in May dropped into contraction, with a further dramatic drop in June.

This drop is a tangible result of the continued lack of clarity surrounding Brexit and the reluctance of some parts of the industry to proceed with projects until the impasse is broken.

Is Brexit solely to blame for the current problems?

Brexit is naturally a central factor in reticence among developers and investors in the private sector of the construction industry. The industry is affected by the multi-layered uncertainty of not knowing what the outcome will be, when it will play out, and difficulty in predicting the precise implications of any given outcome. However, Brexit is not the only force at play.

Shortages of labour were already a concern (but this has been amplified by Brexit and there is evidence of many non UK nationals who make up the work force starting to leave already). This is a critical issue for the construction industry and needs to be addressed quite apart from Brexit and the uncertain political landscape.

With the recent move of Boris Johnson into number 10, it may be that we can gain some more insight about what the future holds, but the possibility of a snap election and a Labour government in the wake of the outcome of Brexit remains. In general, the level of political uncertainty is unprecedented in the near term.

Also part of the mix is a more general economic slowdown in the UK and globally, with the UK predictions for GDP sticking well below 2% for the next year. More specifically, the recent drop in sterling is exacerbating the problem of reduced overseas labour and increasing the cost of importing materials.

We suggest that it's important to be wary of all these factors and consider Brexit in the context of other influences on the industry at a difficult time.

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Reasons for optimism

We perceive a sense of a “coiled spring” in the industry. Brexit-related uncertainty is causing a delay to new commitments, but it does seem that there is plenty of work in the pipeline waiting to be given the green light when the outcome is decided upon. We are also working with clients who are carrying on, confident in their business model and who are finding success in a market that is keen to support those willing to press ahead with projects.

We also note that whatever the outcome of Brexit, it is likely that some form of resolution will occur within the next six to 12 months, meaning that there may be an end in sight to this prolonged and damaging period of uncertainty. Even this relatively short time period, however, will continue to compound the problem of slow decision making. We expect turbulence in tender prices to continue into 2020 and possibly beyond.

Lowering predictions

Contractors are still competing for work and the market is being propped up by larger infrastructure projects and the ongoing call from the public sector to meet a required number of residential units delivered each year. There remains a risk of insolvency at all levels in the contractor and sub-contractor supply chain, something of which clients should be wary.

Costs are rising, while tender prices stagnate. We have lowered our predictions for tender price inflation over the next few years, in response to the market feedback and our recent tendering activities.

Tender price predictions (%)

Forecasts	Date	2019	2020	2021
Equals (London)	**2Q 2019**	**1.5**	**2.5**	**2.5**
BCIS (UK wide)	Jul 2019	2.8	3.9	4.4
Alinea (London and SE)	Jul 2019	2.0	2.0	2.75
Arcadis (London)	2Q 2019	2.0	3.0	3.0
F&G (London)	1Q 2019	1.8	2.0	2.1
G&T (London)	2Q 2019	1.0	1.0	1.5
Mace (London)	2Q 2019	1.5	1.5	2.5
T&T (UK wide)	2Q 2019	2.2	2.8	3.2
RLB (London)	2Q 2019	1.0	1.5	2.0
Average		1.6	2.3	2.8

Increased Same Dropped / Reduced

Equals is an independent consultancy formed by highly experienced industry professionals providing project management and cost management.

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