

# Tender Price Inflation Report (London)

1st Quarter 2018

## Tender Price Inflation

- In this update, we continue to forecast 2.0% TPI for 2018, 3% in 2019 and 4% in 2020.
- The Equals forecast reflects a London centric view.

Forecasts	Report Date	2018	2019	2020
<b>Equals (London)</b>	<b>Q1 2018</b>	<b>2%</b>	<b>3%</b>	<b>4%</b>
BCIS (UK)	Q4 2017	0.30%	2.60%	4.10%
AECOM (UK)	Q4 2017	2.70%	1.90%	N/A
Alinea (London)	Q3 2017	2%	2%	N/A
Arcadis (London)	Q1 2018	-2%	3%	4%
Faithful + Gould (London)	Q4 2017	1.50%	2%	4%
Gleeds (London)	Q3 2017	2%	1.5%	2%
G&T (London)	Q4 2017	0%	0%	1.5%
Mace (London)	Q4 2017	0%	1.5%	3%

## Headlines

- Ongoing uncertainty relating to the final post Brexit trading arrangements of the UK in relation to its European neighbours continues to impact on the commercial sector particularly.
- The collapse of Carillion shocked the industry and has left a significant hole in both project finances and the bank balances of many subcontractors; it also signals a new manifestation of the ongoing economic uncertainty.
- Construction output declined in the 3-month period to November 2017 by 2%; the sixth consecutive period of decline and biggest fall since August 2012<sup>1</sup>; indicating an industry technically in recession.
- There is strong evidence of contractors staying busy and this supports current pricing levels but they remain risk averse as to whether tougher times are approaching.

## Economic Overview

- In Quarter 3 of 2017 gross domestic product by volume increased by 0.4%. This was predominantly driven by growth in the services sector which grew by 0.4% and is the largest component of growth<sup>2</sup>.
- Wages grew by 0.7% in the quarter<sup>2</sup> but with inflation running at 3% per annum<sup>3</sup> households are not feeling the effects of increased wages. This is reflected in the lowest rate of growth of household spending since the first quarter of 2012<sup>2</sup>.
- The Bank of England Monetary Policy Committee voted to increase the base rate of inflation from 0.25% to 0.50% on 1 November 2017<sup>3</sup>.
- Continued historically high levels of employment, import inflation driven by sterling depreciation and high energy prices have all contributed to inflation and an environment where growth can quickly result in inflationary pressures<sup>3</sup>.
- Whilst the increase in rates will attempt to stabilise the economy and prevent damaging inflationary pressures the Bank of England cannot, in the longer term, protect the economy from falling growth<sup>1</sup>.

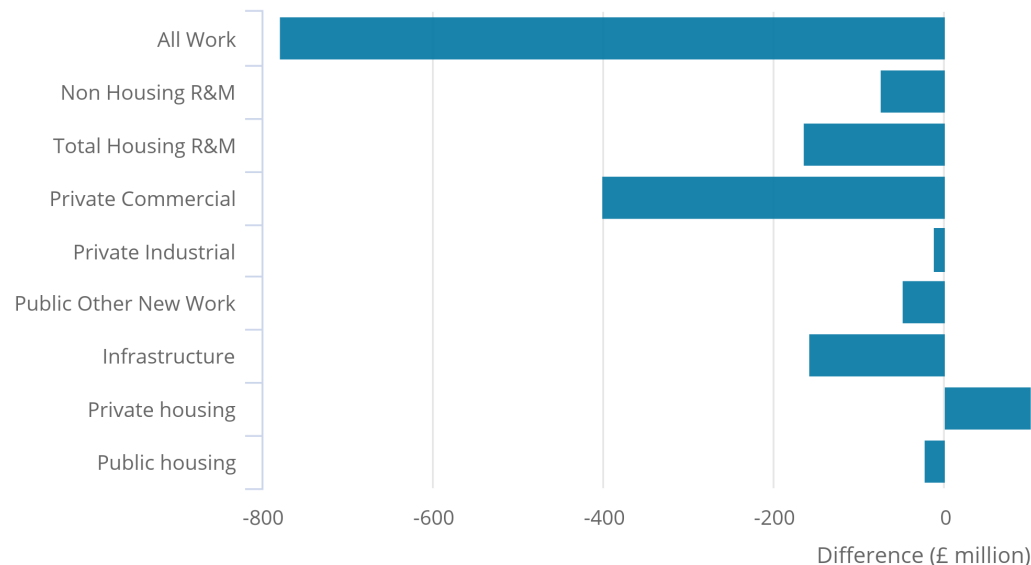
1. Construction Output in Great Britain: November 2017; released 10 January 2018.  
 2. Quarterly National Accounts: July to September 2017; released 22nd December 2017.  
 3. Bank of England website; accessed 22nd January 2018.

# Equals

## Industry Overview

- Construction output was estimated to have decreased by 0.5% in the third quarter. This is the second consecutive quarter of contraction following a sustained period of growth since Quarter 4 of 2015<sup>4</sup>.
  - On a month by month basis however there was a slight increase in November against October of 0.4% driven primarily by private new housing (8.5%) and housing repair and maintenance (4.1%)<sup>5</sup>.
- To support this, the RICS reports a continued increase in house prices nationally (with the headline figure at 8%) but that some areas, in particular London, are experiencing falls<sup>6</sup>.
- The building cost index is estimated to have increased by 3.9% in the year to Q3 2017. This continues to be driven by imported items and systems such as curtain walling and steelwork<sup>7</sup>. The impact of the sterling adjustment is beginning

## Difference in three month on three month seasonally adjusted volume<sup>5</sup>



to wane but key packages and components are still affected.

- Infrastructure remains volatile with decisions of central government determining the profile of spending. Contract awards for significant projects in November 2017 include the TransPennine Upgrade (£2.25bn) and escalator replacement on the Jubilee line (£76.2m)<sup>8</sup>.
  - The November 2017 Autumn budget announced plans to support further investment in public housing as well as measures to ease purchase for first time buyers and planning reforms, all of which should stimulate the housing market however the impact of these remains to be seen.
  - A significant factor in the decreasing growth rate of construction is the decline in private commercial work which dropped by £401 million in the three months to November 2017 (-5.4%). Refer to graph opposite<sup>5</sup>. This supports our previous view that investment decisions in commercial property would be put on hold or altered following the UK's vote to leave the EU.
- Sectors remain busy but tender returns indicate pricing levels are relatively steady with an increasing competitiveness in some sub-sectors.
  - Isolated sectors are still feeling the effects of the devaluation of sterling and supply shortages; for example, steelwork, curtain walling and insulation.
  - Preliminaries and OH&P remain consistent, albeit at a historically high level. Signs of a move away from two stage tendering are being seen with a client preference towards Construction Management or Management Contracting routes.
  - Simultaneously, the demise of Carillion is likely to increase risk aversion amongst large contractors, away from lump sum contracts.

## Pricing and Market Trends

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

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4. Quarterly National Accounts: July to September 2017; released 22nd December 2017.  
5. Construction Output in Great Britain: November 2017; released 10th January 2018.  
6. Royal Institute of Chartered Surveyors, December 2017: UK Residential Market Survey.

7. Building Magazine, Cost Update Q3 2017, 7th December 2017  
8. Building Magazine, Market Review: Infrastructure Steps Up, 5th January 2018.