

Tender Price Inflation Report (London)

2nd Quarter 2017

Tender Price Inflation

- In this update, we continue to forecast 2.0% TPI for 2017 and 2018 and 3% in 2019.
- We forecast increasing inflation of 4% in 2020.
- The Equals forecast reflects a London centric view.

Forecasts	Report Date	2017	2018	2019
Equals (London)	Q2 2017	2%	2%	3%
BCIS (UK)	Q2 2017	1.1%	0%	2.8%
AECOM (UK)	Q3 2017	3.2%	2.9%	N/A
Alinea (London)	Q1 2017	2%	2%	2%
Arcadis (London)	Q1 2017	-1% to +2%	-3% to +1%	3%
Faithful + Gould (London)	Q1 2017	2%	0.5%	1%
Gleeds (London)	Q1 2017	2%	1.5%	2%
G&T (London)	Q2 2017	2%	1%	1%
Mace (London)	Q4 2016	1.5%	0%	1.5%

Headlines

- The outcome of the June 2017 General Election has perpetuated further economic uncertainty.
- Lack of definition over Brexit adds confusion over issues key to construction input prices such as immigration controls, import tariffs and pricing levels.
- Construction output declined in the 3 month period to April 2017 by 0.6%; the first fall since March 2016.

Opportunities and Risks

- Continuing high levels of demand, relative to the supply base, will continue to put pressure on the supply of skilled trades and professionals.
- Contractors continue to see a high volume of projects to tender for but are increasingly risk averse with respect to the bidding basis and nature of projects or clients.
- Rising inflation and input supply prices present an environment where margins are squeezed and companies' abilities to invest are weaker.
- House prices and consumer confidence could play an important role in the coming months in terms of sustaining new orders and growth in this sector.

Economic Overview

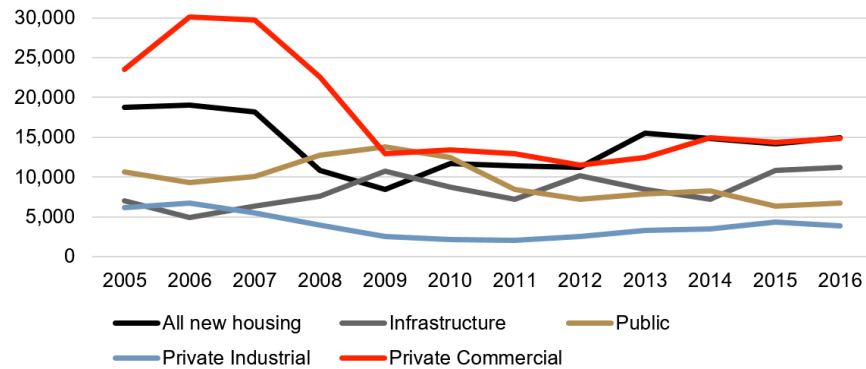
- In Quarter 1 of 2017 gross domestic product by volume increased by 0.2%; the slowest rate of growth since Q1 2016.¹
- UK GDP growth slowed to 0.2% in Quarter 1 2017 as GDP in consumer facing industries such as retail and accommodation fell and household spending slowed. This was partly due to rising prices.¹
- The Bank of England's Monetary Policy Committee voted to maintain Bank Rate at 0.25%².
- Inflation is reported to have increased to 2.9% in the year to May 2017³. This was attributed, primarily, to an increase in import prices following the depreciation of sterling.
- Whilst interest rates were held in order to maintain consumer demand and employment, post-election falls in the pound could increase inflation further and put pressure on the Bank of England to raise interest rates.

1. Gross domestic product Second estimate of GDP: Jan to Mar 2017, Issued 25th May 2017.

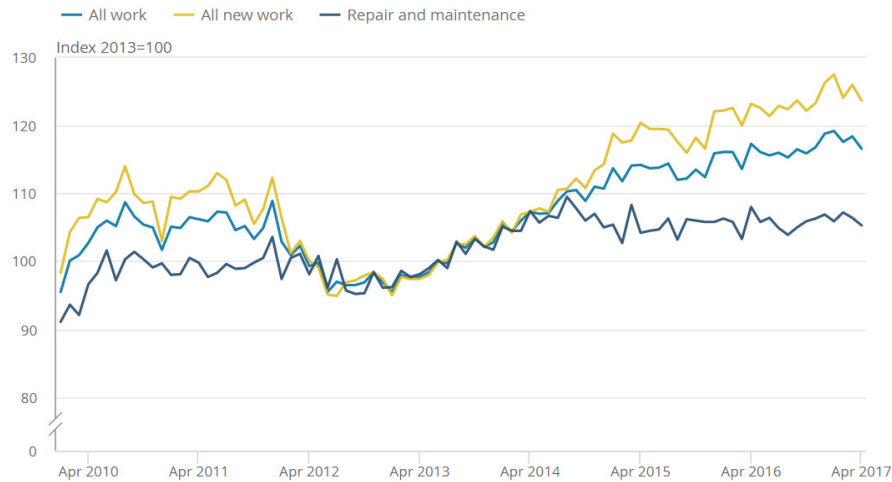
2. Bank of England, Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 10 May 2017, 11th May 2017

3. Bank of England website; accessed 13th June 2017

New Orders for Construction: Volume Seasonally Adjusted (by main contractors, by sector)⁴



Components of all new work, Output Volume April 2017⁷



Industry Overview

- In the 3 month period to April 2017 output in the construction sector contracted by 0.6% and in the most recent month (March to April 2017) it fell by 1.6%. This is reflected in the first, real value decline since March 2016⁴.
 - Contraction was driven mainly by a drop in new work (-0.9%); as opposed to repair and maintenance work (-0.1%).
 - Across the sectors in terms of output volume, private sector housing has fallen in the month (-6.9%) and when compared with the same month a year ago (-1.4%). Whilst there was an increase in public sector housing since last year (13.6%), the last month on the previous month shows a fall (-7.9%). This may reflect a change in the housing sector in response to a softening housing market, particularly in London.
 - In support of this, the RICS UK Residential Survey (May 2017) reported further slips in decline and a lower volume of agreed sales, along with an easing in house price growth, with falls reported in London⁵.
 - Looking at new orders; public housing has shown significant falls in the last quarter and in the recent quarter against the same quarter a year ago. New orders in public housing last month were at their lowest point ever.⁶
- By contrast, private new housing new orders are now at their highest level since Quarter 2 (Apr to June) 2007⁷.
 - Infrastructure new orders have also dropped compared to the recent quarter on quarter basis (-2%) and against the same quarter a year ago (-1.3%)⁷.
 - Private commercial work new orders grew in the latest quarter (16.1%) against the previous but are still down on the levels of one year ago (-3.3%)⁷. This suggests investment continues but is not as positive as last year in the pre-Brexit vote months.
 - Overall there is a mixed message emerging with overall output down and decreasing at an accelerating rate across some sectors, though the story is different with sustained new orders in other. This could suggest a “post Brexit” hiatus in confidence which has, or at least had passed. However, renewed uncertainty following the election could see another further knock to confidence.

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

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4. Construction Output in Great Britain: Apr 2017 and new orders Jan to Mar 2017 released 9th June 2017
 5. May 2017: UK Residential Market Survey; Royal Institute of Chartered Surveyors, accessed 13th June 2017
 6. New orders in the Construction Industry, Table 2, ONS data, 9th June 2017
 7. Construction Output in Great Britain: Apr 2017 and new orders Jan to Mar 2017 released 9th June 2017