

# Tender Price Inflation Report (London)

2nd Quarter 2018

## Tender Price Inflation

- In this update, we continue to forecast 2.0% TPI for 2018, rising to 3% in 2019 and 4% in 2020 and 2021.
- The Equals forecast reflects a central, London based view.

Forecasts	Report Date	2018	2019	2020	2021
<b>Equals (London)</b>	<b>2Q 2018</b>	<b>2%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>
BCIS (UK)	2Q 2018	1%	2.2%	4.3%	5%
Alinea (London)	1Q 2018	0% - 2%	2.5%		
Arcadis (London)	1Q 2018	2%	3%	4%	4%
Gleeds (London)	1Q 2018	2%	3%	5%	5%
G&T (London)	1Q 2018	1%	0.5%	1.5%	2%
Mace (London)	1Q 2018	1%	1.5%	3%	4%
Turner & Townsend (UK)	1Q 2018	1.8%	2.6%	3.3%	3.6%

■ Increased  
■ Same  
■ Dropped / Reduced

## Headlines

- With less than one year to go until “Brexit” day, uncertainty of the outcome in relation to trading terms with our European neighbours and the resultant legislative framework persists.
- Output has continued to decline across the construction industry; falling by 2.7% in the 3 months to March 2018<sup>1</sup>. The biggest decline since August 2012.
- The Bank of England and the Office for National Statistics have both attributed some element of the fall in growth to the prolonged and relatively severe winter experienced in the UK last quarter.

## Economic Overview

- In the first quarter of 2018 gross domestic product by volume increased by 0.1% (January to March 2018) compared with 0.4% in Quarter 4 of 2017<sup>2</sup>.
- Growth in the economy was lower than anticipated and this was attributed to a combination of factors, including the cold weather in February and March, an easing in global growth and continuing uncertainty of Brexit.
- A fall in output in the construction sector contributed significantly to the contraction of UK output. In contrast, production, manufacturing and the services sector all grew in the quarter by 0.7%, 0.3% and 0.2% respectively. By contrast construction output fell by 3.3%<sup>2</sup>. This is shown in Figure 1 overleaf.
- The May 2018 Monetary Policy Committee voted unanimously to hold interest rates at 0.5% despite previous indications that a second rise to 0.75% was highly likely to occur this month.
- Reduced slack in the labour market has seen the previous drag on wage growth easing and annual pay growth rose to 2.8% in the year to February 2018 and is anticipated to stay at this level<sup>3</sup>.
- Inflation across the economy (CPI) fell to 2.5% in March 2018<sup>3</sup>, lower than anticipated, signalling that the inflationary effects of sterling’s depreciation have filtered through the economy more quickly than anticipated.
- Oil prices have continued to rise through the quarter and are expected to put pressure on input prices across the economy.

1. Construction Output in Great Britain: March 2018; ONS, released 10th May 2018

2. Gross domestic product, preliminary estimate: January to March 2018; ONS, released 27th April 2018

3. MPC Inflation Report May 2018; Bank of England; accessed 14th May 2018

## Industry Overview

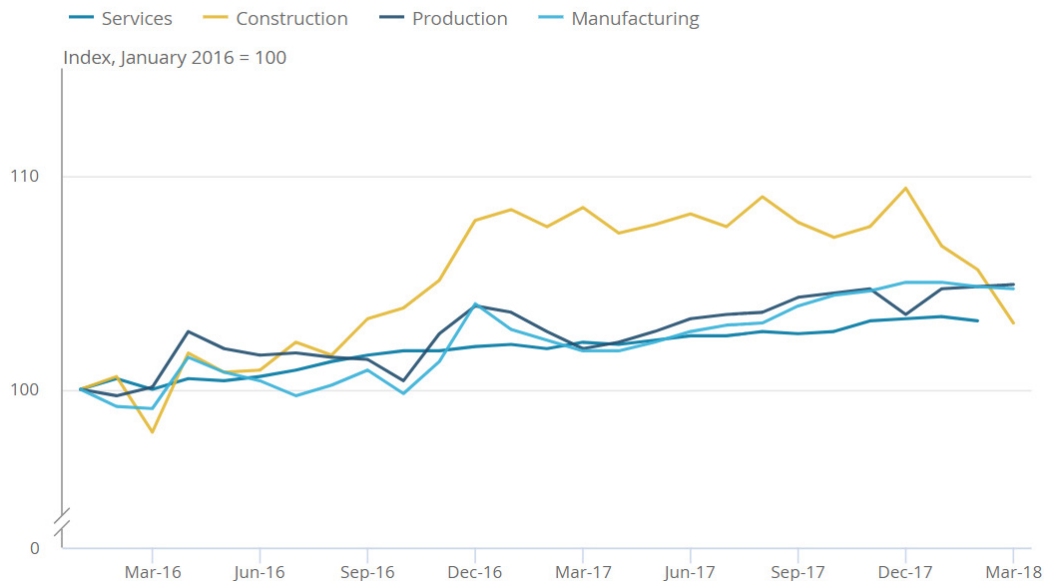
- Construction output fell 2.7% in the three months to March 2018. This is the fifth consecutive quarter on quarter decline<sup>4</sup>.
- All sectors within construction experienced falls in output with the exception of private industrial work. The largest falls were in repair and maintenance sectors<sup>4</sup>.
- Private sector housing output contracted for the first quarter on quarter period since June 2017<sup>4</sup>,

this could in part be linked to the changing sentiment in the residential market.

- Following last quarters report private commercial work continued to fall by 1.9% in the three months to March 2018 and 8.7% since the same month one year ago<sup>4</sup>. This continues to be attributed to uncertainty around Brexit and business investment in uncertain times.
- The effects of the collapse of Carillion continue to be felt across the industry particularly for smaller contractors.

## Summary of short-term economic indicators, month-on-month, chained volume measures, seasonally adjusted

UK, January 2016 to March 2018



However, whilst there has been a profit fall at Skanska<sup>5</sup> the Carillion collapse has not as yet heralded a series of similar fates for other large companies. Whether this occurs in time remains to be seen.

- The Royal Institution of Chartered Surveyors (RICS), in its April 2018 Residential Market Survey, reported a “net balance” of -8% (where a net balance is the proportion of vendors expecting prices to rise deducting those expecting prices to increase). This was the first overall fall since November 2012 but sentiments are localised with the net balance in London being -65%. This fall in demand and consequently prices could now be impacting on the supply of new homes in the capital and elsewhere<sup>6</sup>.
- The view of the RICS was mirrored by that of architects with small firms and those based in London reporting falls in confidence about forthcoming workloads. The RIBA’s Future Trends workload index fell to +6 in March 2018, down from +17 in February 2018 overall and down to -17 in London with small practices confidence falling from +18 to +4<sup>7</sup>.
- The building cost index is estimated to have increased by 3.0% in the year to Q4 2017. This continues to be driven by imported items and commodity pricing (such as copper)<sup>8</sup>.

## Summary

- The construction industry is contracting with a consequential impact on UK output.
- Overall, despite falling output across the sector, some level of tender price inflation is still forecast as a result of increasing input costs (materials and labour) and an ongoing perception of risk regarding the current economic environment and Brexit uncertainty.
- The housing market is softening in some regions of the UK and this is having an impact on output in the private housing sector.
- Firms are adjusting to tighter market conditions with material input prices and wages continuing to rise resulting in tender price inflation despite falling demand.
- The picture appears to be one of a sector which is holding strong to date, but facing a number of significant challenges.

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

**For further information please contact:**  
Simon Birchall: sbirchall@equalsconsulting.com  
www.equalsconsulting.com

4. Construction Output in Great Britain: March 2018; released 10th May 2018.

5. UK woes help send Skanska profit tumbling, Building Magazine, 1st February 2018.

6. April 2018: UK Residential Market Survey; Royal Institution of Chartered Surveyors.

7. Architects’ confidence falls for first time this year, Building Magazine, 14th May 2018.

8. Market forecast: Maintaining margins, Building Magazine, 14th February 2018.