

Tender Price Inflation Report (London)

3rd Quarter 2018

Tender Price Inflation

- The industry average shows confidence for the remainder of 2018 and 2019 with average TPI forecasts increasing from our last report.
- The forecast rate of increase for 2020 and 2021 has slowed when compared

to previous reports, although the forecast still shows an increase in TPI.

- Equals is forecasting a steady increase up to 2021. The ongoing challenge remains the continuing increase in labour and material prices.

Forecasts	Report Date	2018	2019	2020	2021
Equals (London)	3Q 2018	2.0%	2.5%	3.5%	4.0%
BCIS (UK)	3Q 2018	1.0%	2.0%	4.0%	5.0%
Alinea (London & SE)	2Q 2018	1.5%	2.0%	3.8%	3.8%
Arcadis (London)	2Q 2018	2.0%	3.0%	4.0%	4.0%
Faithful & Gould (London)	3Q 2018	2.0%	2.0%	3.0%	4.0%
Gleeds (London)	2Q 2018	2.5%	4.0%	4.0%	4.0%
G&T (London)	2Q 2018	1.0%	0.5%	1.0%	1.5%
Mace (London)	3Q 2018	1.0%	1.5%	2.0%	2.5%
Turner & Townsend (UK)	3Q 2018	2.0%	2.8%	3.5%	4.0%
Average		1.7%	2.3%	3.2%	3.6%

■ Increased
 ■ Same
 ■ Dropped / Reduced

Headlines

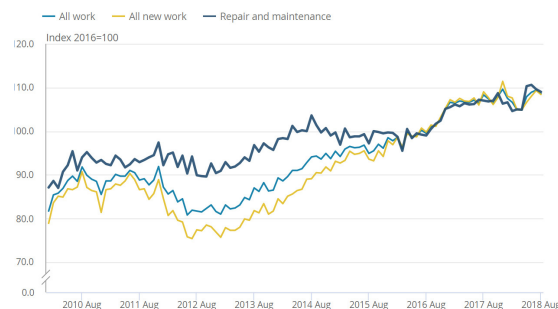
- Construction output reduced for the first quarter of this year but has since seen consecutive months of growth in all new work from May to July. Construction output has decreased between July and August by 0.7% suggesting another softening in the market.
- Tender Price Inflation (TPI) forecasts show a continued increase in the next 3 years, albeit at a reduced rate than was previously forecast.
- Material and labour costs are set to continue increasing. There is evidence that main contractor's margins are reducing, possibly a sign of competitive pressure and a drive to secure future pipeline given the market uncertainties surrounding Brexit.

Construction Output

- Construction output continued to recover following a relatively weak start to the year, increasing by 2.9% in the three months to August 2018.
- The quarter on quarter growth in August 2018 was driven by both Repair and Maintenance and All New Work which increased by 2.8% and 2.9% respectively.

- The most notable contribution to growth in the three months to August 2018 came from Private Housing New Work, which increased by £442 million. Other notable growth in the same quarter came from Non-Housing Repair and Maintenance and Infrastructure, increasing by £262 million and £232 million respectively.
- However, when reviewing the month-on-month change in output declined, there was a decrease by -0.7% between July and August 2018.
- The month-on-month decrease stemmed from a decrease in both All New Work and Repair and Maintenance which decreased -0.8% and -0.6% respectively in comparison with July 2018².

Components of All Work, August 2018



1. ONS, Construction output price indices (OPIs), UK: April to June 2018
 2. Construction output in Great Britain: August 2018

Equals

Sector Growth in August

- The table below sets out the output by volume in £millions for August and provides percentage movements against the previous month and the same month in the previous year.
- While month on month movements appear negative, the year on year percentage changes are mostly

- positive. Notable exceptions are New Housing Public (-4.4%), Public Sector Generally (-15.7%), Private Commercial (-6.4%) and Private Housing Repair and Maintenance (-5.0%).
- The joint largest increase (year on year) is in Private New Housing and Non-housing Repair and Maintenance at 7.4% for both.

	Volume £ million	Most recent month on month %	Most recent year on year %
Total All Work	13,735	-0.7	0.3
Total all New Work	8,960	-0.8	-0.6
Total repair and maintenance	4,774	-0.6	1.9
New Housing			
Public	507	-1.6	-4.4
Private	3,113	-0.8	7.4
Other New Work			
Infrastructure	1,698	0.1	3.4
Excl Infrastructure			
Public	763	-3.7	-15.7
Private Industrial	418	0.4	2.6
Private Commercial	2,461	-0.6	-6.4
Repair and Maintenance			
Public Housing	630	0.2	2.4
Private Housing	1,731	-4.6	-5.0
Non-housing repair and maintenance	2,413	2.3	7.4

Industry Overview

- Workloads continue to rise across all sectors and geographic regions as profit margins are squeezed. The RICS Construction Market Survey results suggest high input costs and increased competition on bidding are putting pressure on main contractor profit margins. The 3Q18 survey was the first in 6 years where contributors expect a decline in margins. Alongside this, nearly 1/3rd of contributors to the survey also expect tender prices to increase in the building sector.
- Infrastructure activity continues to be very strong led by rail, roads and energy.
- New business enquiries and hiring increased despite tightening credit conditions³.

Summary

- Despite obvious uncertainty, TPI forecasts continue to project increasing tender prices in the next three years to 2021.
- The market is projecting a tightening of Main Contractor margins, the first time in 6 years, to some extent this is offsetting the continuing increase in labour and material prices.
- New Private Housing Work was the largest contributing sector to growth in the three months to August 2018 at 2.9%. However, all construction output fell in the month from July to August 2018 by 0.7%.

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

For further information please contact:
 Matthew Barrington
 mbarrington@equalsconsulting.com
 www.equalsconsulting.com