Tender Price Inflation Report (London)

Q3 2024

— Material prices remain stable; insolvency and labour shortages continue to be an underlying threat.
— Stabilisation of wider economic and political factors give reasons for optimism.
— 2024 continues to forecast a retraction of growth; however, recent surges in construction activity are promising.
— Our Tender Price Inflation forecast remains consistent with our Q1 Inflation Report for 2024, with slight increases for 2025 and 2026.

Overview

This quarter has seen material prices continue to stabilise, contributing to reduced inflation forecasts within the industry. The stabilisation of the wider economic and political factors are also providing potential to form a strong foundation for growth. Despite this, there are some key elements that have experienced price rises. This, combined with continued labour shortages, has the potential to generate price volatility should there be an influx of demand.

Therefore the underlying tone for this quarter is a sense of optimism, but with the foundations of the industry in poor health, government intervention relating to labour shortages is likely to be key to ensuring meaningful growth and avoiding high inflation.

Material costs remain relatively stable, yet labour is still of notable concern

A key driver of inflation in recent years has been the volatility associated with material prices. A positive turning point for material prices was noted within our Q1 24 report, largely driven by a lack of demand for housing and the general slowing of wider economic inflation. This position has largely been maintained, with the latest inflation figures for general construction materials being 0.9% less that last year[1]. Structural steel and rebar saw a notable decrease in prices, which contributed to this retraction.

Some key materials are still subject to high levels of inflation; including metal doors and windows (as previously reported in Q1). In addition, there has been a sharp rise in the cost of flexible pipes and fittings. The notable increases in prices associated with the latter element, combined with increases in other MEP related materials, as well as labour shortages has led to MEP sub-contractor prices rising at a quicker rate than other packages[2]. Current figures for other materials are generally stable and are assisting with maintaining low levels of construction inflation. However, with housebuilding expected to recover in terms of output from this quarter and into next year, the ability for the industry to tackle material cost increases will be key in minimising the overall position on inflation.

Labour shortages remain the most volatile and important factor that influence inflation and this has been further provoked by a lack of recruitment throughout the industry. Positive news is that wages are rising, with a fifth consecutive quarter of wage increases reported[3]. Whilst an element of this has resulted from general inflation, it does infer that there is a limited competition within the labour pool. Linked to the point above regarding MEP, skilled MEP operatives saw a notable wage increase of 14.8% compared to the previous quarter[4] highlighting a particular shortage of labour in this sector.

The shortage of labour within the industry is clear with the “missing million” still a requirement to respond to anticipated levels of demand - this essentially means that the industry needs to find a further 937,000 workers within the next decade[5]. Notably, if the new government target of 1.5 million homes is to be achieved, a further 152,000 workers will be required alone[6] . Government intervention in addressing this shortage will be key in minimising construction inflation, as well as ensuring sustainable growth.

1. BCIS, Hayes 2. Construction Enquirer 3 BCIS, Hays 4. BCIS, Hays 5. UK Trade Skills Index 6.Construction Industry Training Board

Wider economic stability gives rise to optimism, but pre-existing factors may offset meaningful growth

With a new government and a recent reduction of interest rates, the end of Q3 24 sees a sense of stability in terms of the wider political and economic factors which may influence the industry. The performance of the new government will be key in improving the current conditions of the industry and restoring confidence, with pledges to reform planning being of particular interest. This has the potential to boost activity significantly in terms of housebuilding. The reduction of interest rates should also, in theory, translate into greater appetite for developers to borrow again.

The above arguably sets out key foundations for growth, especially due to varying levels of economic and political instability over the past few years. This is positive news, however, this must be seen in the context of the current health of the industry, as well as its ability to handle a surge in output.

An immediate concern is the implementation of the Building Safety Act. This initially has not been straightforward with delays on some projects due to the advised gateway durations being exceeded. With further reform anticipated as part of the Grenfell Inquiry, there is likely to be further delays. The government's ability to minimise these delays, and the industry's ability to get up to speed with these requirements, will be key in ensuring sustainable growth from this quarter, and into next year.

As highlighted recently by market turbulence and high-profile insolvencies, there is a general sense of vulnerability associated with contractors in the industry at present. The construction industry has the highest insolvency rate compared to any other industry, and insolvency rates remain higher than this time last year[7]. Typically, when contractors suffer insolvency, this directly impacts the supply-chain due to absent or late payments. A surge in output may mean that contractors are unable to respond to demand due to the nervousness associated with becoming insolvent, or there may simply not be enough suitable contractors available to tackle such an increase in activity.

This has the potential to cause a spike in prices and is likely to deepen volatility within the market.

7. BCIS

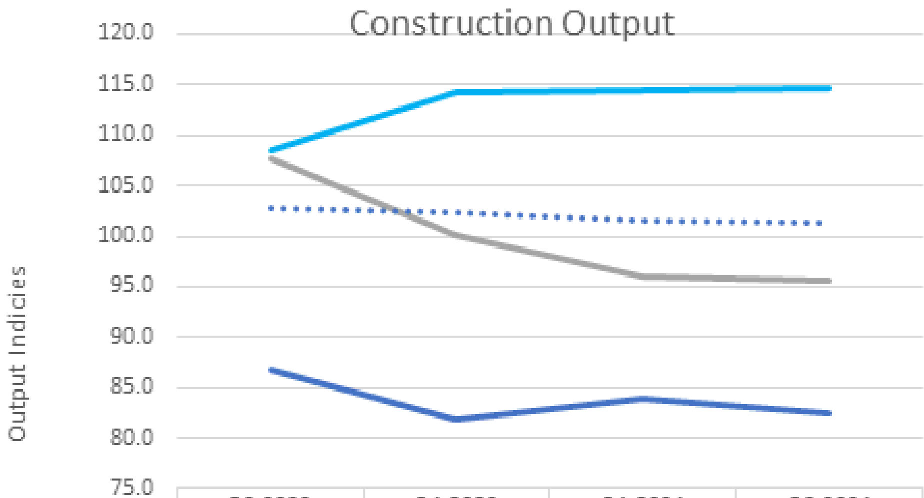
Output

It was previously anticipated that there will be a retraction of -2.1% growth in 2024 – latest figures show that this has now decreased further to -2.9%[8]. A driver for this reduced growth is the struggling new build housing sector - high interest rates reducing demand from buyers and borrowing being less attractive for developers. The easing of interest rates and projected political reforms should translate into growth. As such, output is expected to recover into 2025, with 2% growth anticipated, providing cause for optimism.

Early signs of improved growth can be seen with the start of Q3 24 seeing construction activity increase at it’s fastest rate in the last two years. This surge in activity was generally seen within sectors outside of the housing market, such as commercial and civil projects. However, whilst a recovery is anticipated in the new build housing sector, it should be closely monitored as to whether this recovery comes to fruition.

There is the possibility that developers may hold off further investment and look to sell their current stock of housing rather than build more. If this does occur, output levels may not reach forecasted levels.

As noted on the graph below, construction output has stagnated over the last 12 months, presenting a contraction of growth in the period. Consistent with our previous report, this shortfall in new housing and new infrastructure work continues to be offset with a surge in repair and maintenance work. However, repair and maintenance can be volatile in terms of output and is showing signs of levelling off. This highlights the importance of both infrastructure and new build housing to contribute and ensure positive growth in the next period.



	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Total New Housing	86.7	81.8	83.9	82.4
Infrastructure New Work	107.7	100.2	96.1	95.5
All R&M	108.6	114.3	114.5	114.6
All Work	102.7	102.3	101.6	101.4

8. ONS, Construction Products Association

Equals

Tender price predictions (%)

Taking into account the qualitative and quantitative analysis, below are Equals' TPI predictions over the next three years.

Our predictions are in line with several other Cost Consultancies.

Forecasts	Report Date	2024	2025	2026
Equals (London)	**Q3 2024**	**2.25%**	**3.25%**	**3.50%**
Arcadis (London)	Q3 2024	1.50%	3.50%	5.50%
Atkins Réalis (London)	Q4 2024	2.25%	3.25%	3.75%
BCIS - All in TPI (UK)	Q3 2024	2.10%	3.30%	3.70%
Gardiner & Theobold (London)	Q3 2024	2.25%	2.75%	2.75%
Mace (London)	Q3 2024	2.00%	2.50%	3.00%
Turner & Townsend Real Estate (UK)	Q3 2024	3.00%	3.00%	3.50%
Average		**2.19%**	**3.08%**	**3.67%**

Source: Construction Industry Reports

Summary

Similar to our previous report, labour shortage remains a key concern, with insolvencies also generating nervousness in the industry. Whilst there have been price spikes in some materials, material cost inflation has remained stable. This, combined with the greater wider economic and political stability, as well as a struggling housing sector, has led to the reduction in anticipated TPI for the remainder of this year.

Growth is anticipated into 2025, largely due to reducing interest rates and the anticipated recovery of the housing sector. A new government has also led to an element of optimism in generating growth, with various reforms promised. However, these reforms, together with labour shortage intervention will be key to realising robust levels of industry growth.

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

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