Tender Price Inflation Report (London)

Q1 2024

— Negative growth is anticipated for 2024, largely driven by the dramatic fall in new housing output.
— Labour shortages are still prevalent, and the volume of insolvencies remain a risk.
— The stabilisation of material costs and slowing of wider economic inflation provides reason for cautious optimism.
— Tender Price Inflation forecasts anticipate a reduction of the inflation rate, compared to 2023.

Overview

This quarter has shown a retraction of material cost inflation, yet the current labour shortage and rate of insolvencies remains a concern for the industry. Despite this, many contractors have an appetite to boost order books. This means there is scope for more competitive pricing further into 2024, potentially unlocking better value for clients.

Material costs are improving, but labour is still a concern

Whilst there is still an element of inflation being realised for some materials, such as concrete, roofing materials and metal windows, the cost of materials is generally improving.

BCIS recorded a contraction in prices for January 2024, a continuation of the falling prices realised in 2023. This decline is anticipated to continue until at least Q3 24[1]. Several factors are contributing to this contraction, including the lack of demand for housing, and the general slowing of wider economic inflation. The ability of the industry to source alternative suppliers outside of Ukraine and Russia, coupled with a reduction in energy costs is also having a positive impact.

However, whilst vacancy rates within the industry have fallen since the 20-year peak in 2022, there is still a labour shortage at present, with recent figures showing around 80,000 active vacancies. Many industry professionals anticipate this only worsening into 2024 due to an overall lack of intervention. The labour shortage, combined with wider economic inflation, is leading to wages rising at a greater rate than materials. The overall shortage of labour is therefore likely to affect output for the remainder of the year.

Insolvencies also remain prevalent in the industry. High interest rates have made finance more difficult for contractors to obtain, limiting their ability to tackle financial difficulties. High interest rates have also contributed to a lack of demand in the housing sector. The combination of these factors has made contractors more prone to insolvency, with everyone from small sub-contractors to large main contractors being affected. Recent results show that construction contributed to 18.2% of all insolvencies in England and Wales in December 2023; an increase of 5.1% in the year[2]. This is also the highest insolvency rate compared to any other industry in the UK[3]. Whilst there is hope that interest rates will shortly fall, the issue is likely to remain until the latter end of 2024.

The effect of insolvencies is likely to continue hampering productivity in the industry. Insolvencies are making it more difficult for contractors to obtain insurance, as well as performance bonds, evidenced by the tightening of the bond market, and an increasing desire of main contractors to obtain multiple bonds across their subcontracts. Such factors can lead to delayed starts on-site, disrupt the progress of active projects and result in clients accepting greater risk or cost.

1. BCIS 2. BCIS 3. Creditsafe

Construction output

It is anticipated that there will be a retraction of -2.1% growth in 2024[4]. The new build housing sector is struggling, as shown in the graph to the right, and is a key driving factor in this retraction of growth.

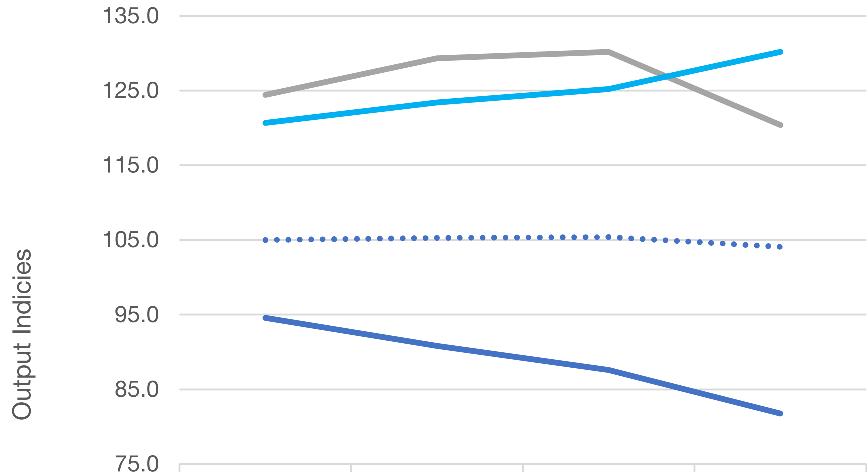
This is largely driven by a lack of consumer confidence, as well as high interest rates making it difficult for buyers to obtain mortgages. As a result, several high-profile developers have re-structured their internal teams in order to navigate the lack of output, resulting in redundancies. This area of the industry is clearly hampering output; however, it is anticipated its recovery will progress into 2024, with the likely relaxation of interest rates..

A further risk to output is the introduction of the Building Safety Act, which may lead to an overhaul of current procurement methods, while potentially extending the duration of projects significantly, reducing the viability of some schemes.

Repair and Maintenance is currently offsetting the shortfall of residential, and looks set to continue into 2024, albeit this sector can be volatile in terms of output. A previous underspend in public sector finance saw an increase in public sector investment meaning non-residential projects have assisted overall output; however, this may be affected as we prepare for the general election, as well as the partial cancellation of HS2.

The continuation of growth in the commercial sector - as many companies navigate the new office lifestyle - will be key in ensuring any level of overall growth in 2024.

Construction output vs tender price inflation
(Historic and forecast)



	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Total new housing	94.6	90.8	87.6	81.8
Infrastructure new work	124.4	129.3	130.2	120.4
All R&M	120.7	123.4	125.2	130.2
All work	105.0	105.3	105.4	104.1

Wider economy

The volatility in the value of sterling remains a risk to the cost of materials, due to high quantities of imported materials. The recent reduction of material costs has largely offset this volatility, however the conflict currently taking place within the Middle East remains a risk. This is beginning to restrict the export of raw materials out of the region, which may have a knock-on effect in driving the cost of imports up. Additionally, the effect of the upcoming general election is likely to influence the industry further.

Wider economic inflation is beginning to ease, and further easement is anticipated into the remainder of 2024. Demand-pull inflation is likely to continue to fall, largely driven by the stagnation in demand for housing, and further reduced output for the private sector of the industry.

Cost-push inflation remains a concern due to the number of insolvencies generating less competition within the supply chain. However, this concern is largely offset by the easing material costs; allowing suppliers to price works more competitively as well as an appetite for suppliers to boost their order books.

4. ONS, Construction Products Association

Tender price predictions (%)

Given the above qualitative and quantitative analysis, below are Equals' TPI predictions over the next three years.

Our predictions fall in line with several other cost consultancies.

Forecasts	Report Date	2024	2025	2026
Equals (London)	**Q1 2024**	**2.25%**	**3.00%**	**3.25%**
Arcadis (London)	Q1 2024	1.50%	3.50%	4.00%
Atkins Réalis (London)	Q4 2023	2.25%	2.75%	3.25%
BCIS - All in TPI (UK)	Q1 2024	2.10%	3.30%	3.50%
Gardiner & Theobold (London)	Q1 2024	2.00%	2.25%	2.50%
Mace (London)	Q1 2024	2.00%	2.50%	3.00%
Turner & Townsend Real Estate (UK)	Q1 2024	3.20%	3.00%	3.50%
Average		**2.19%**	**2.90%**	**3.29%**

Source: Construction Industry Reports

Summary

In summary, we anticipate there will be a continued levelling of TPI into 2024, largely driven by the recent retraction in material costs.

Whilst the labour shortage remains prevalent and insolvencies remain a concern, the cost of materials has retracted, translating to the reduction in anticipated TPI for this year. It is also anticipated that inflation associated with wages is likely to level in 2024, in line with the wider economy. While insolvencies remain widespread across the industry which in turn is reducing competition, there are tentative signs that contractors are willing to boost order books, which may translate to more competitive pricing.

Finally, there is an anticipated contraction of growth for the year, largely driven by the fall in private housing, while other sectors are also showing promise, such as the repair and maintenance sector, and a resurgent commercial office sector.

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

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