

## TENDER PRICE INDICATOR 2<sup>ND</sup> QUARTER 2017

*Whilst timescales for Brexit become clear, details of the new market for 2019 and its impact on construction remain uncertain.*

Our forecast for 2017 indicates an increase in tender pricing as the cost of the weak pound is passed on in headline pricing, but with a reduction in the volume of new orders in the second and third quarters. Moving into 2018, we forecast a slowing of demand as uncertainty stalls new orders and remaining flat in 2019.

Headline rates for 2017 remain unchanged this quarter at 2.50% for UK average and 2% in London. 2018 and 2019 are flat at 1% for London with the UK average rates reducing to 1.5%.



*In this issue  
Spotlight on  
Scotland*

## INPUT COSTS

*2016 ended with input costs at a record high as the weak currency impacted costs of commodities and materials. Six months after the Brexit vote price rises are being realised across the industry as it restocks on new pricing, balancing input costs against margins.*

Most indications recorded 2.2 to 2.5% annual growth in building material cost input and 2.8 to 3.3% growth in mechanical and electrical component inputs.

Fuel oils decreased in the quarter to average US\$51 bbl, a 10% drop which was largely eroded on input by the strength of the US dollar.

Average weekly earnings ended up 2.2% in the year to the end of 2016. Construction industry weekly earning remained buoyant, up 2.5% on the year, with the majority of national wage agreements settling above the rate of head inflation.

Imported cladding and curtain walling saw the highest annual rises of 18 to 20%, as raw materials and commodities pricing passed through, coupled with the continued project demand in 2016.



STRUCTURAL STEEL 4Q 2016

*Level*



REINFORCEMENT 4Q 2016

*2.0% Down ▼*



CONCRETE 4Q 2016

*Level*



OIL PRICES

*US\$51 bbl Down ▼*



CONSTRUCTION INDUSTRY

*Weekly Earnings 2.5% Up ▲*



CONSTRUCTION OUTPUT

*2.4% Up ▲*

## UNEMPLOYMENT

UK unemployment reached a low of 4.7% in the three months to January, the lowest recorded level since summer 1975.

The ONS estimates that some 900,000 people are employed on zero hours contracts, assisting the reduction in headline rates, but also demonstrating their fragility as employers can easily call off employment.

## CONSTRUCTION OUTPUT

Growth in construction output is forecast to slow down in the middle of 2017, declining from last quarter's forecast. The latest Construction Products Association (CPA) forecast indicates overall output of 0.8% in 2017, 0.7% in 2018 with a relative rebound to 2.2% in 2019.

Delayed investment in long term projects is impacting output figures with the commercial and retail sectors hard hit on lack of confidence and clarity.

Growth in 2019 is attributed to large infrastructure, such as HS2 and Hinckley Point C nuclear power plant. House building is seen as remaining buoyant with 2% growth per annum predicted as the Government support for new homes continues.

## MACRO ECONOMICS

*The Consumer Price Index (CPI) measure of inflation leapt to 2.3% in February, up from 1.8% in January, pushing the rate above the Bank of England (BoE) target 2% for normal market growth.*

The alternative Retail Price Index (RPI) measure rose to 3.2% in February. Despite the rises, the pressure for an increase in interest rates remains low, as prospects for sustained growth post Brexit are deteriorating. The BoE expects CPI inflation to peak at 2.8% in 2018.

Headline inflation is now running at the same rate as growth in wages, putting pressure on household spending.

### HARD BREXIT CONSTRUCTION IMPACT

The RICS estimates that UK construction could lose 8% of its workforce if a hard Brexit results in no access to the single market. Similar research in London estimates that currently 1 in 4 construction workers are from the European Union. The loss of European workers would impact the industry which is already faced with a

severe skills shortage and lack of investment in future training. Pure economics would indicate that labour rates would be forced up by the lack of supply, however a reduction in demand is more likely to keep rates down and more than offset the effect of loss of labour. Such is the scale of the potential skills shortage that the ability of the industry to deliver projects may be threatened and likely lead to longer delivery periods.

Investment in training will give greater domestic resilience to a post Brexit market and should continue to be high on the construction industry agenda.

What the 2019 trading landscape looks like is still uncertain, with the prospect of tariffs and taxation a genuine concern, frankly any forecasting post Brexit is pure conjecture.

### NEW FORECAST FOR 2021

With the above comments in mind and in the absence of clear data, we have included our forecast to 2021 as the long term, historical average for a “normal” growth market.



CPI FEBRUARY 2017  
2.3% Up ▲



GDP OUTPUT 4Q 2016  
1.8% Up ▲



ECONOMY  
Weekly Earnings 2.2% Up ▲

## SPOTLIGHT ON SCOTLAND

*Scotland's construction industry generated total output of £14.5 billion in 2016. Scotland, like the rest of the UK, is facing a period of uncertainty from Brexit and the prospect of a second vote on Scottish Independence. However, there are pockets of opportunity within the market with private housing and commercial offices seeing 16% and 6% growth respectively.*

The commercial sector has been boosted by international investment with over two-thirds of total investment in Scottish commercial property coming from overseas however, there remains a shortage of new build Grade A space in Glasgow and Edinburgh. By contrast, Aberdeen retains its over supply of commercial space.

Retail/leisure sector activity is focused on enhancing existing assets. Olympia Mall at East Kilbride Shopping Centre has undergone a £10m transformation and similar projects are planned at Bon Accord St Nicholas in Aberdeen and St Enoch's in Glasgow.

The build-to-rent sector looks likely to increase with Moda Living's 525 home development at the five acre Edinburgh Springfield site in addition to the planned transformation of Strathclyde Police Headquarters in Glasgow into a 400 apartment community. Get Living also has plans for 600 homes in Glasgow's Merchant City district.

New private industrial warehouse activity is low due to the removal of empty rates relief, although there is some activity in the 'big box' market with Lidl looking to build a new regional distribution centre at Eurocentral.

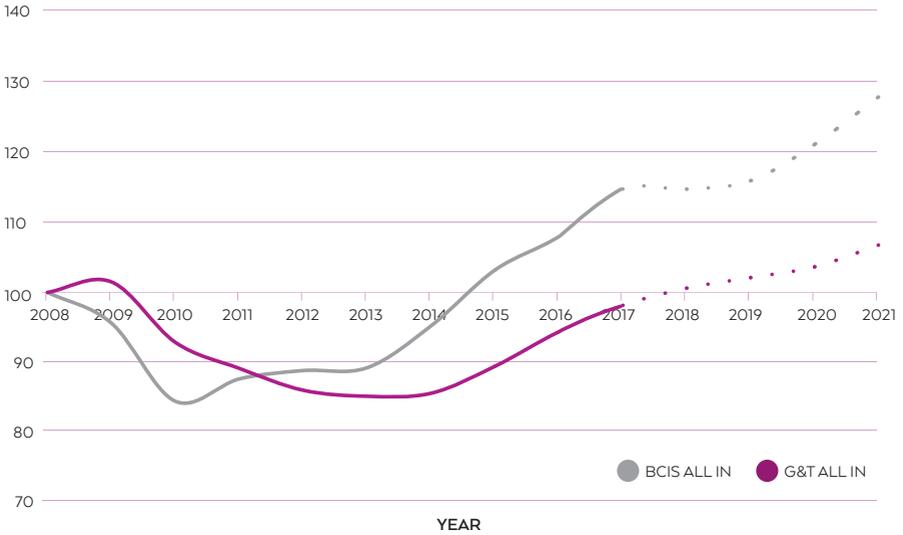
The University of Glasgow has secured planning approval in principle for its £1bn campus masterplan to develop the former Western Infirmary site and adjoining Gilmore Hill campus. An initial financial envelope of around £430m will be spent over the next five years, boosting the sector which remains buoyant along with student accommodation.

Scottish military bases are to be upgraded as part of the MoD's £1.7bn investment programme, with £1.3bn at Faslane Naval Base on the Clyde and £400m at RAF Lossiemouth fast jet base. This public investment will keep momentum going in the infrastructure sector following the completion of projects at Queensferry Crossing and the M8, M73 and M74 road improvements.

# TENDER PRICE TREND

## TENDER PRICE TREND "ALL UK TPI" 2Q 2017

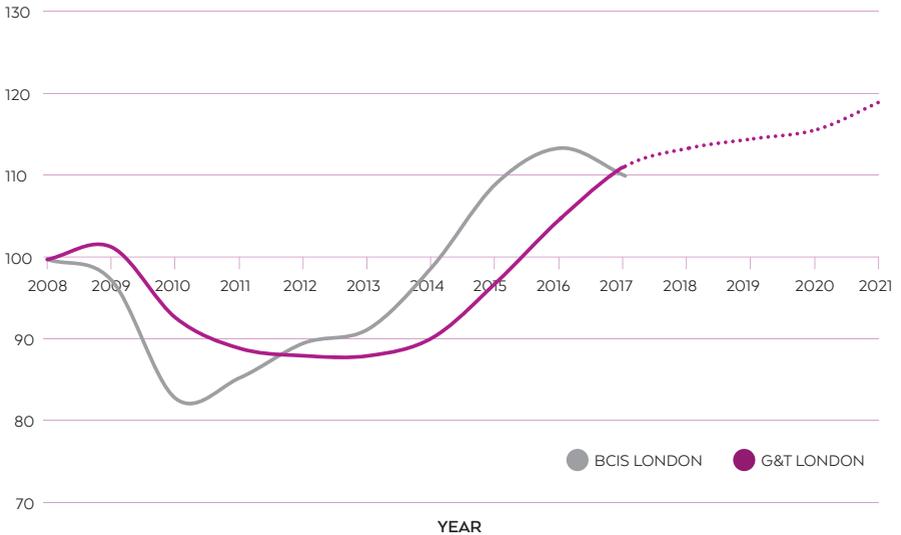
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## TENDER PRICE TREND "LONDON TPI" 2Q 2017

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*Note: BCIS do not publish regional forecasts only records of prices received*



# TENDER PRICE CHANGE

## TENDER PRICE ANNUAL PERCENTAGE CHANGE 2Q 2017

%	2017		2018		2019		2020		2021
	Now	Last	Now	Last	Now	Last	Now	Last	Now
Regional forecasts	Now	Last	Now	Last	Now	Last	Now	Last	Now
Greater London	2.00	2.00	1.00	1.00	1.00	1.00	2.00	3.00	3.00
South East	2.00	2.00	1.00	1.00	1.00	1.00	2.00	3.00	3.00
South West	2.25	2.50	2.00	2.00	2.00	2.00	2.00	2.50	2.50
East Anglia	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.50
Midlands	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.50	2.50
Wales	2.00	2.00	1.50	2.00	1.00	2.00	2.00	2.00	2.00
Yorks & Humber	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.50	2.50
North West	2.50	2.50	2.50	2.00	2.50	2.00	2.00	2.50	2.50
North	1.50	2.00	1.50	2.00	1.50	1.50	2.00	2.00	2.00
Scotland	1.25	1.25	1.25	1.25	1.50	1.50	2.00	3.50	3.00
Northern Ireland	2.50	2.50	2.00	2.50	2.00	2.50	2.00	2.00	2.00
<b>UK Average</b>	<b>2.50</b>	<b>2.50</b>	<b>1.50</b>	<b>2.00</b>	<b>1.50</b>	<b>2.00</b>	<b>2.00</b>	<b>3.00</b>	<b>3.00</b>

Note: 2021 is long term average market forecast

## COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

	G&T UK AVER.	BCIS UK AVER.	G&T LONDON	AECOM LONDON	ARCADIS LONDON
	2Q TO 2Q	MAR 17	2Q TO 2Q	4Q	Mid range 4Q16
<b>% CHANGE</b>					
<b>2017</b>	<b>2.50</b>	<b>5.10</b>	<b>2.00</b>	3.20	-1.00
<b>2018</b>	<b>1.50</b>	<b>0.00</b>	<b>1.00</b>	1.90	0.00
<b>2019</b>	<b>1.50</b>	<b>1.40</b>	<b>1.00</b>	2.80	3.00
<b>2020</b>	<b>2.00</b>	<b>5.50</b>	<b>2.00</b>	4.00	4.00
<b>2021</b>	<b>3.00</b>	<b>6.50</b>	<b>3.00</b>	N/A	N/A

Note: All figures relate to year on year quarterly changes

## FURTHER INFORMATION

Please speak with your Gardiner & Theobald expert, or contact

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**Remember** Our advice is to review each project on its own merits. This forecast publication must be treated as a guide only, being that it is based on averages of various types and sizes of projects across a region, ascertained through our latest market research. The quality, both of design and desired end product, procurement route (particularly ownership and transfer risk), delivery timescales, complexity of design and desire of contractors to tender should be carefully considered in project specific estimates and their outturn cost. Suitable allowances should be made for project specific designs, site conditions and local market conditions, which should be reviewed regularly with your Gardiner & Theobald team to determine the appropriate base cost. Neither the Author nor Gardiner & Theobald LLP owe a duty of care to the reader or accept responsibility for any reliance on the foregoing.