

## TENDER PRICE INDICATOR

### 3<sup>RD</sup> QUARTER 2016

*Our first post Brexit forecast indicates that the current growth cycle is slowing due to economic uncertainty which could impact future demand for construction. Although Brexit has not had a major effect on the UK economy so far, the long term outlook is uncertain at present.*

Forecasts for 2016 and early 2017 show continued price rises as pent up demand is released into a supply constrained market, with 2016 UK average rates of tender prices remaining positive at 4%.

We may see a slowing of new orders into the third and fourth quarters of 2017 if uncertainty works its way through to procurement. Our forecasts for 2017 has dropped to 2½% and to 2% for 2018, year on year UK average.

All regions have been impacted to some degree by Brexit. London tender pricing growth is down to 2% in 2017 and 1% for both 2018 and 2019 however there were already signs of a cooling market in some sectors. The North West is seeing strong growth through a committed pipeline of continued development which is bucking the trend with ½% increases on our previous forecast through to 2018.

*In this issue*  
Spotlight on  
**Greater London**



## INPUT COSTS

*Construction input costs continue to rise with most indicators recording 1½ to 2% average increases in materials costs year on year. Since June the Pound has weakened against the Euro by some 10%, from a high of £1.30/ euro. This translates to a 2 to 3% increase in overall building costs for a typical project, where 60% of materials are imported from the Eurozone. We are seeing this cost being passed on to projects where exchange rates and prices have not been fixed.*

Fuel oils remain at low levels with average US\$45 a barrel recorded over the period. Sterling's weakness to the dollar has also compounded the cost of imported raw materials above the UK headline rate of inflation.

Labour supply remains constrained with construction sector wage agreements and rises above UK average rates of pay.

Uncertainty developing from Brexit is the continued availability of labour from the Eurozone. Official statistics are variable on the actual percentage of construction workers from Europe in the UK industry, particularly London and the South East is dependent upon a large number of non-domicile workers. Should this workforce return to mainland Europe, this will have an upside impact on labour pricing across the industry.

As yet we are not recording any deflation or pay reductions and therefore are still seeing prices increases.



**STRUCTURAL STEEL** 2Q 2016  
1.0% Up ▲



**REINFORCEMENT** 2Q 2016  
3.0% Down ▼



**CONCRETE** 2Q 2016  
1.0% Down ▼



**OIL PRICES**  
\$45 Steady



**CONSTRUCTION INDUSTRY**  
Wage Increase 3.6% Up ▲



**CONSTRUCTION OUTPUT**  
2.1% Down ▼



**CPI AUGUST 2016**  
0.60% Steady



**GDP OUTPUT** 2Q 2016  
2.2% Up ▲



**ECONOMY**  
Wage Increase 2.2% Up ▲

# MACRO ECONOMICS

*The Consumer Price Index (CPI) measure of inflation went up to 0.60% in the year to August, unchanged from July in line with forecasts.*

The alternative Retail Price Index (RPI) measure which includes mortgage payments, dropped to 1.8% in August from 1.9% in July.

Rises in measures were attributed to the higher cost of imported goods. Interest rates were cut to 0.25% an all-time record low on the back of lower growth prospects.

## CONSTRUCTION OUTPUT

Construction output fell by 2.1% in May according to the ONS, reflecting the slow down and uncertainty around the Brexit vote. Output was flat in July as pent up demand held on the referendum result was released, albeit official figures have not been released. Purchasing managers index are forecasting a weakening in confidence moving forward. GDP growth is predicted to fall into the 3rd Quarter 2017 down to 0.5% per annum with construction contributing 15% to the overall GDP figures, output in the sector is forecast to be commensurately down.

Viability and uncertainty in the economy has caused the Construction Products Association to take the un-precedent step of cancelling its current forecast, due to lack of credible data. The next forecast will not be published until February 2017.

## UNEMPLOYMENT

UK unemployment fell to 4.9% between May and July, the lowest level since 2015, with 174,000 new jobs created.

The labour market is showing resilience to the Brexit vote with business as usual across the economy particularly in the private sector.

Employment for 18 to 24 years, the hardest hit in the last recession, was given a boost with a reduction to 11.8% unemployment in the age group, accounting for half the fall of the headline rate in the quarter.

## DEVELOPING FORECAST

The outlook for construction remains uncertain given the external geo-political influences. We have summarised the possible scenarios as:

SHORT TERM (3-6 months prior to invoking Article 50)	NEAR MEDIUM-TERM (First 12 months of official Brexit negotiations)	MEDIUM TERM (Post 12 months of negotiations and beyond)
Demand may slow	Weakened demand	Demand returns
Margins hold	Margins reduced	Margins stabilise
Labour costs remain high	Labour costs reduce	Labour costs stabilise
Materials cost increase due to currency-related inflation	Capacity appears	Capacity in balance



## SPOTLIGHT ON GREATER LONDON

*The effects of the June referendum had an immediate impact upon London commercial and residential values. However the residential market was already showing signs of cooling in 2017 and 2018, with valuations at the top end of the market subdued.*

Aside from the Private Rented Sector (PRS), the residential market new starts have fallen on the prospect of lower values. The driving sector of the last three year boom has now passed its peak.

In retail the structural shift of large format stores to sheds and e-commerce looks to be hastening across the region. However, specialist retailers in prime locations are maintaining demand and international retailers are continuing to set up shop in London.

There has been a slowdown of new orders for construction working through to procurement, so whilst contractors have full order books today, it may be a different picture in 12 months' time.

The leisure and hotel sector is holding steady as visitor numbers hold up with tourists benefitting from the subdued Pound to boost their spending power.

Infrastructure, energy and waste investment remains high with a committed and strong project pipeline to maintain the region's growing populations.

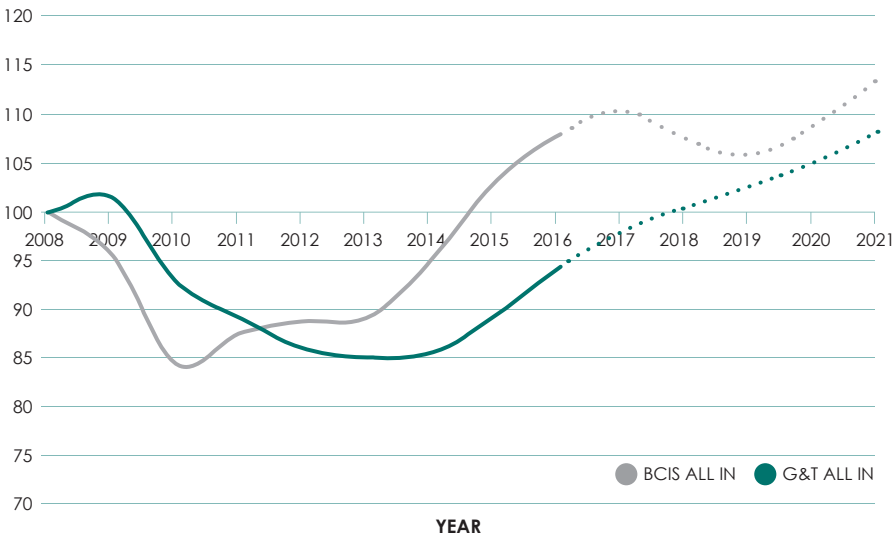
Whilst the political implications of Brexit are not yet clear the rate of growth is slowing and prospects are varied across the region's construction industry. However Greater London's position as a Global City will be retained. Its attraction for foreign investment and reputation as a safe haven location could ultimately benefit from being separate from Europe.



# TENDER PRICE TREND

## TENDER PRICE TREND "ALL UK TPI" 2Q 2016

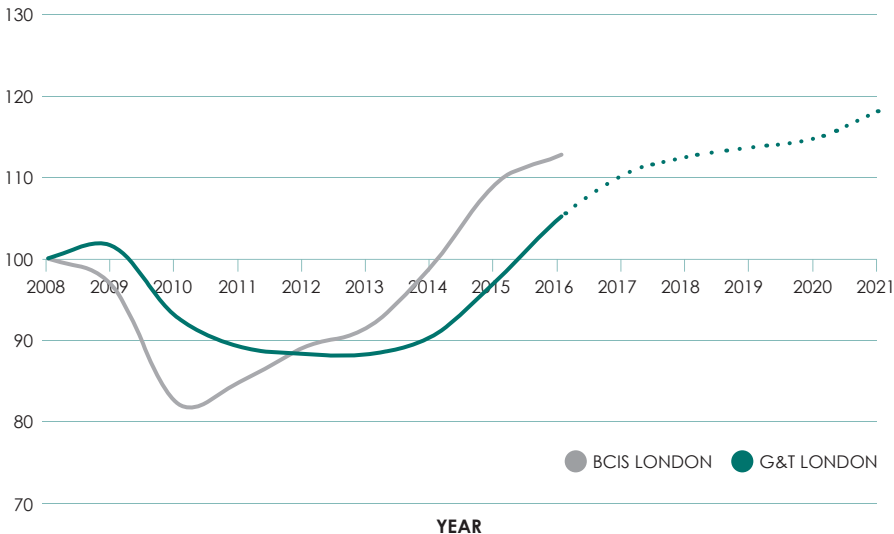
INDEX



## TENDER PRICE TREND "LONDON TPI" 2Q 2016

INDEX

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



# TENDER PRICE CHANGE

## TENDER PRICE ANNUAL PERCENTAGE CHANGE 3Q 2016

%	2016		2017		2018		2019		2020	
Regional forecasts	Now	Last	Now	Last	Now	Last	Now	Last	Now	Last
Greater London	5.00	5.00	2.00	3.50	1.00	3.00	1.00	2.50	3.00	3.50
South East	4.00	4.50	2.00	3.00	2.00	3.00	2.00	2.50	3.00	3.50
South West	2.50	4.00	2.00	4.00	2.00	3.50	3.50	3.50	2.50	3.00
East Anglia	3.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	3.00
Midlands	3.00	2.50	2.50	3.00	2.00	3.00	3.00	3.00	2.50	3.00
Wales	2.50	2.50	2.00	3.00	2.00	2.50	2.00	2.50	2.00	2.50
Yorks & Humber	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.50	3.00
North West	3.50	3.00	3.00	2.50	2.50	2.00	1.50	1.50	2.50	3.00
North	2.50	2.50	2.00	3.00	2.00	3.00	2.00	3.00	2.00	3.00
Scotland	2.00	2.50	2.00	3.00	2.00	3.00	3.00	3.00	3.50	3.50
Northern Ireland	2.00	2.00	2.50	2.50	2.50	2.50	2.50	2.50	2.00	3.00
<b>UK Average</b>	<b>4.00</b>	<b>4.00</b>	<b>2.50</b>	<b>3.50</b>	<b>2.00</b>	<b>3.00</b>	<b>2.50</b>	<b>3.00</b>	<b>3.00</b>	<b>3.50</b>
<b>Eire</b>	<b>5.50</b>	<b>4.00</b>	<b>4.00</b>	<b>3.50</b>	<b>3.50</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>

## COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

	G&T UK AVER.	BCIS UK AVER.	G&T LONDON	AECOM LONDON	ARCADIS LONDON
	3Q TO 3Q	SEP 16	3Q TO 3Q	2Q TO 2Q	Midpoint 4Q16
% CHANGE					
2016	4.00	3.70	5.00	2.50	1.00
2017	2.50	-2.20	2.00	2.40	-2.50
2018	2.00	-2.20	1.00	3.40	-1.00
2019	2.50	1.90	1.00	4.10	N/A
2020	3.00	4.10	3.00	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  
**Gavin Murgatroyd** (Partner, London) or **Owen Weatherley** (Market Analyst)

T: +44 (0)20 7209 3000 | g.murgatroyd@gardiner.com | o.weatherley@gardiner.com

**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.