GARDINER &THEOBALD

TENDER PRICE INDICATOR
4TH QUARTER 2016

As the impact of Brexit remains uncertain, the construction industry has been resilient with continued demand for work outstripping supply.

Forecasts for early 2017 show continued growth and increases in tender pricing, albeit the latter part of 2017 and early 2018 is slowing.

2016 ended on a high with 6% annual average increase in pricing recorded in London and 4% increase across the UK.

Our forecast for 2017 is 2% in London and 2.5% UK average, provided the Brexit plans maintain demand for construction output.

The pass through of the weaker pound is affecting the cost of imported materials upon which the industry is dependant. With uncertainty in Europe this could easily be reversed. 2019 will be the date for actual exit from the European Union after which the whole of the UK's trading landscape will have changed. What this landscape will look like remains unclear.

In this issue
Spotlight on
South West

INPUT COSTS

Construction input costs are recording their highest level for five years, driven largely by materials and commodities but with continued pressure from wage rates. The majority of indicators have recorded 2% to 2.25% annual growth in building cost input and 2.5% to 3.5% growth in mechanical and electrical cost input.

Whilst the Pound has regained some ground on the Euro, the pass through of the collapse after Brexit is now compounding imported goods pricing.

Fuel oils have increased in the quarter to average US$ 55 which, whilst remaining historically low represent a 22% cost increase and in sterling terms has more than doubled since January 2016.

Average increases of weekly earnings in the industry continue to outstrip the rest of the economy, although we are seeing a tightening of wage rates in those employed in enabling and substructure trades. Uncertainty over investment has led to an increase in the employment of temporary workers rather than permanent staff, with freelancers enjoying a boom in workload.

UNEMPLOYMENT

UK unemployment fell to 4.8% in the three months to October, down 162,000 in the year, the lowest level since September 2005.

The number of self-employed, representing a large proportion of the construction industry, increased by 213,000 (15.1% of all people in work).

RISKS TO GROWTH

Worries over investment were at the top of the Bank of England's concerns when interest rates were cut in August. Uncertainty stifles growth as investment is paused, with a similar caution on recruitment which, coupled with the impact of rising inflation due to Sterling's fall, will squeeze real incomes and consumer spending, more than off-setting any beneficial effect on exports.

The downside risks to growth prospects are currently outweighing the upside.

Gross Domestic Product is currently 2.3% per annum following a strong quarter to the end of September at 0.5%, albeit lower than the previous pre-Brexit quarter of 0.7%. Construction contracted 1.4% in the quarter according to initial estimates from the ONS. With a clear Brexit plan still very uncertain, long-term projections are for much weaker growth.

STRUCTURAL STEEL 3Q 2016
1.0% Up ▲

REINFORCEMENT 3Q 2016
Level

CONCRETE 3Q 2016
1.0% Up ▲

OIL PRICES
US$ 55 Up ▲

CONSTRUCTION INDUSTRY
Weekly Earnings 3.2% Up ▲

CONSTRUCTION OUTPUT
0.6% Up ▲

MACRO ECONOMICS

The Consumer Price Index (CPI) measure of inflation rose to 1.2% in November, up from 0.9% in October, the highest rate since October 2014.

The alternative Retail Price Index (RPI) measure which includes mortgage payments; rose from 2% in October to 2.2% in November. The Bank of England expects inflation to continue to rise during 2017 and remain above the 2% target until 2020, leading many commentators to predict interest rate rises by the end of the year.

Increases in the cost of fuel, food, clothing and imported goods were behind the higher than expected rise.

CONSTRUCTION OUTPUT

Forecasts for output are broadly flat in 2017 declining into 2018. The latest Construction Products Association (CPA) Forecast reflects the lag in new orders following a pause of investment activity around the Brexit mechanism. Commercial offices are set to decline 3% in 2017 and 10% in 2018. The industrial sector is forecast to decline 2% in 2017 with retail warehousing holding up demand.

Infrastructure is the driving sector with confirmed investment stimulating increases in output of 6.2% in 2017 and 16.2% in 2018. Public sector investment in education is also forecast to generate 5.8% increase in output in 2018.

Residential has seen some growth in the last quarter of 2016 but is forecast to fall 2% in 2018 after a flat 2017.

OUR METHODOLOGY

Every quarter we undertake an extensive survey of our workload and live market tenders received to establish any movement in tender pricing. Our research department correlates this with our in-house indices which, when overlaid on Macro Economics and Output projections, allows us to establish trends and forecasts.

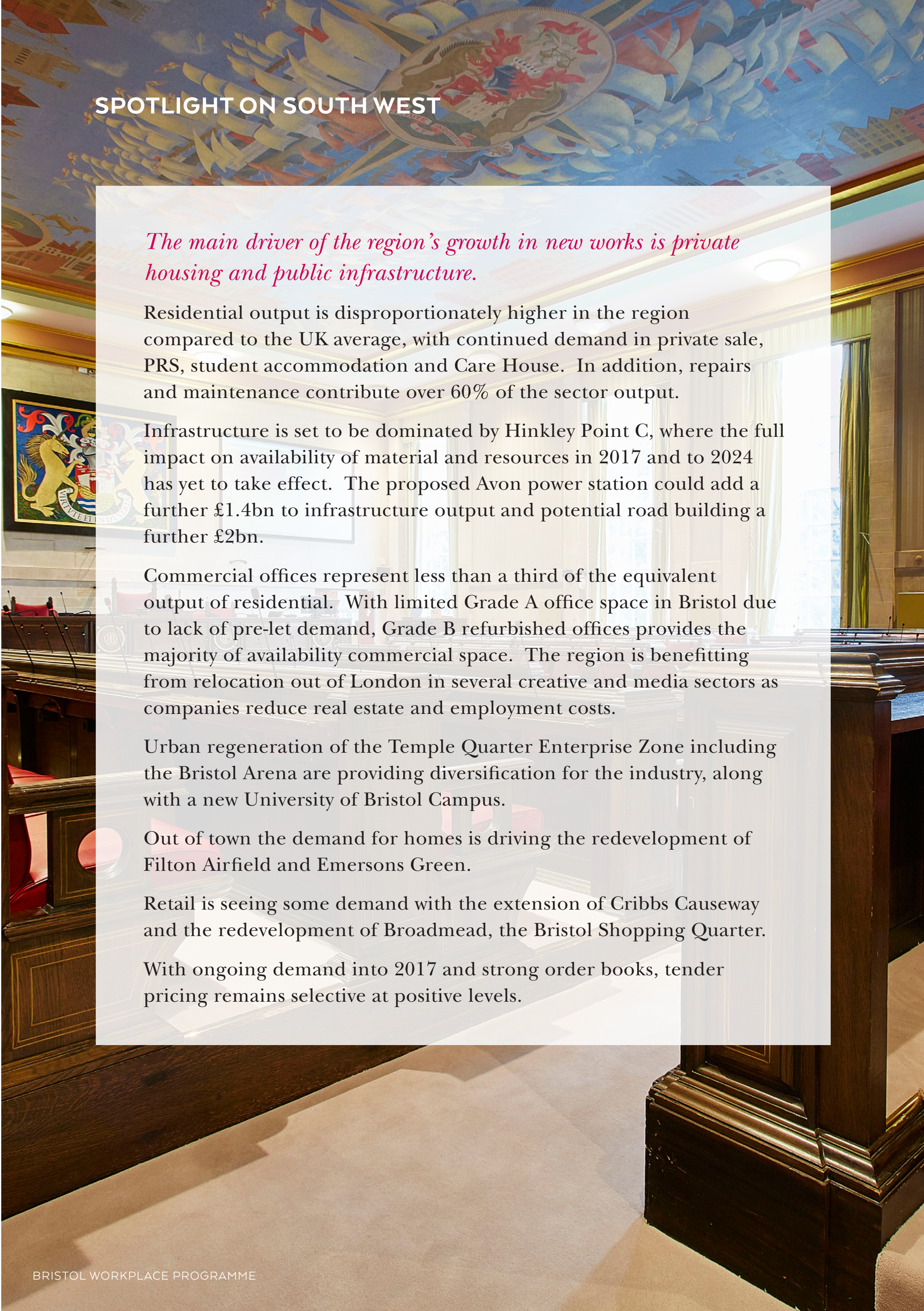
This is further corroborated by our external Contractor Market Survey, where we gain insight of specific issues affecting specialist trades pricing and procurement through selective questioning of contractors.

Gardiner & Theobald is fortunate to work across a wide range of projects in various sectors of the UK Construction Industry providing us with a unique range of raw data upon which our research team can base their forecasts.

CPI NOVEMBER 2016
1.2% Up ▲

GDP OUTPUT 3Q 2016
2.3% Up ▲

ECONOMY
Weekly Earnings 2.6% Up ▲



SPOTLIGHT ON SOUTH WEST

The main driver of the region's growth in new works is private housing and public infrastructure.

Residential output is disproportionately higher in the region compared to the UK average, with continued demand in private sale, PRS, student accommodation and Care House. In addition, repairs and maintenance contribute over 60% of the sector output.

Infrastructure is set to be dominated by Hinkley Point C, where the full impact on availability of material and resources in 2017 and to 2024 has yet to take effect. The proposed Avon power station could add a further £1.4bn to infrastructure output and potential road building a further £2bn.

Commercial offices represent less than a third of the equivalent output of residential. With limited Grade A office space in Bristol due to lack of pre-let demand, Grade B refurbished offices provides the majority of availability commercial space. The region is benefitting from relocation out of London in several creative and media sectors as companies reduce real estate and employment costs.

Urban regeneration of the Temple Quarter Enterprise Zone including the Bristol Arena are providing diversification for the industry, along with a new University of Bristol Campus.

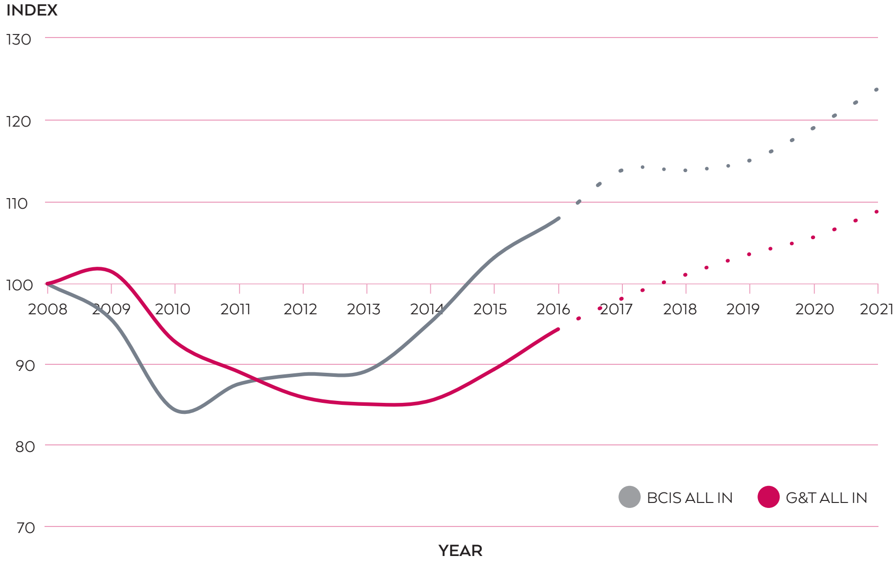
Out of town the demand for homes is driving the redevelopment of Filton Airfield and Emersons Green.

Retail is seeing some demand with the extension of Cribbs Causeway and the redevelopment of Broadmead, the Bristol Shopping Quarter.

With ongoing demand into 2017 and strong order books, tender pricing remains selective at positive levels.

TENDER PRICE TREND

TENDER PRICE TREND **"ALL UK TPI"** 4Q 2016



TENDER PRICE TREND **"LONDON TPI"** 4Q 2016

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

TENDER PRICE CHANGE

TENDER PRICE ANNUAL PERCENTAGE CHANGE 4Q 2016

%	2016		2017		2018		2019		2020	
Regional forecasts	Now	Last	Now	Last	Now	Last	Now	Last	Now	Last
Greater London	6.00	5.00	2.00	2.00	1.00	1.00	1.00	1.00	3.00	3.00
South East	5.00	4.00	2.00	2.00	1.00	2.00	1.00	2.00	3.00	3.00
South West	2.50	2.50	2.50	2.00	2.00	2.00	2.00	3.50	2.50	2.50
East Anglia	3.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.50
Midlands	3.00	3.00	2.50	2.50	2.00	2.00	2.00	3.00	2.50	2.50
Wales	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Yorks & Humber	3.00	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.50	2.50
North West	3.50	3.50	2.50	3.00	2.00	2.50	2.00	1.50	2.50	2.50
North	2.50	2.50	2.00	2.00	2.00	2.00	1.50	2.00	2.00	2.00
Scotland	2.00	2.00	1.25	2.00	1.25	2.00	1.50	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	2.00
UK Average	**4.00**	**4.00**	**2.50**	**2.50**	**2.50**	**2.00**	**2.00**	**2.50**	**3.00**	**3.00**

Note: 2020 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
	4Q TO 4Q	DEC 16	4Q TO 4Q	3Q TO 3Q	Mid range 3Q16
	% CHANGE				
2016	**4.00**	**5.50**	**6.00**	2.20	1.00
2017	**2.50**	**0.00**	**2.00**	2.30	-2.50
2018	**2.00**	**1.00**	**1.00**	3.10	-1.00
2019	**2.00**	**3.50**	**1.00**	4.20	N/A
2020	**3.00**	**4.00**	**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
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