

## TENDER PRICE INDICATOR 3<sup>RD</sup> QUARTER 2017

*The pause in demand for new orders is starting to bite as uncertainty over UK economic growth remains.*

Our forecast for 2018 is for a slowing in construction opportunities with the rate of price growth reducing due to market constraint and single stage tender action making a resurgence.

Headline rates of tender price inflation for 2018 are down to 1% for the UK average and a median of 0% for London, with more prospect of downside than upside pricing.

2019 headlines remain unchanged at 1.5% UK average and 1% London median, whilst forecasts for 2020 and 2021 have reduced by 0.5%.



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## INPUT COSTS

*Material input costs are continuing to record increases with most indicators of building components reflecting 2.3% to 3% growth per annum.*

*Mechanical and electrical components are outstripping building components with 2.5 to 3.8% growth per annum, driven by higher raw material pricing, particularly copper and aluminium which recorded 15% and 21% annual rises respectively.*

Fuel oils decreased further in the quarter to average US\$48, due to over-supply fears, which is slowly being fed through to pump prices reducing headline inflation.

Labour rate increases in construction remain ahead of UK average pay rises with Mechanical & Electrical trades driving increases of 3 to 5% against general building labour of 2.2%. Supply remains constrained in specialist trades, compounded by the shortage of new recruits into the industry and the potential for European workers to leave post Brexit. Labour rates are likely to remain volatile for the near term.

## UNEMPLOYMENT

UK unemployment fell to 1.49 million in the three months to May 2017, a new low of 4.5% - the lowest since 1975.

The unemployment rate for 16 to 24 year olds was 12.5%, down from 13.5% a year ago and well below the last peak of 22.5% in 2011.

## CONSTRUCTION OUTPUT

The latest Construction Products Association forecast for output increased in 2017 to 1.3%, up from 0.8% in its February outlook and to 1.2% in 2018, up from 0.7%.

On a micro level commercial offices output is declining 1% this year and 12% in 2018, reflecting the latest G&T commercial work load survey.

Industrial warehousing is forecast to fall 5% in 2017 and 4% in 2018, whereas private housing is relatively buoyant at 3% in 2017 and 2% in 2018.

The main driver increasing the industry output remains infrastructure primarily with government-backed investment programmes.



STRUCTURAL STEEL 1Q 2017  
2% Up ▲



REINFORCEMENT 1Q 2017  
1% Down ▼



CONCRETE 1Q 2017  
3% Down ▼



OIL PRICES  
US\$48 bbl Down ▼



CONSTRUCTION INDUSTRY  
Weekly Earnings 2.2% Up ▲



CONSTRUCTION OUTPUT  
1.3% Up ▲

## MACRO ECONOMICS

*The Consumer Price Index (CPI) measure of inflation continued to rise in the quarter reaching 2.9% in May, before dropping to 2.6% in June.*

The Retail Price Index (RPI) alternative measure edged lower in June to 3.5%, from 3.7% the month before.

Interest rates remain at historical lows of 0.25%.

The growth in weekly earnings remains below the headline rates of inflation, squeezing consumer spending with no real demand growth as price rises outstrip the rate of pay. This is forecast to continue as the weaker pound compounds import costs. Weekly earnings, whilst up on 12 months, slowed from 2.1% to 1.8% in the three months to May. GDP output growth was 0.2% in Q1 with most commentators expecting 0.3% in Q2, leading to annualised growth of 2.1% which is still an increase in output. However, historically when consumer spending slows, the economy slows.

### 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 its forecasts.



CPI JUNE 2017  
2.6% Down ▼



GDP OUTPUT  
2.1% Up ▲



ECONOMY  
Weekly Earnings 1.8% Up ▲



# CENTRAL LONDON COMMERCIAL WORKLOAD

*Over the next three years G&T will be acting on in excess of 17.5million sq ft of private commercial and residential developments within Central London with a potential value of £3.25 billion.*

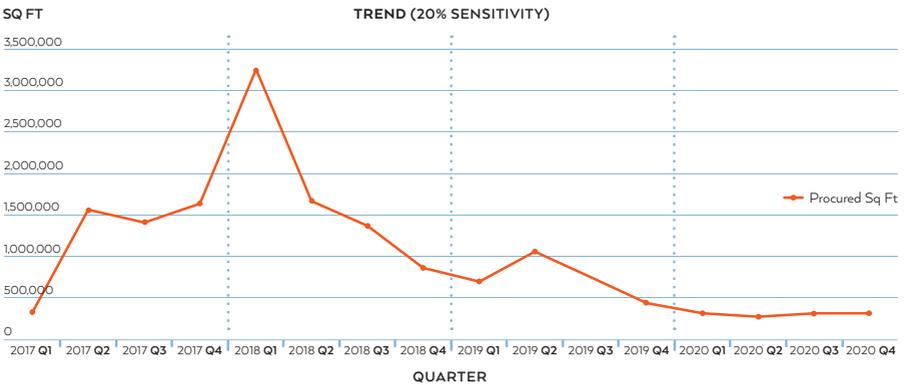
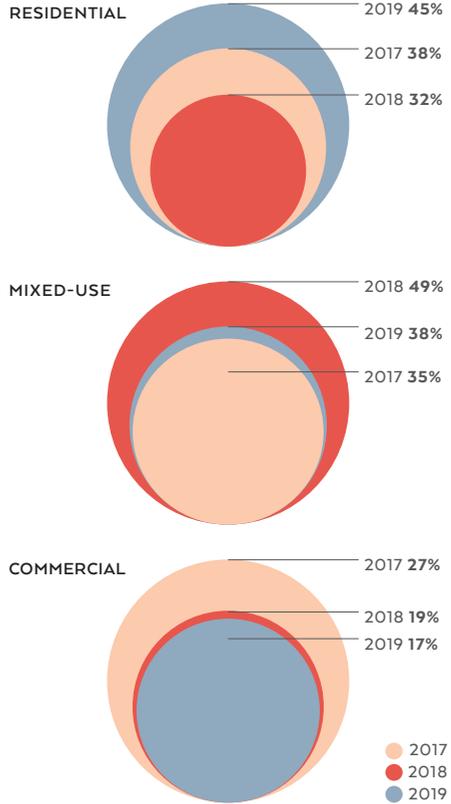
Data captured from a survey of G&T partners acting on major commercial schemes over 50,000 sq ft in London revealed some insight into the potential uncertainty ahead for construction demand.

G&T partners provided development values, size and outline programme of tender and site delivery activity for 2017-2019.

During 2017 G&T is tendering 6 million sq ft of work peaking in 4Q17 and 1Q18. Whilst 2018 will see an increase in volume to 8 million sq ft, beyond the peak of 1Q18 tendering opportunities reduce into 2019.

Whilst the impact of Brexit on construction demand is still unclear, we anticipate the volume of work coming to market will reduce and could lead to further price reduction in 2018/2019.

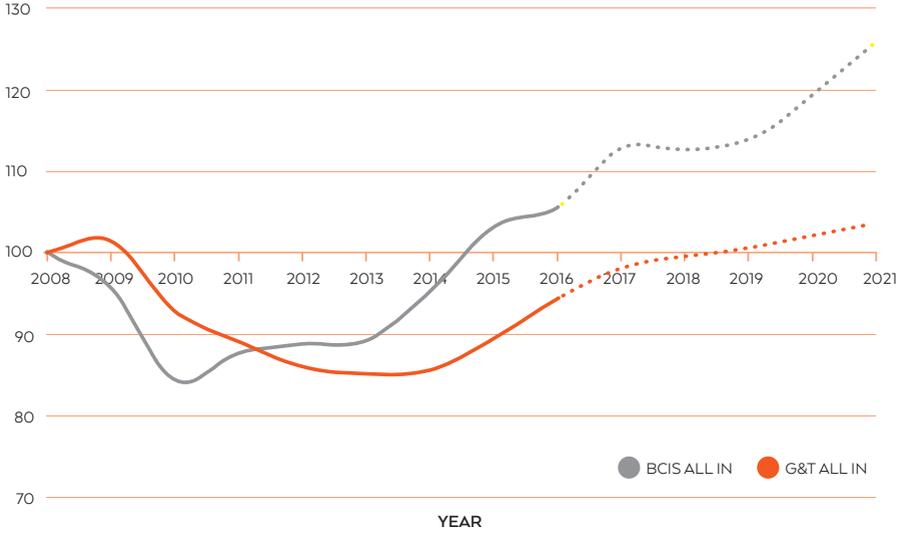
TYPE OF PROJECTS BEING TENDERED



# TENDER PRICE TREND

TENDER PRICE TREND "ALL UK TPI" 3Q 2017

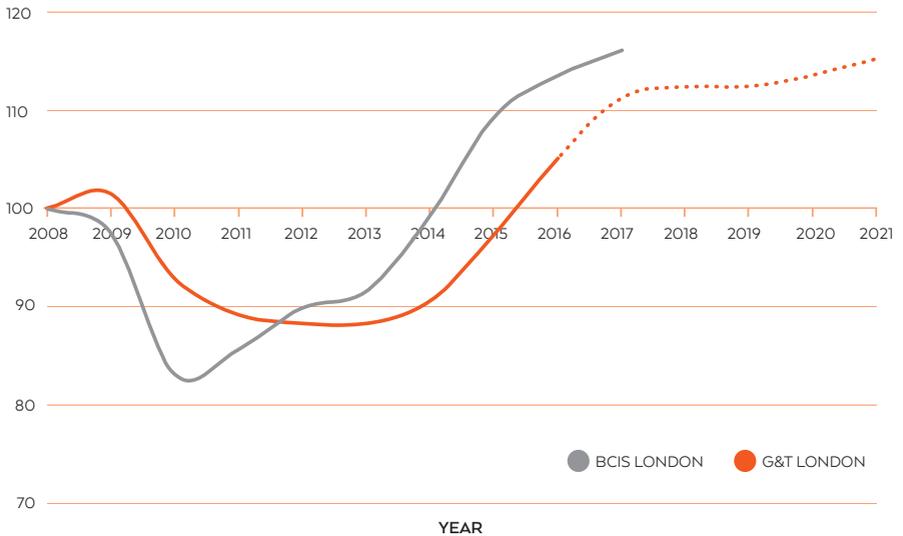
INDEX



TENDER PRICE TREND "LONDON TPI" 3Q 2017

INDEX

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



# TENDER PRICE CHANGE

## TENDER PRICE ANNUAL PERCENTAGE CHANGE 3Q 2017

| %                  | 2017        |             | 2018        |             | 2019        |             | 2020        |             | 2021        |             |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                    | Now         | Last        |
| Regional forecasts | Now         | Last        |
| Greater London     | 1.00        | 2.00        | 0.00        | 1.00        | 1.00        | 1.00        | 1.50        | 2.00        | 2.50        | 3.00        |
| South East         | 1.00        | 2.00        | 0.00        | 1.00        | 1.00        | 1.00        | 1.50        | 2.00        | 2.50        | 3.00        |
| South West         | 2.00        | 2.25        | 1.50        | 2.00        | 2.00        | 2.00        | 1.50        | 2.00        | 2.50        | 2.50        |
| East Anglia        | 1.50        | 2.00        | 1.50        | 2.00        | 1.50        | 2.00        | 1.50        | 2.00        | 2.50        | 2.50        |
| Midlands           | 2.00        | 2.50        | 1.50        | 2.00        | 2.00        | 2.00        | 1.50        | 2.00        | 2.50        | 2.50        |
| Wales              | 1.50        | 2.00        | 1.00        | 1.50        | 1.00        | 1.00        | 1.50        | 2.00        | 2.00        | 2.00        |
| Yorks & Humber     | 2.00        | 2.50        | 1.50        | 2.00        | 1.50        | 2.00        | 2.00        | 2.00        | 2.50        | 2.50        |
| North West         | 2.00        | 2.50        | 2.00        | 2.50        | 2.50        | 2.50        | 1.50        | 2.00        | 2.50        | 2.50        |
| North              | 1.50        | 1.50        | 1.50        | 1.50        | 1.00        | 1.50        | 2.00        | 2.00        | 2.00        | 2.00        |
| Scotland           | 1.25        | 1.25        | 1.25        | 1.25        | 1.75        | 1.50        | 1.75        | 2.00        | 3.00        | 3.00        |
| Northern Ireland   | 2.00        | 2.50        | 2.00        | 2.00        | 2.50        | 2.00        | 2.00        | 2.00        | 2.00        | 2.00        |
| <b>UK Average</b>  | <b>1.50</b> | <b>2.50</b> | <b>1.00</b> | <b>1.50</b> | <b>1.50</b> | <b>1.50</b> | <b>1.50</b> | <b>2.00</b> | <b>2.50</b> | <b>3.00</b> |

Note: 2021 is long term average market forecast

## FURTHER INFORMATION

For further information please speak with your Gardiner & Theobald expert, or contact **Gavin Murgatroyd** (Partner, London) or **Owen Weatherley** (Market Analyst)

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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.

