

Market Update
February
2020

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G&T's Market Update for February 2020 provides an overview of the London construction market. Although the full economic implications of the coronavirus (COVID-19) pandemic and its impacts on the construction industry are largely unknown, the report highlights changes to key macro-economic indicators over the reporting period, as well as significant construction-specific metrics such as the UK Purchasing Managers' Index, construction output, London commercial and residential new orders, key material costs, trade package inflation and tender price trends and forecasts.

In this update we:

- Analyse G&T's latest TPI survey data in order to gain an insight into market and supply chain conditions over the next six months in London
- Include an M&E dashboard summarising some of the market feedback received in G&T's latest M&E contractor survey

CREATING OCCUPIER VALUE



Office tenants are looking for the most appropriate premises in the right location to attract and retain talent to their business. Their premises must provide flexible and affordable accommodation which allows them to efficiently provide their services while reflecting their brand values.

Headline costs and lease terms will naturally drive the cost of occupation in their chosen workplace. But the cost of the fit-out can also be a differentiator when attracting tenants. Poorly executed base build can impact fit-out costs for occupiers and be detrimental to the comparative value of the premises.

Taking occupier needs into consideration during the base build should not be seen as an increase in cost of the development, but a value-add for occupiers from day one. An occupied office has far greater value than a vacant one. Facilitating the occupier fit-out can go some way to improve efficiency and helping to attract the best occupiers to an office development adding value to the asset.

Office buildings tend to be designed from the outside inwards. At the beginning of a project a missing study will determine the volume of space and maximum floor area to generate value for viability. Design work then tends to concentrate on the external envelope and the impact on locality to achieve the first hurdle of planning permission. But there are many detailed constraints and competing factors to be unified to ensure a complete design, such as grid lines competing with structural zones which then determine space for services installation, and such has a knock on effect throughout the building design.

Developers and contractors are looking to design and construct as efficiently and economically as possible and in the process can often inadvertently compromise the premises for its ultimate occupier thereby impacting its value. Typical examples are cladding brackets connecting to floor plates can foul floor voids.

This prepares the raised floor to form a bridge from pedestals with overlaid or special tiles where the elevation has complex articulation, which all adds to fit-out costs. Designing Cat A for one typical floor will be typical and air occupier may find that structural elements clash with air conditioning or types that can't be accessed further adding to the cost of the fit-out.

Occupiers often want to provide cellular accommodation and partition up to the cladding walls. If the base build system does not provide for connectivity or interlocking, the occupier is faced with installation issues to solve acoustics, fire and aesthetics in the fit-out.

This is an extract from a longer article. Visit marketintel.gandg.com and read in full.

INTRODUCTION

Since our last TPI report some of the lingering, and in some cases paralyzing, levels of uncertainty have subsequently been dealt with. The prospects of a change of government, a second referendum and the possibility that Brexit might be cancelled altogether have all receded, however a few big questions remain unanswered as we enter the second phase of Brexit. The UK faces another potential cliff edge if it is unable to secure the ambitious free trade agreement that it desires with the EU during the 11-month transition period (ending on 31 December 2020).

Amidst this backdrop construction output continues to be resilient, with the 'all work' category maintaining its gradual upward trend since January 2019. Although some sectors (big private new housing) have struggled in this year, the latestONS data shows that new work out in the three months to November was up by 1.7% (to £46.1m) compared to the previous three-month period. With a degree of confidence returning to the market since the General Election (GE) result in December 2019, many now await to see evidence of the Government's long-term strategy with regards to housing, infrastructure and planning before moving projects forward.

According to the Purchasing Managers Index (PMI), the decline in construction activity deepened in December 2019 as a result of Brexit uncertainty and spending delays. However it wouldn't be surprising if sentiment improved in the coming months after the Conservative (C) seat majority won at the GE. December's PMI reading showed output falling in all three major categories of work but civil engineering was the biggest victim, with activity in the sector experiencing its sharpest drop since March 2009.

UK construction new orders saw a marginal increase in Q3 2019 from the previous quarter but remains at a near year-on-year low. The result may help to get some of the previously stalled projects moving again, helping to buoy up new orders in the coming months, but it's the upcoming Budget scheduled for 11th March 2020 that could have the most significant effect on construction investment and ultimately new orders as David Davis sets out the details of his promised 'infrastructure revolution'.

TENDER PRICE FORECAST

Apart from a few regional adjustments, our latest tender price inflation forecasts differ very little from those in our last report. As short post-GE noise in confidence is unlikely to be enough to fully open the floodgates for new orders, we do anticipate that at least until the Budget in March, demand and activity in the sector will remain relatively flat. We price linked to a small number of key trades where input costs aren't likely to shift significantly until the Budget spending plans are confirmed and details of a trade deal with the EU begin to emerge.

Competition between contractors bidding for projects intensified in 2019 as the volume of new schemes failed to replace the number of completed ones. A greater number of contractors bidding on fewer projects will likely keep tender price inflation suppressed in the early part of 2020. G&T has found that tendering on small and medium-sized projects in particular are experiencing high levels of competition with larger contractors now stepping down to compete for such projects to fill order books and secure their pipeline towards the end of 2020.

Our weighted UK average TPI forecast shows 1% growth for 2020, rising to 1.5% in 2021, 2022 and 2023. Although confidence and demand are likely to grow in 2020, it will take some time before this translates into new order growth. If the trends from recent months of slowing material price inflation, a strengthening Pound and reduced hiring activity continue, this will act as a drag on input cost inflation this year. Clearly over fiscal policy was the biggest victim, with activity in the sector experiencing its sharpest drop since March 2009. It can do so as two of the biggest remaining hurdles. Positive outcomes in these two areas could produce more than just a spike in demand and could bolster long-term confidence to invest and more projects forward. In this scenario, competition in the sector could loosen and put upward pressure on tender prices from mid-to-late 2020.

The only region adjusted in 2020 is the North West. Annual inflation has been upwardly revised for the next three years as the Manchester city region in particular remains very active with projected increases in activity across several sectors, including commercial offices, higher education, high rise residential and industrial.

TPI growth for Scotland has also been upwardly revised for 2021 from 2% to 2.5%. The localised market in Edinburgh is experiencing a temporary hot spot due to the number of new starts and pipeline projects which is creating a spike in tender prices linked to a small number of key trades where there are resource challenges in Scotland.

INPUT COSTS YEAR ON YEAR (NOV 2018 – NOV 2019)

IRON COMPONENTS	FABRICATED STRUCTURAL STEEL	CONCRETE REINFORCEMENT BARS (20A)	READY MIXED CONCRETE	MANUFACTURING OUTPUT	MANISHM	CONSTRUCTION INDUSTRY (All work excluding G&T)	G&T INDEX (BREXIT GAUCES)
↓ 0.2%	↓ 1.2%	↓ 2.6%	↓ 0.7%	↓ 1.7%	↓ 1.0%	↓ 1.5%	↓ 0.5%

MACRO ECONOMICS

UK GDP ANNUAL GROWTH RATE (Q3 2019 Q3 2018)	CPI DECEMBER 2019 (12 month incl)	UK UNEMPLOYMENT RATE (Aug 2019)	UK BASE INTEREST RATE
↓ 1.9%	↓ 1.9%	↓ 3.9%	↓ 0.75%

MACRO ECONOMICS

Q4 2019 GDP data is likely to show that the economy limped through the final quarter of the year after GDP growth in Q3 2019 was upwardly revised from 0.3% to 0.4%. The Bank of England (BoE) is forecasting just 0.1% growth in Q4, anticipating that stalled spending, postponed investment plans and political uncertainty will lead to economic stagnation.

UK GDP grew by 0.1% in the three months to November 2019 as the weakening services and falling production sectors resulted in subdued growth. Somewhat surprisingly the construction sector made a positive contribution to GDP growth, growing by 1.1% in the period. This is now the third consecutive rolling three-month period that the sector has grown, with the latest period showing new work output growth of 1.6% and repair and maintenance growth of 0.3%.

Conversely, December's PMI survey showed a further contribution in activity. In fact, only twice in 2019 (January and April) did the PMI reading manage to show an expansion in activity, but the most recent survey revealed that business confidence rebounded to a nine-month high as a result of the greater clarity provided on Brexit. Respondents noted that this had the potential to boost clients' willingness to spend and increase order books by 3.2% in the three months to December 2019. Its lowest annual growth rate since December 2016 and underpinning the BoE's inflation target of 2%. Declines in the inflationary measure came amid the backdrop of a stalling economy and a tough Christmas trading period. Average weekly earnings (total pay) rose at an annual pace of 3.2% in the three months to

October 2019 – down from an annual growth rate of 4% that was recorded in the three months to July 2019. Over the period construction saw the highest estimated growth in total pay (5%), exceeding growth in the finance and business services sector (4.3%). This corresponds with our TPI survey responses, several of which noted that construction labour costs continue to rise amid the ongoing skills shortage. Although the UK unemployment rate remains at its lowest level since January 1975, vacancies have fallen for 10 months in a row and pay growth rates slowed as businesses erred on the side of caution in their recruitment plans.

CONSTRUCTION OUTPUT

Construction output in the 11 months to November 2019 was up by 2.2% compared to the same period in 2018. New work activity has been particularly strong, growing by 3.1% over the same period.

Output also increased by 1.1% in the three months to November 2019 compared with the previous three-month period. For new work output, all sectors other than private new housing (which saw a fall in output of 0.4%) grew in the three-month period. New public housing and private industrial work grew by 4.3% and 5.2% respectively whilst new infrastructure work grew 3% on the previous three months. Public new work output growth languished once again as investment in public sector buildings was dialled back prior to the GE. Unsurprisingly, households were seemingly reluctant to spend over the three-month period as private housing repair and maintenance was the worst performing sub-sector with output falling by 1.5% compared to the previous three-month period.

Whilst construction industry output figures paint a picture of resilience it remains to be seen whether this growth trend can be sustained. Poor new order data (which is tantamount to construction demand) could suppress workloads and output growth in the coming months. New orders actually fell by 1.5% in 2018 compared to the previous year from £54.8bn to £44.5bn. This doesn't bode particularly well for 2020 construction output figures but there may be a number of projects that could quickly be converted from new orders to shovel-ready projects (ie output) with relatively little lag between the two events.

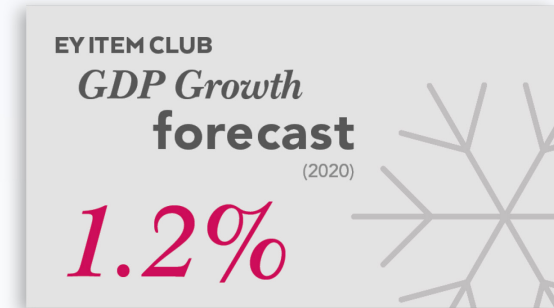
The Construction Products Association (CPA) has cut its forecast for output growth in 2020 from 1% to 0.5%. Despite concerns over the delivery of some major projects, the CPA anticipates that infrastructure will be one of the primary drivers of output growth 2020. A raft of projects is currently in the pipeline and many more are likely to be announced in Q1 2020, prompting the CPA to forecast a 3.7% rise in infrastructure output growth.

NEW ORDERS

New orders remained stubbornly low in Q3 2019, producing the second lowest 'All New Work' values since the second quarter of 2013. The residential sector was the best performing sector by a considerable margin in Q3, with All New Housing new orders growing by 8% from the previous quarter. Infrastructure and other public new work continue to struggle, with new orders having declined by 7% and 10% respectively in Q3. Both these struggling sectors however have received funding pledges in the Conservative party manifesto and are likely to bounce back in 2020 once spending details have been revealed in the next Budget.

According to the latest IHS Markit's CPI in the PMI reading, new orders continue to decline at an alarming rate. Although August 2019 still holds the 10-year record for the biggest contraction in new orders, construction companies recorded a marked reduction in new business volumes in December. The PMI survey also found that commercial work continues to decline as investors opt to postpone spending decisions ahead of the GE.

Click [HERE](#) to view TPI online



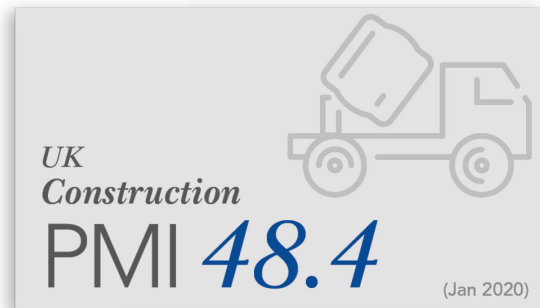
The UK economy flat-lined in Q4 2019, recording **no growth in output** compared to the previous three-month period.

Services and construction contributed positively to growth in the output approach to GDP in Q4 2019, **growing 0.1% and 0.5% respectively**. Meanwhile production output contributed negatively to growth, **falling 0.8%**.

As expected, political uncertainty caused the economy to stall in the final quarter of 2019, but there were early signs of a tentative post-election bounce as Boris Johnson seeks to ‘level up’ the economy. More positive PMI data from January pointed to a recovery in business confidence, and this was supported with improvements in consumer spending, employment rate and real wage growth.

Coronavirus (COVID-19) will undoubtedly have a negative impact on UK supply chains, productivity and economic growth in 2020. The end of the 11-year bull run in the US and dramatic falls in worldwide markets could result in delayed investments. Trade is also likely to be impacted as the Government steps up its response to the pandemic.

- The extent of economic damage resulting from COVID-19 remains unclear, but the Bank of England’s emergency rate cut from 0.75% to 0.25% to mitigate the economic impact of COVID-19 is an indication of the potential severity it could have on the UK economy and construction sector
- Fiscal policy may be more expansionary than expected in 2020/21 as the Conservatives look to boost investment in UK infrastructure.
- Uncertainty over the future trading relationship with EU and other major trading partners remains.
- Government currently consulting on UK’s new Global Tariff regime which will come into effect on 1st January 2021 for imports from any country that the UK does not have a free trade agreement with.
- Supply chain disruption for imported materials and products coming from China and other COVID-19 affected regions



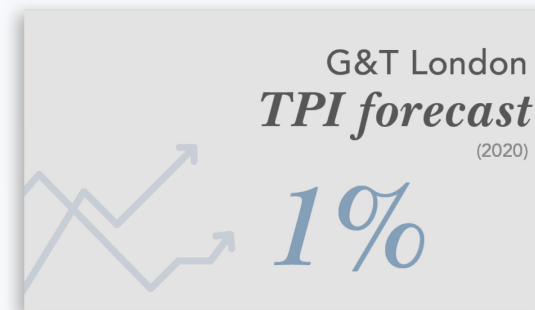
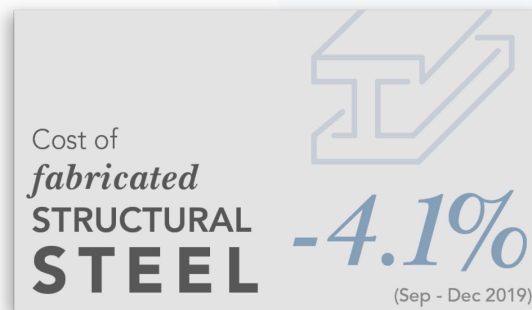
The UK Construction **PMI rose from 44.4 to 48.4** in January 2020. Although still contracting, January's reading signalled the slowest pace of contraction since May 2019.

Softer declines in new business and improved business optimism were the stand-out positives from the survey. Although all areas of construction experienced declines in activity due to lack of opportunities to replace completed contracts, respondents commented on signs of a turnaround in demand conditions.



In London, ONS data revealed the following:

- **London construction output (All Work) fell by -1.1%** in Q4 2019 to **£9.1bn**. Output growth for most sectors was either flat or negative but New Public Housing and Infrastructure Repair and Maintenance experienced positive quarter-on-quarter growth.
- New order growth was impacted by pre-election uncertainty. **Total New Orders** in London **fell 26%** in the final quarter of the year, but on an annual basis 2019 new orders were significantly higher (31%) than last year.
- London **Residential New Orders fell by 44%** to **£993m** in Q4 2019 compared to the previous quarter - below the five-year quarterly average of **£1.05bn**.
- London **Commercial New Orders** in Q4 2019 **fell 16%** compared to the previous quarter from **£1.43bn** to **£1.2bn**, dipping below the quarterly five-year historical average of **£1.4bn**. But despite this the value of office project starts were up **47%** in Q4 2019 compared to the same period a year ago.



Construction material price inflation continues to soften. In the year to December 2019 the material price index for **'All Work' fell by 1.1%** as Sterling strengthened against the Euro, easing import cost pressure.

- All **key materials** shown in our graph on page 15 **fell in Q4** 2019, but it was **rebar** that experienced the biggest drop, **falling by 7.5%** in the three-month period
- Falling commodity prices, lower energy costs and suppressed demand have inhibited material price growth. Despite initial signs of a 'Boris bounce', COVID-19 is expected to dent demand and put downward pressure on commodity and material price inflation
- IHS Markit forecasts that **steel rebar** and **structural steel** prices have further to **fall** in 2020 (**8.5%** and **6%** respectively) but **lumber** prices will see a **4.6% rebound** due to shortages and supply delays

- In terms of trade packages, we anticipate that M&E, Façades and Brick and Blockwork will experience the greatest package inflation rates over the next 12 months, largely as a result higher skilled labour costs (M&E), increased workloads creating supply pressure (Façades) and buoyant demand for bricks from the new build housing sector (Brick and Blockwork)
- G&T continues to forecast 2020 **tender price inflation** for London **at 1%, rising to 1.5%** in 2021 and **2%** in both 2022 and 2023 as rates trend closer to the long-term average.

Please see our [Q4 2019 TPI](#) report for further details.

Europe

The Eurozone economy grew by **0.1%** in Q4 2019, with France and Italy recording contractions.

Battered by global trade tensions year-on-year manufacturing output in the Eurozone fell **4.1%** in December 2019.

ECB is preparing to announce a monetary policy stimulus package to reduce the economic impact of COVID-19 as European countries unveil their own rescue packages.

The IMF cut its Eurozone growth projections for 2020 from **1.4%** to **1.3%**.

US

US' annual GDP growth was **2.3%** in 2019 – the weakest growth rate in three years.

Moderate economic growth expected to continue into 2020 but US presidential elections, ongoing trade tensions with China and COVID-19 outbreak could dent growth.

The IMF expects the economy to grow **2.1%** in 2020 – a **0.2%** improvement from its previous forecast.

US signed phase 1 trade deal with China in 2019 but this is unlikely to boost the economy as US tariffs remain in effect on **\$360bn** of Chinese imports.

China

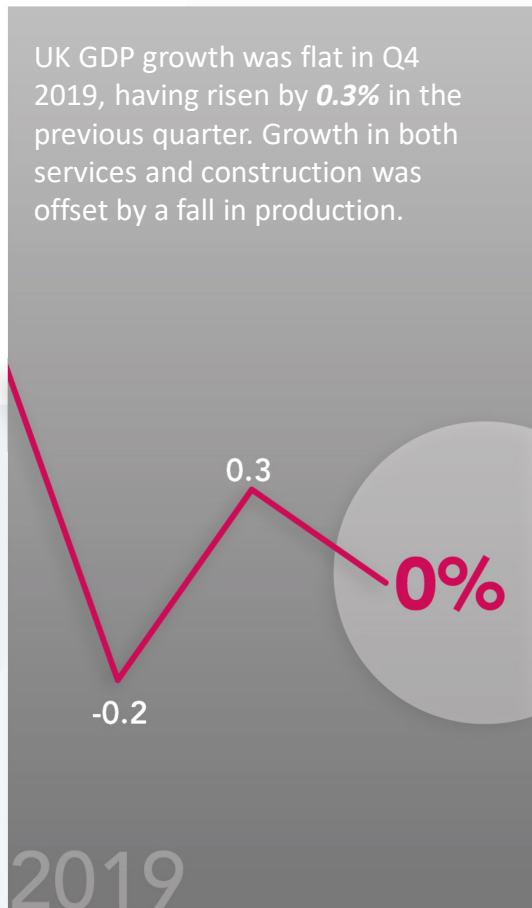
Annual GDP growth was **6.1%** in 2019 – the slowest pace of growth in 29 years.

Existing trade tariffs remain in place under phase 1 trade deal with the US but tensions have eased and business optimism increased.

Further monetary easing needed to boost domestic demand.

COVID-19 lowers Chinese factory output and impacts global supply chains.

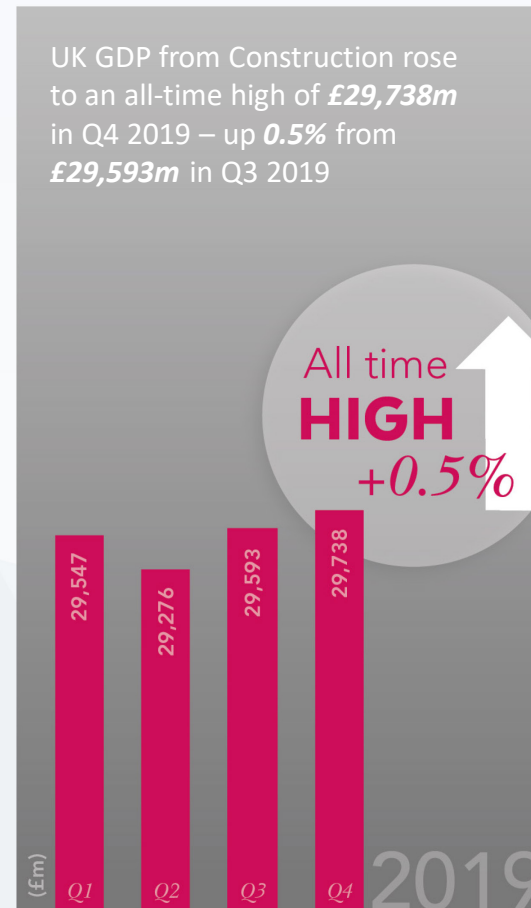
The IMF raised its 2020 growth forecast from **5.8%** to **6%** partly because of the phase 1 trade deal.



GDP: Quarter on Quarter Growth: Chained Volume Measure*
Seasonally Adjusted



Construction Productivity Index: Output per job
(Q1 1990=100), SA, UK



UK GDP From Construction

* **Please note** – Chained Volume Measure (CVM) means that data from successive years have been put in real (inflation-adjusted) terms by computing the production volume for each year in the prices of the preceding year, and then 'chain linking' the data together to obtain a time-series of production figures from which the effects of price changes (i.e. monetary inflation or deflation) have been removed. **Source:** [Trading Economics](#) and [ONS](#)

UK Economy

Overview	Forecast						Units
	Latest	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	
GDP Growth Rate	0.0	0.2	0.5	0.4	0.5	0.4	%
Unemployment Rate	3.8	3.8	3.9	3.9	3.8	4.0	%
Inflation Rate (CPIH)	1.8	1.4	1.8	2.0	1.9	2.5	%
Interest Rate	0.25	0.25	0.25	0.25	0.25	0.5	%
GDP from Construction	29,738	29,636	29,344	29,711	30,035	30,456	GBP Million
Government Debt to GDP (the ratio between a country's government debt (cumulative amount) and its GDP)	80.8	81.3	81.3	81.3	81.3	78.2	%

Services

- UK Services PMI rose to **53.9** in January 2020 – its strongest pace of expansion since September 2018.
- New business growth accelerated and workloads rose as there was an upturn in clients willingness to spend.
- Headwinds from delayed decision making have been lifted since the general election, translating into rising business and consumer spending.

Manufacturing

- UK Manufacturing PMI rose to a nine-month high of **50** in January 2020.
- Business conditions stabilised and political uncertainty eased, strengthening the domestic market.
- Recovery in new order intakes, employment and business confidence but reduced export orders.

Construction

- UK Construction PMI rose to **48.4** in January 2020 – the slowest pace of contraction since May 2019.
- New work fell the least for 10 months and a modest degree of pressure on supply chain capacity was recorded, with lead-times from vendors lengthening slightly despite a drop in purchasing volumes.
- Business optimism bounced back as did clients' willingness to spend.

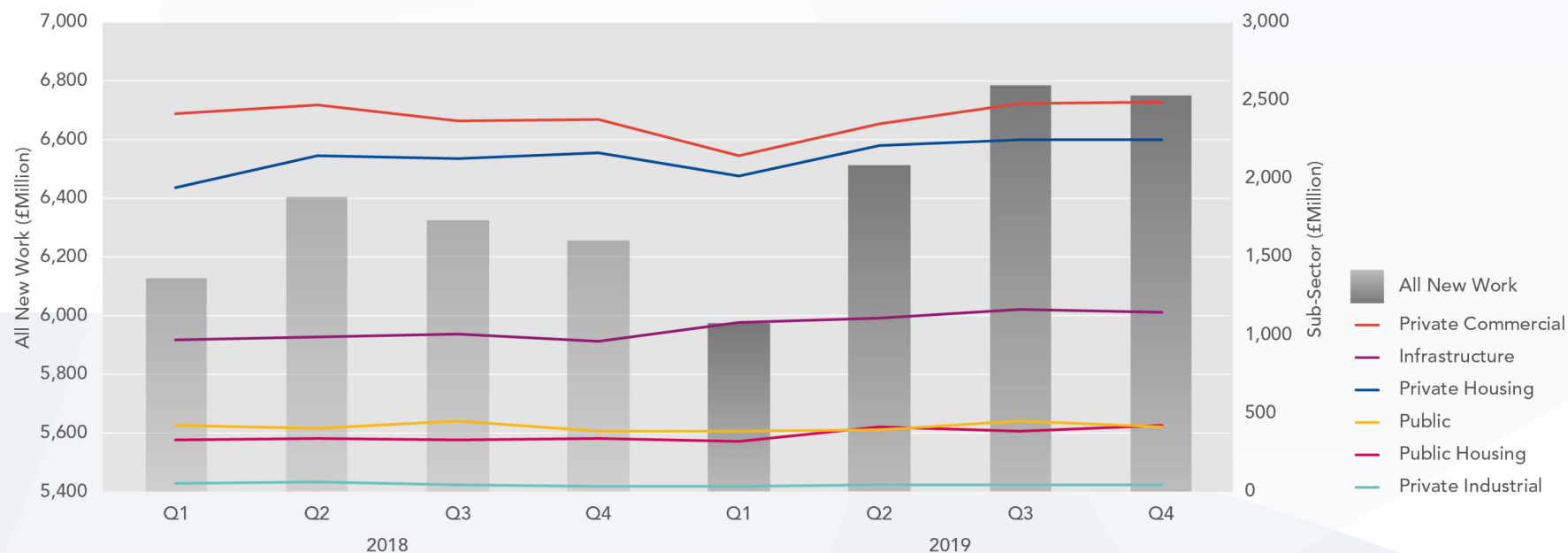


Services **53.9**

Manufacturing **50.0**

Construction **48.4**

London Construction Output (New Work by Sub-Sector) Through Q4 2019



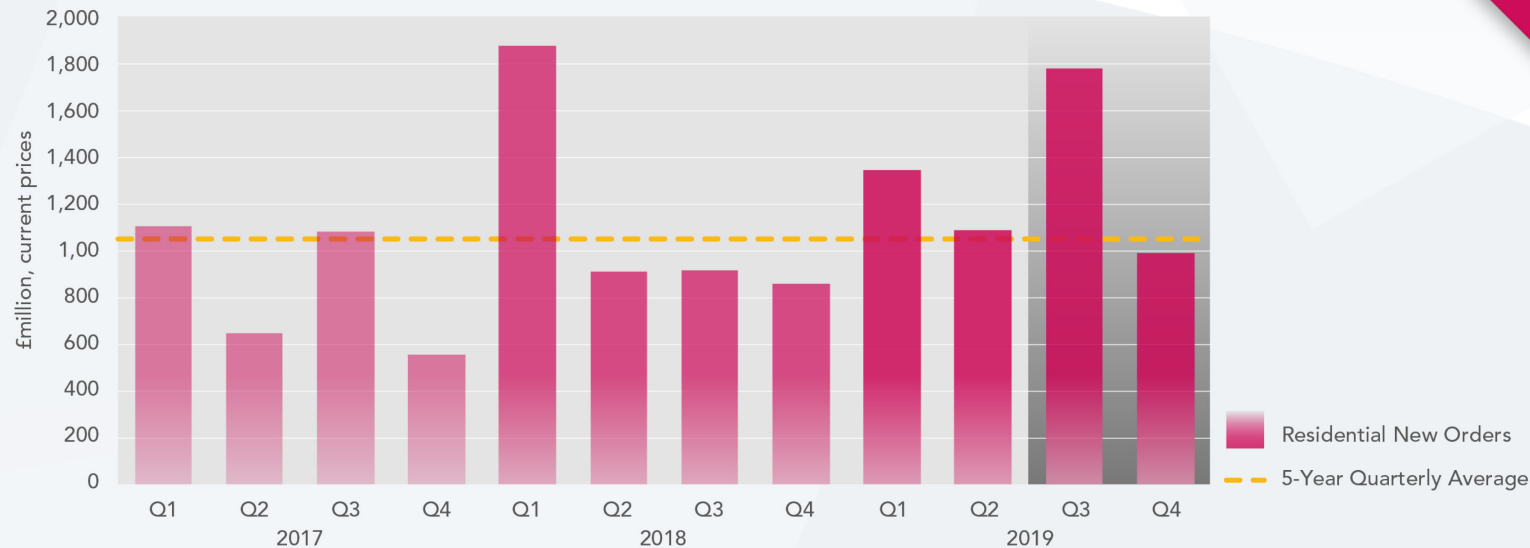
- Construction output was slightly weaker in Q4 2019, falling by **1.1%** compared to the previous quarter on a non-seasonally adjusted basis
- Both New and Repair & Maintenance work fell in the final quarter of 2019 (by **0.5%** and **2.9%** respectively), but the All Work value for 2019 as a whole was still **2.9%** higher than in the previous year (2018)
- In Q4 2019 all 'New Work' sectors in London experienced a fall in output values other than Public Housing and Private Commercial, which grew **9%** and **0.2%** respectively compared to the previous quarter

Source: [ONS](#)

Note: In a [letter](#) from the UK Statistics Authority dated 7th March 2019, the ONS stated that these sub-national and sub-sectoral estimates of construction output no longer carry National Statistics status

- London Residential New Orders fell by **44%** to **£993m** in Q4 2019 compared to the previous quarter - below the five-year quarterly average of **£1.05bn**.
- Purpose-built rental blocks of more than **100** private units accounted for **28%** of private construction starts as at the end of Q2 2019. Some **8,816** units were approved in the first six months of 2019 – a **20%** year-on-year increase.
- The number of residential units that received planning rose to almost **42,000** during the 12 months to Q2 2019, however just over **9,000** units were started during the first half of 2019. The construction pipeline suggests completions will remain suppressed and fall below the Mayor's target of **66,000** homes a year.

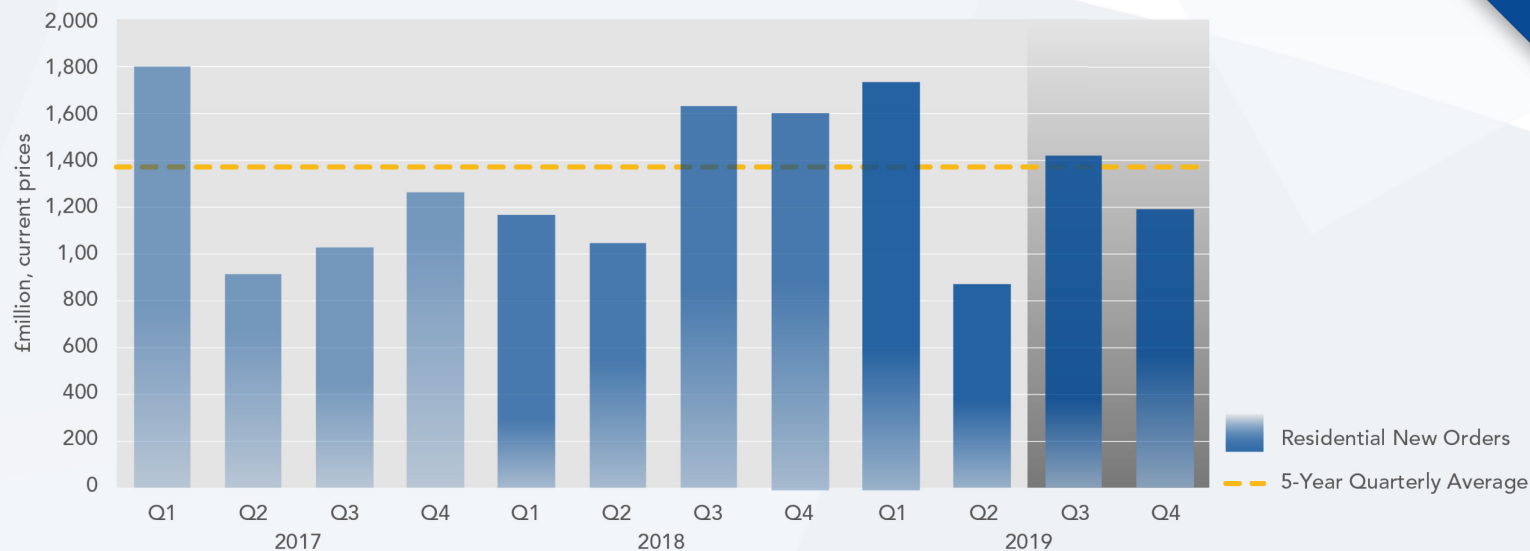
London
**RESIDENTIAL
 NEW ORDERS**
 fell by **44%**
 (Q4 2019)



Source: [ONS](#), [Knight Frank](#)

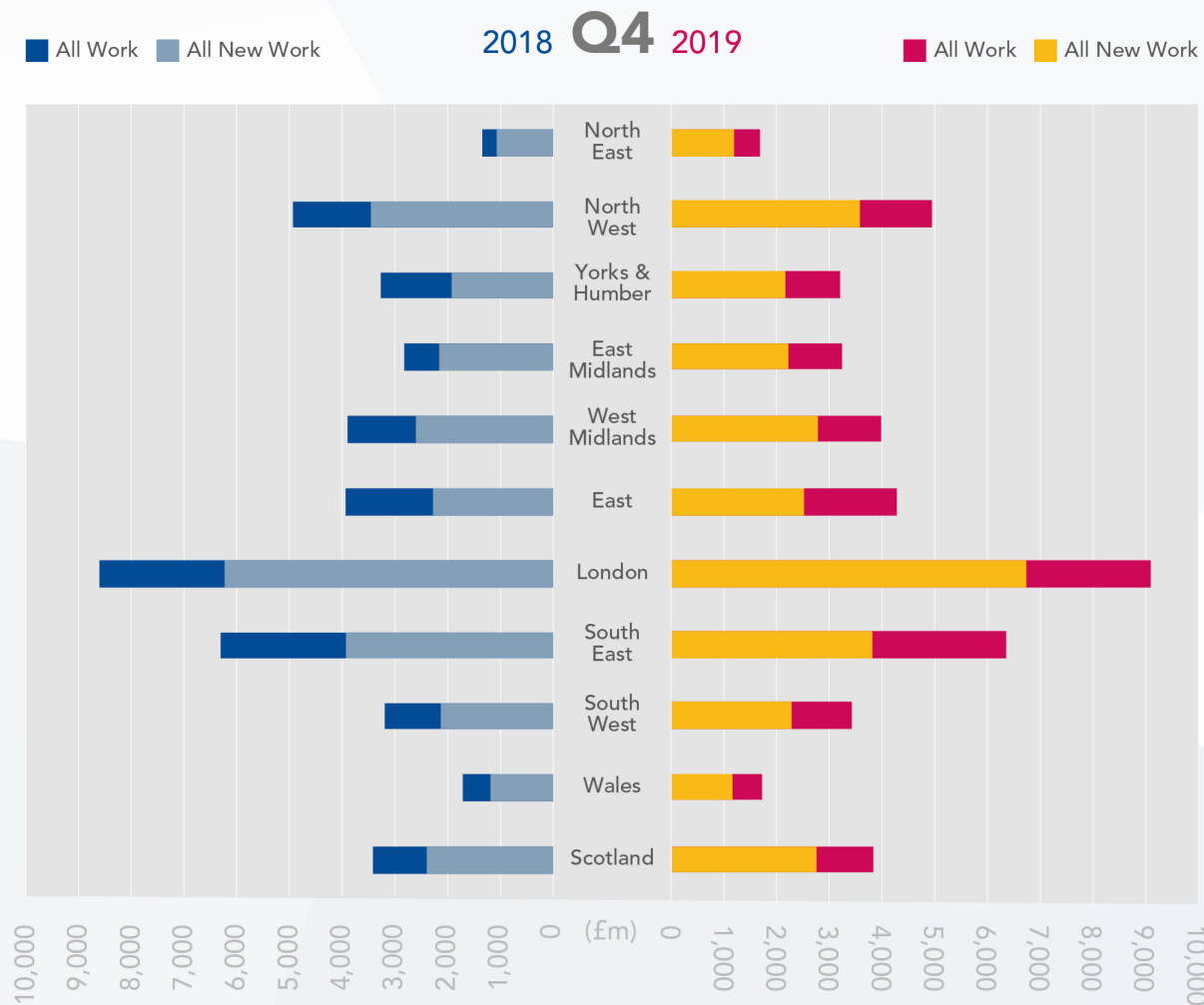
- London Commercial new orders in Q4 2019 fell **16%** compared to the previous quarter from **£1.43bn** to **£1.2bn**.
- Q4 2019 Commercial new orders dipped below the five-year quarterly average of **£1.4bn**, but the value of office project starts were up **47%** in Q4 2019 compared to the same period a year ago.
- Availability of office space in the capital stands at **13m sq ft**, a vacancy rate of just **4.8%** and some **6%** below the ten-year average. Low supply, strengthening demand and greater economic/political certainty may help to boost the 2020 commercial pipeline.

London
**COMMERCIAL
 NEW ORDERS**
 fell by **16%**
(Q4 2019)



Source: [ONS](#)

- In Q4 2019, all regions other than the Yorkshire & Humber saw an increase in construction output (all work) compared to Q4 2018.
- Highest output growth seen in North East, East Midlands and Scotland, which grew **24%**, **15%** and **12%** respectively.
- New work output in the South East and Wales dropped in Q4 2019 compared to Q4 2018. All other regions experienced output growth.
- Output growth was highest in Scotland and the North East over the period, growing by **14%** and **13%** respectively.

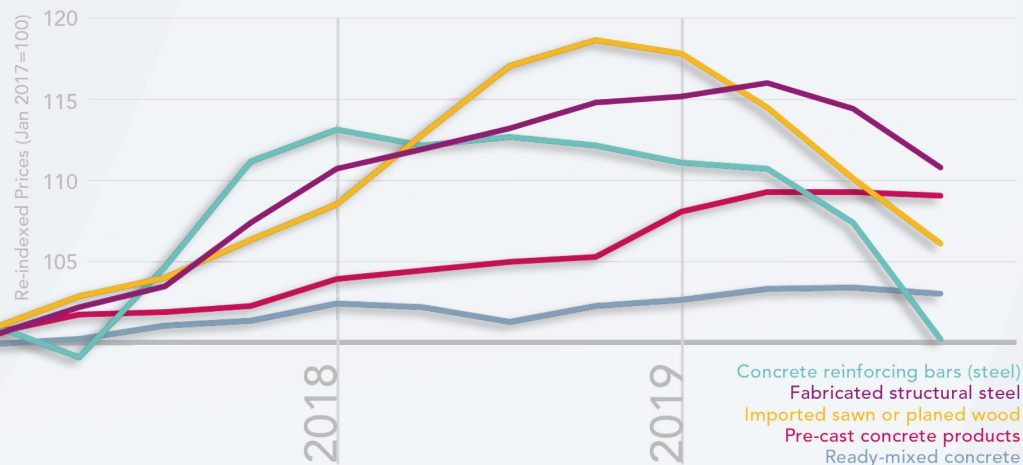


Construction material price inflation continues to soften. All key materials shown in the graph below fell in Q4 2019, but it was rebar that experienced the biggest drop, falling by **7.5%** in the three-month period

In the year to December 2019 the material price index for 'All Work' fell by **1.1%** as Sterling strengthened against the Euro, easing input cost pressure

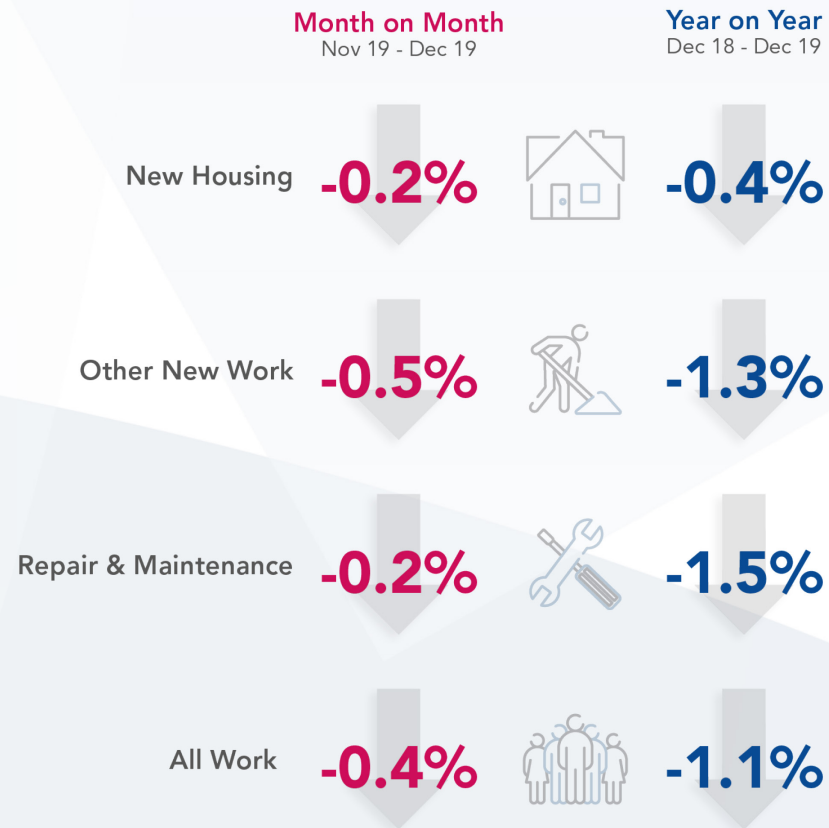
Falling commodity prices, lower energy costs and suppressed demand have inhibited material price growth. Higher anticipated demand in 2020 may help to stem falling prices but many (including IHS Markit) are forecasting that prices for materials such as rebar and steel will fall further in 2020

Price Indices of Key Construction Materials (Quarterly Average Growth)



Source: gov.uk

Construction Material Price Indices



Key Trade Analysis

Likely 12-month inflationary range for key trade packages based on our Q4 2019 TPI Survey results

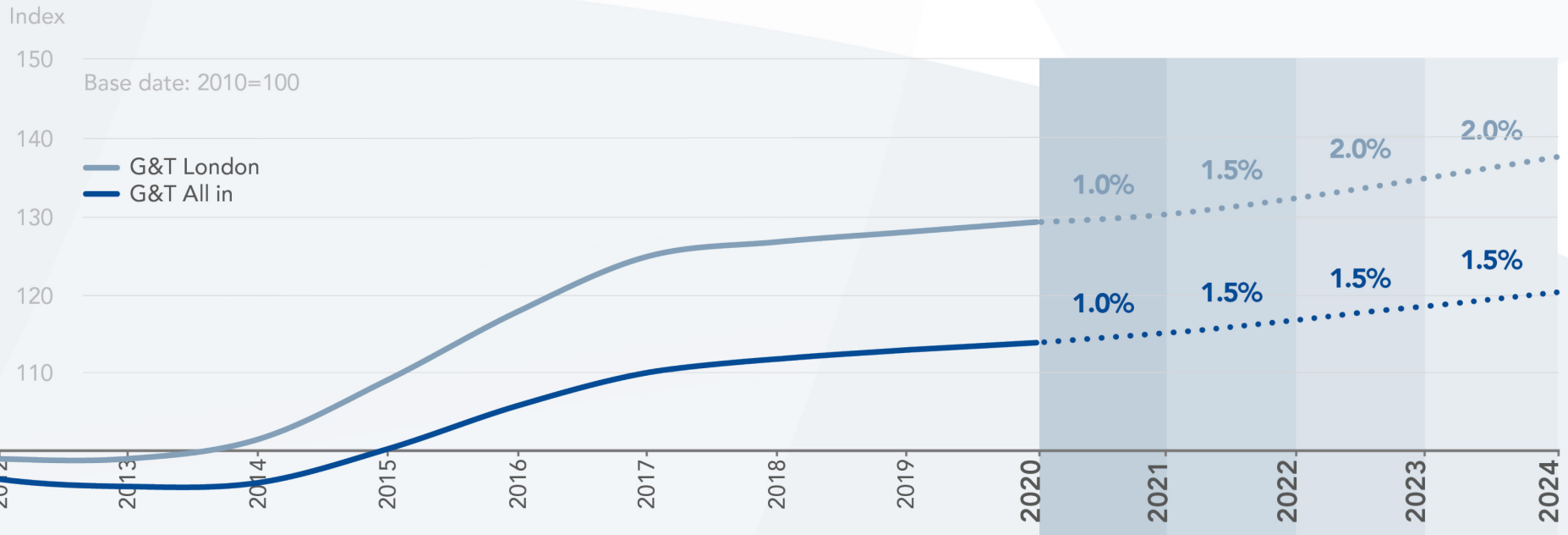
Key Trade Packages	Summary	Likely Inflation Range (Next 12 months)
Demolition	Competitive pricing for projects with an immediate start date as contractors remain keen to secure work Particularly evident among tier 2 & 3 contractors and those not linked to London's major regeneration schemes	-2% - 0.5%
Groundworks	Contractors noticing a drop-off in new work and greater competition to win work	-1% - 1%
Concrete	Suppliers keener for good quality workload – better pricing than past two years due to falling investment in commercial buildings and slowing housebuilding activity in the capital Lead times and enquiry levels remain static but there is a possibility of a post-election spike Ready-mixed concrete deliveries were up 4.3% in Q3 2019 compared to the previous quarter	0.5% - 1.5%
Steel	Fabricated structural steel prices fell by 4.1% in the three months to December 2019 Slowing global demand, at the same time as an increase in supply, has created a glut of steel on the international market, putting downward pressure on iron ore prices and ultimately steel ArcelorMittal (the world's biggest steel producer) expects European steel consumption to grow by 1-2% in 2020 (compared with 1.1% in 2019) Although the Steel Pipeline shows that the Government plans to use over 3m tonnes of steel (worth around £0.5 billion) over the next decade on infrastructure projects, suppressed steel demand is expected in 2020	0.5% - 1.5%
Facades	Supply pressure and increased cost of design, installation and materials resulting from Hackitt report Cladding firms reporting increased workloads and enquiries compared to six months ago Limited contractor capacity on tier 1 level projects	1% - 2%
Brick	Demand for bricks remains buoyant, particularly from the new build housing sector ONS data indicates that brick production in the year to November 2019 is 3% higher than it was in the previous year. Domestic production is expected to increase as factories increase plant capacity Lead times are not expected to rise as workload and enquiries remain at a consistent level, despite reports of a shortage of bricklayers	1% - 2%

Key Trade Packages	Summary	Likely Inflation Range (Next 12 months)
Dry lining	Shortages of skilled labour are supporting prices, particularly in residential Workload remains higher, but enquiries have levelled off Costs are being pushed up by supplier stock shortages of plasterboard and insulation materials	0.5% - 1.5%
Carpentry	Demand for carpentry from the residential sector continues to stretch capacity Imported sawn or planed wood prices fell by 12% in 2019 but are expected to rise in 2020 due to tighter supply Demand for stockpiled timber pushed up prices prior to the original March Brexit deadline. Surplus stock is moving through the system leading to a softening of prices	0.5% - 1.5%
Joinery	Strong demand continues with no evidence of weakening in pricing Labour shortages, increased workload and enquiry levels have pushed lead times up to 18 weeks	1% - 2%
Finishes	Enquiries and workload remain stable Rates are high due to demand working through rather than any shortage of skilled labour	0.5% - 1.5%
M&E	Enquiries expected to pick up post-general election result Some contractors were tendering at or below cost on some projects in Q4 2019 to maintain turnover A skills gap in the sector is causing resourcing issues and pushing labour costs higher Contractors are focusing on alternative sources of materials outside of Europe, helping to ease price pressure Copper and aluminium prices rose steadily in Q4 2019 but dropped in January 2020 as a result of uncertain global demand	1.5% - 2.5%
Roof	Costs remain high due to the high-risk nature of the trade. Costs also being pushed up by a shortage of contractors and labour, as well as a volatile insulation market Oil prices rose steadily in Q4 2019 but have since fallen back to January 2019 levels, lowering the price of asphalt shingles and reducing overhead cost pressure on roofing contractors	1% - 2%
Fittings	Rates are being driven by higher demand and a shortage of labour	0.5% - 1.5%
Preliminaries	Main contractor preliminaries experiencing upward pressure from rising labour costs but some of this is likely to be absorbed by contractors wishing to secure immediate turnover in a tighter market. We anticipate that preliminaries will remain largely unchanged in 2020 - averaging around 15% - but could increase marginally	0 - 1%
OH&P	Main contractor OH&P levels expected to remain steady. Competition for work is likely to increase in the short term but margins are already squeezed. Contractors in some sectors may be forced to reduce OH&P in order to maintain turnover but overall we expect OH&P to remain at an average of 5-6% over the next 12 months	0%

Note: Inflationary ranges were produced prior to the COVID-19 outbreak. The pandemic is likely to impact trade package inflation in the short-medium term.

- Our London TPI forecast for 2020 remains unchanged at **1%**, rising to **1.5%** in 2021 and **2%** in 2022 and 2023
- Business confidence and demand was expected to grow in 2020, but the COVID-19 pandemic may make any post-general election uplift short-lived. Confirmation in the 2020 Budget that over £600bn will be spent on UK infrastructure over the next five years positive, but greater clarity is needed regarding the type of trade deal that can be struck with the EU in order to bolster longer-term confidence to invest and move projects forwards
- Tendering on small and medium-sized projects in particular are experiencing high levels of competition with larger contractors now stepping down to compete for such projects to fill order books and secure their pipeline towards the end of 2020

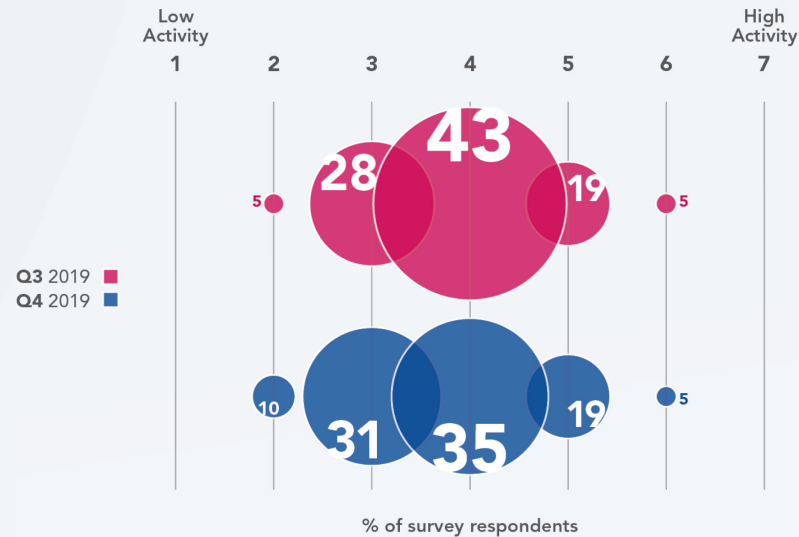
TPI
forecast for 2020
UNCHANGED



Market Conditions...

Perception over the next six months (London)

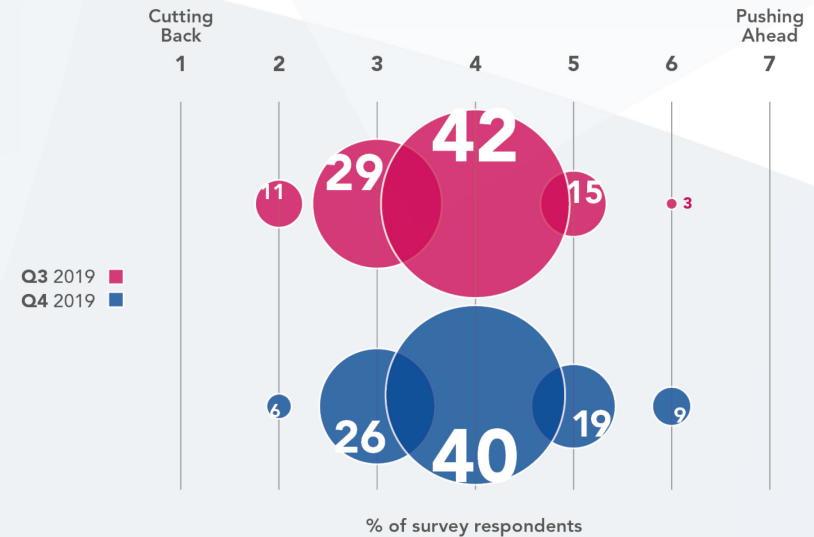
- Respondents anticipated slightly lower levels of activity and a more competitive market in H1 2020.
- Main contractors looked for more work in Q4 as investors became more risk averse and project conversion rate slowed.
- Respondents noted that political uncertainty had impacted market activity but that the decisive general election result could boost client confidence.



Client Investment...

Perception over the next six months (London)

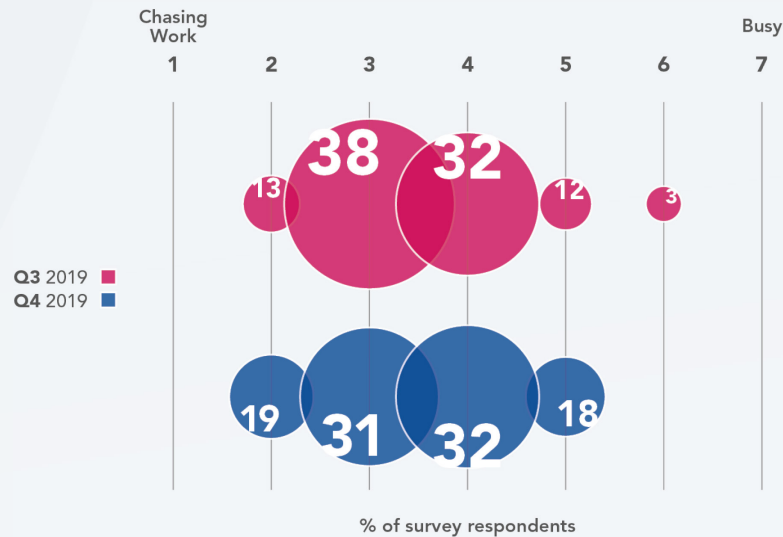
- Perception that clients will be increasingly inclined to push ahead with investment plans over the next six months.
- Clients to reactivate investment plans and move forward with stalled or slow-moving projects.
- Greater capital investment in public infrastructure projects expected. Sectors which rely on immediate capital growth for return on investment, such as retail and commercial, are likely to see more cut backs.



Contractors' Workload...

Perception over the next six months (London)

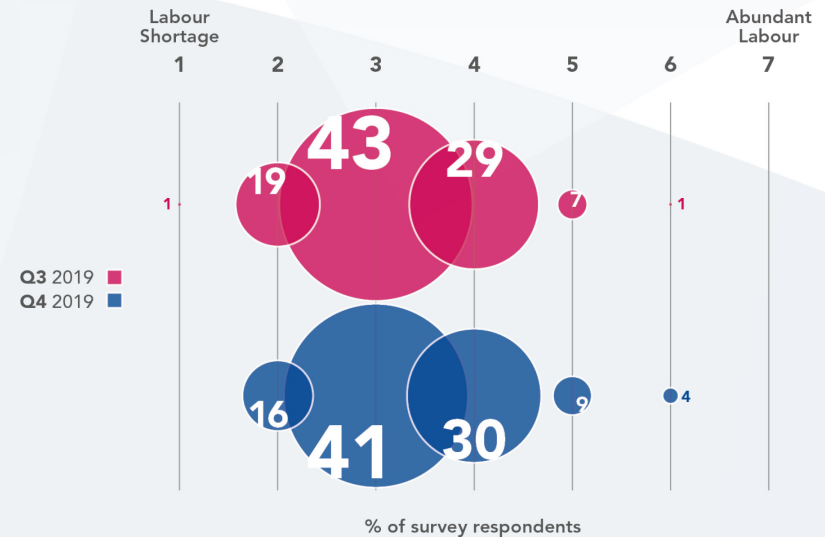
- Notable increase in the proportion of respondents who perceive that contractors will be chasing work over the next six months.
- Contractor insolvencies means there are fewer firms able to carry out work. This has helped contractors to keep their workloads relatively high (and space capacity low) despite lower demand in an uncertain market.
- Poor new order data from Q4 2019 will likely create a gap in the construction pipeline.



Skilled Labour...

Perception over the next six months (London)

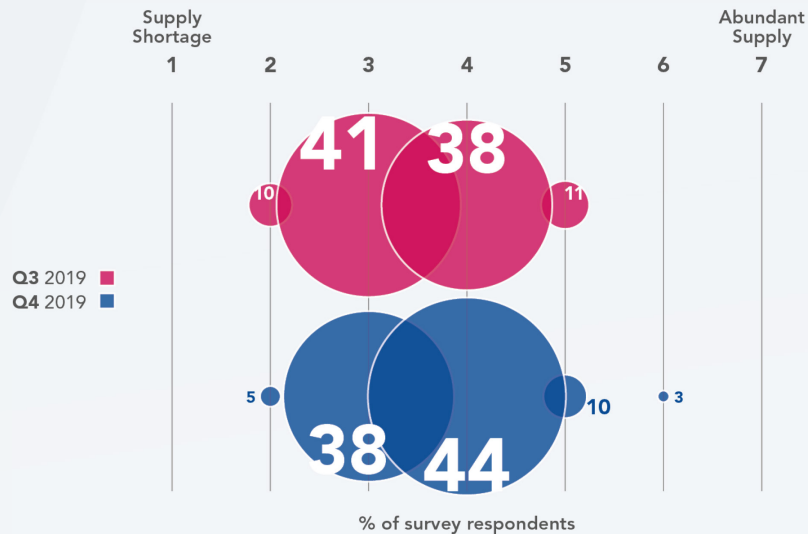
- Labour supply largely unchanged from last TPI survey. Supply remains stretched and shortages are being reported across some projects.
- Trade packages such as masonry/ brickwork have been particularly affected by tight labour supply, increasing project preliminaries.
- Reports of direct employment decreasing and construction companies becoming increasingly reliant on sub-contractors.
- A sustained decline in skilled labour supply is anticipated, creating an industry skills gap.



Materials Supply...

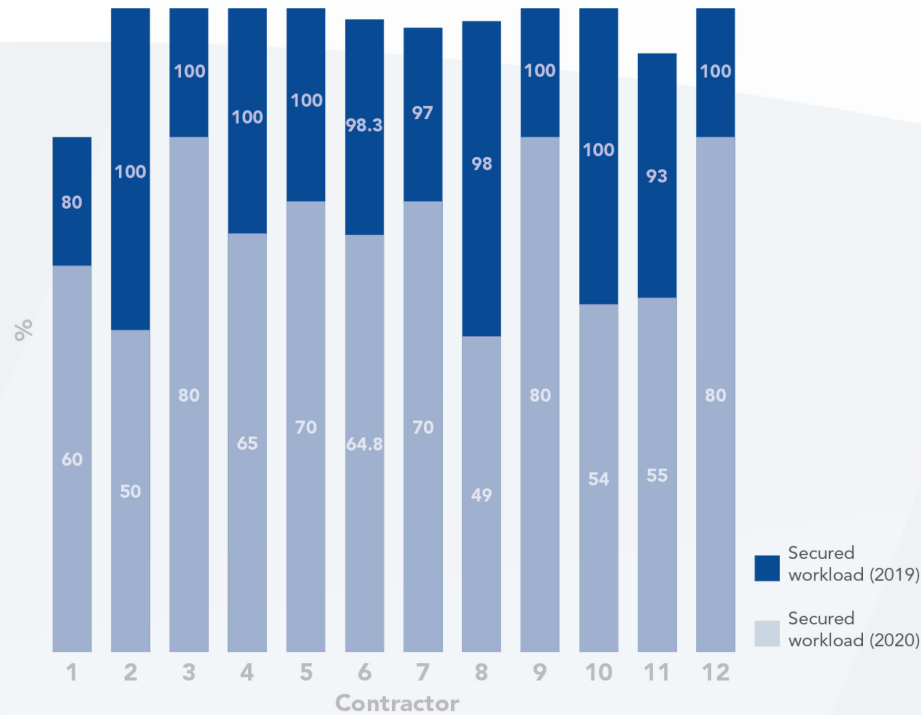
Perception over the next six months (London)

- Vast majority have a neutral perception regarding the supply of materials.
- China accounted for 17% of all UK construction imports in 2019. COVID-19 related supply chain disruption could impact heavily imported construction products from China such as electrical wires and air conditioning equipment.
- With Italy in quarantine until April there are fears that products such as cladding, along with other key Italian materials including stone, will be stuck in the country for weeks.
- Government currently consulting on UK's new Global Tariff regime which will come into effect on 1st January 2021 for imports from any country that the UK does not have a free trade agreement with.
- 'Inevitable' new border controls and regulatory checks at UK ports likely to cause disruption to logistics and the just-in-time delivery model.

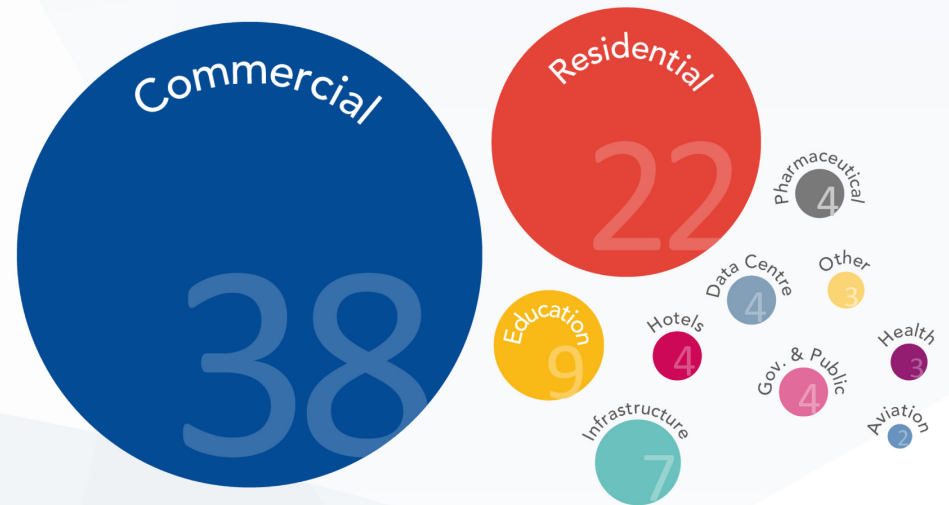


G&T surveyed 12 M&E contractors in Q3 2019. The dashboard below highlights some of the key findings...

Average secured **WORKLOAD** for 2020 **65%**



Average Sector Split (%) - Q3 2019

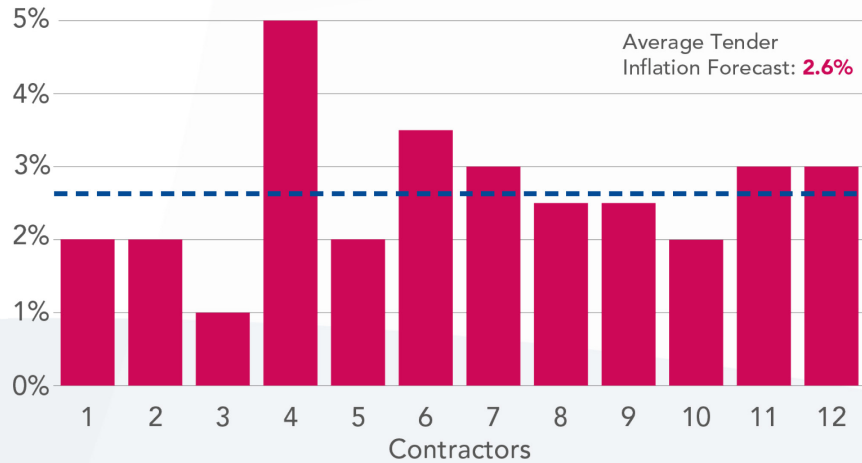


Seven out of 12 contractors said the majority of work was in the...

COMMERCIAL SECTOR

In Q3 2019, contractors said that on average **38%** of their work was in the commercial sector, followed by residential (**22%**).

12 Month MEP Tender Inflation Forecast
(Q3 2019 - Q3 2020)



Average 12 month
MEP TENDER
inflation forecast
2.6%

TYPICAL
Overhead
7.5%

TYPICAL
PROFIT
3.6%

Typical Project Overheads & Profits

