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TENDER PRICE **FORECAST**

for 2nd Quarter 2022 is...

5%

UK Average

▲ compared to 2.5% Q1 UK Avg.

Russia's invasion of Ukraine has altered the outlook for the global economy. Conflict and the roll-out of sanctions and retaliatory measures have ushered in a new era of economic difficulties and inflation. Swings in commodity prices have been dramatic with record rises in fuel and energy prices.

Labour costs continue to rise and drive tender pricing, coupled with surge pricing in materials and components particularly in energy intensive production. However, as our input costs table shows, the impact to the overall cost of your project will vary. Macro forecasts for greater inflation, higher interest rates and reduced output growth may affect demand. We forecast the industry will respond to the spike in pricing with alternative supply to moderate pricing in the medium term.

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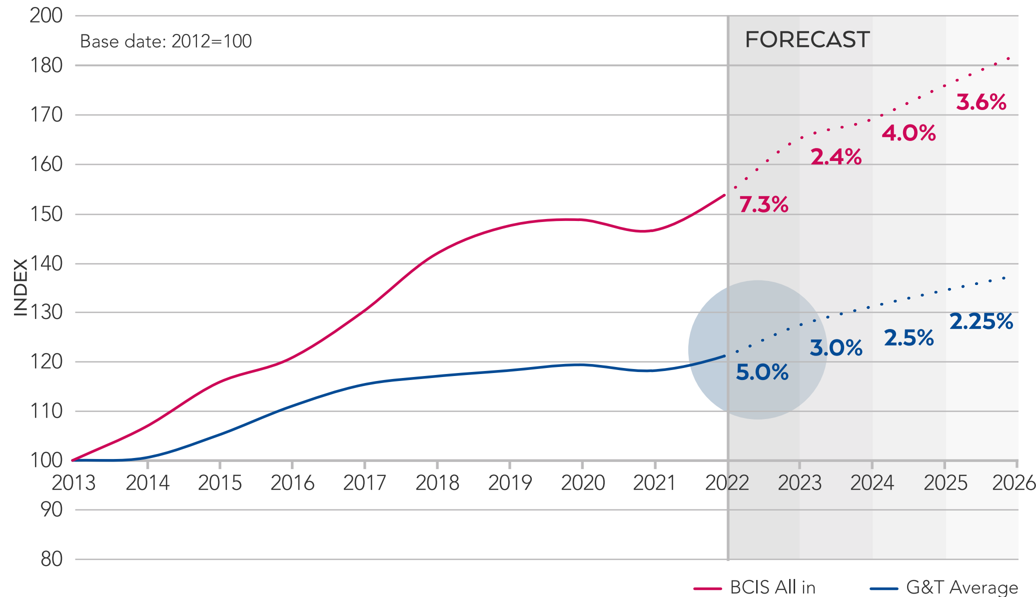
TENDER PRICE ANNUAL PERCENTAGE CHANGE Q2 2022

%	2022		2023		2024		2025	
Regional forecasts	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***
Greater London	5.50	2.50	3.50	2.00	2.50	2.00	2.25	2.00
South East	5.50	2.50	3.50	2.00	2.50	2.00	2.25	2.00
South West	4.50	2.50	3.00	2.00	2.50	2.00	2.25	2.00
East	4.50	2.50	3.00	2.00	2.50	2.00	2.00	2.00
Midlands	4.50	2.50	3.00	2.00	2.50	2.00	2.25	2.00
Wales	4.50	2.00	2.00	1.75	2.00	1.75	2.00	1.75
Yorks & Humber	4.00	2.00	3.00	2.00	2.00	1.50	1.75	1.50
North West	4.00	2.50	3.00	2.50	2.50	2.00	2.25	2.00
North East	4.00	2.00	3.00	1.75	2.50	2.00	2.00	2.00
Scotland	5.50	2.25	3.00	2.00	2.50	2.00	2.00	2.00
Northern Ireland	5.00	4.00	3.00	2.00	2.50	2.00	2.00	2.00
UK Average (weighted)	**5.00**	**2.50**	**3.00**	**2.00**	**2.50**	**2.00**	**2.25**	**2.00**

Last* 1Q22

Our forward forecasts show annual tender price inflation (Jan-Dec) with a base date of 1st May 2022

TENDER PRICE TREND 'ALL UK TPI'



HOW DO WE REACH OUR TENDER PRICE FORECAST?

We conduct a detailed industry survey and consider factors including...

INPUT COSTS

- ▲ 6.6% (Medium) BCIS M&E Cost Index, March 2021 - March 2022
- ▲ 35.9% (Medium) Fabricated Structural Steel, February 2021 – February 2022
- ▲ 43.6% (Low) Concrete Reinforcing Bars (Steel), February 2021 – February 2022
- ▲ 23.3% (Low) Imported Sawn or Planed Wood, February 2021 – February 2022
- ▲ 12.9% (Low) Ready Mixed Concrete, February 2021 – February 2022
- ▲ 61.0% (Low) Oil Prices Brent Crude, April 2021 - April 2022
- ▲ 3.7% (High) Construction Industry Wage Growth, Average Weekly Earnings (Total Pay), Y-on-Y three-month average to Feb 2022
- ▲ Up (Low) Contractor Margins, Q1 2021 to Q1 2022

KEY

Input to tender price movement of a typical project has a range of contributory impacts from:

High Cost Driver *Medium Cost Driver* *Low Cost Driver*

MACRO ECONOMICS

Unless otherwise indicated, figures show percentage change over 12 months

- ▲ 6.6% UK GDP Annual Growth Rate, Q4 2020 - Q4 2021
- ▲ 7.0% CPI Mar 2022, 12-month rate
- ▲ 9.0% RPI Mar 2022, 12-month rate
- ▲ 0.75% UK Base Interest Rate, April 2022
- ▼ 3.8% UK Unemployment Rate, December 2021 - February 2022
- ▲ 5.4% UK Wage Growth, Average Weekly Earnings (Total Pay), Y-on-Y three-month average to Feb 2022

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.

GT

Our Tender Price Inflation report looks at the movement of prices in tenders for construction contracts in the UK. The report examines a number of contributing factors and is further informed by our market survey responses and contractor consultations. This forward forecast illustrates our view of annual tender price inflation from January to December with a base date of 1st May 2022.

OUR FORECASTS

Russia's invasion of Ukraine has dramatically altered the outlook for the global economy. After glimmers of hope that the worst of the supply chain disruptions were easing and that the world was moving towards the final phases of the global pandemic and some longed-for normality, we face another broad-based supply shock that will mean inflation remaining higher for a longer period than previously expected.

The conflict and the ensuing roll-out of sanctions and retaliatory measures have ushered in a new era of economic difficulties and inflation. The swings in commodity prices have been dramatic and the record rises in fuel and energy prices alarming. War brings significant volatility, and this is set to be a feature of the economic outlook for the foreseeable future.

So far, the greatest impact to UK construction has come from higher oil and gas prices. High energy costs are feeding through to the production of energy-intensive construction products and materials, and we have already seen several surcharges and price increase notifications as a result. Although down from their recent peaks, energy prices have yet to settle and are in a state of flux. Many producers use forward energy contracts/price hedging so there is typically a lag between wholesale energy cost rises and the impact on the cost of manufacturing products and materials, so even if the situation improves and prices fall in the short-term, the input cost of manufacturing these energy-intensive products and factory gate prices may not.

Construction has returned to normal levels of activity and output growth, and while the latest wave of inflation may slow this growth, the industry is now better equipped to deal with these supply chain disruptions and price increases. It may be that we have already seen the worst of material price inflation for 2022 and labour costs will be the real driver of further inflation from Q2 2022 onwards, but material prices are expected to remain elevated throughout the rest of the year. Strong inflation will prompt project viability assessments and may lead to some schemes temporarily being put on ice until market conditions settle. However, with correct planning, management and scrutiny of commercial contract provisions, as well as diversifying the markets in which some key materials are procured from, some of the price risk can be mitigated.

Higher prices are being passed on by contractors and their supply chains and so we are forecasting higher tender price inflation. Construction is not alone in having to do this. The headline-grabbing annual UK consumer price inflation hit a 30-year high of 7% in March, indicating that price rises are wide-ranging and businesses are passing on rising costs. These headwinds will likely be with us throughout 2022 and potentially beyond. High inflation has started to impact consumer confidence and if these macro conditions persist, we may have to brace ourselves for a stagflation-like episode for the UK economy.

In light of these additional cost drivers, G&T has upwardly revised its latest set of TPI forecasts compared to our previous quarter. We now expect tender prices to rise on average by 5% across the UK in 2022, followed by 3.5% in 2023. Thereafter, annual inflation should fall back towards long-term average of around 2.5% in 2024 and then 2.25% in 2025. Inflation in London is expected to be 50 basis points higher for 2022 and 2023 due to the expectation of greater labour price inflation.

Because of the level of uncertainty, we have updated our TPI fan chart that was first published in our report on the impact of the Russia-Ukraine conflict on construction. This shows the potential range of inflationary scenarios depending on how the conflict (and subsequent macro-economic conditions) might develop and evolve.

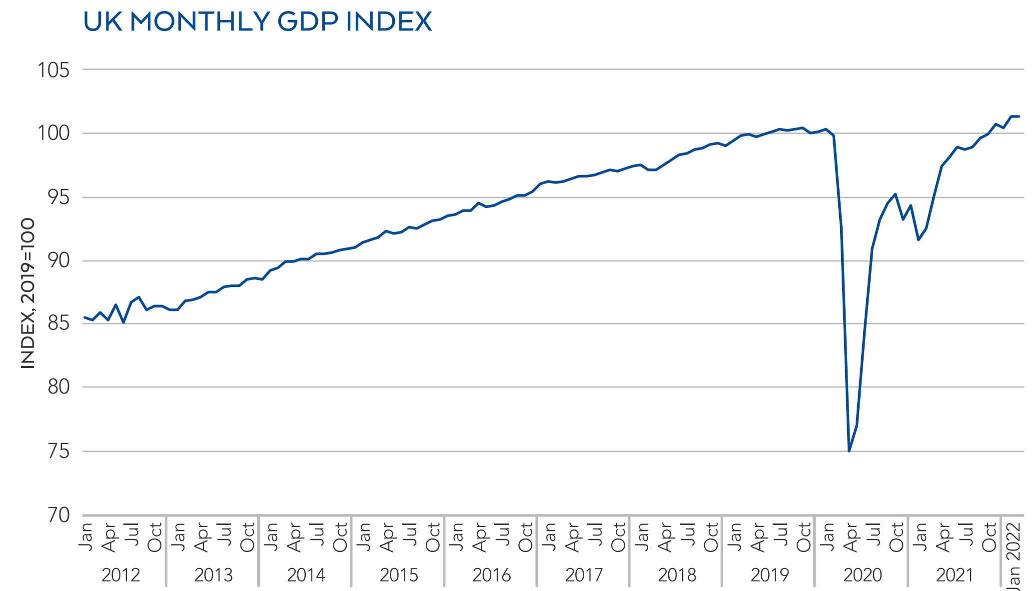
All forecasts in this report take account of all sectors and project sizes as a statistical average, indicating an overall trend in pricing levels. It should be remembered that individual projects may experience tender pricing above or below the published average rate, reflecting the project specific components and conditions.

THE ECONOMY

Russia's invasion of Ukraine has created a domino effect by amplifying global inflationary forces. Layering the impact of the war in Ukraine on top of everything else (namely the pandemic and Brexit) could prove to be quite damaging to the UK economy.

The Bank of England (**BoE**) faces a dilemma in trying to cool inflation. Raising interest rates too hard and too fast could result in stagflation (ie a drop in output alongside a prolonged period of inflation) or even an economic contraction in 2Q 2022. Consumer prices have surged (with annual CPI hitting 7% in March) while economic growth has slowed to a crawl (0.1% in February, month-on-month) and this is putting pressure on consumers and businesses. Higher fuel and energy costs have increased input prices and production costs for businesses and produced waning demand for many goods and services. Due to these pressures, the BoE has said that a double-digit inflation rate is not off the cards in the second half of the year

Inflation is a long way north of the Government's official 2% target, but the speed of inflation has caught many by surprise. Just a year ago, the annual inflation rate was just 0.7% and the increase in magnitude in the following 12 months is unprecedented. These inflationary pressures are also broad-based, affecting all sectors and countries, not just the UK and the construction industry. Inflation is unlikely to cool significantly



Source: *ONS*

anytime soon either. The IMF forecasts core inflation will average 7.4% this year – slightly less than the US but higher than the euro zone – and then 5.3% in 2023.

Consumption is expected to be weaker as inflation erodes real disposable income and tighter financial conditions are expected to cool investment. The net effect is that GDP will likely fall, with the IMF almost halving its growth forecast from 2.3% to 1.2% in 2023 – lower than for any other major advanced economy in the G7. The reason why the UK is being more affected is that the BoE and UK Government face balancing a starker trade-off between flagging growth and soaring prices than its peers. It is also an open economy so is highly exposed to global energy market prices.

Although the UK economy is now 1.5% bigger than its pre-pandemic level (in February 2020), these figures predate Russia's invasion of Ukraine. Resultant increases in raw material and commodity prices, and higher energy costs, will be met by a petering out of consumer spending and output growth. Given the weak near-term outlook for GDP growth, some economists expect the BoE might stop raising interest rates after increasing it to 1% in May, as is currently forecast.

In tandem with this, the UK workforce is experiencing what is known as an adverse supply shock – a shrinking, economically active workforce. Just as with oil and gas, a lower supply should lead to higher costs. However, wage growth (at 5.4%) is lagging the rise in consumer prices and the overall picture is that the labour market is not yet so tight as to push up real wages (ie wages adjusted for inflation). One reason for this is that while labour supply is lower than it was before the pandemic, so too is demand. The OBR forecasts that inflation will fall sharply next year, as the current high prices become the baseline for future calculations, but this outcome largely depends on its belief that nominal wage growth will lag well behind inflation. With such a strong labour market and low unemployment levels, this is a big assumption.

CONSTRUCTION OUTPUT AND NEW ORDERS

ONS data shows UK construction output decreasing by 0.1% in February 2022 compared to the previous month – the first month-on-month fall since October 2021. Anecdotal evidence suggests storms Eunice, Dudley and Franklin in February had an impact as more working days were lost on sites than normal for this time of year. Energy prices, disruption due to the Ukraine crisis and rising inflation were also underlying factors, triggering nervousness from investors and construction suppliers.

Despite the drop, output remained nearly 4% above the five-year monthly average and 1.1% above the February 2020 pre-coronavirus level. However, repair and maintenance output (+13.7%) has outperformed new work (+2.4%) over the last two years. Some have suggested that February's output data was a wobble rather than a worry, coming after a particularly strong performance in January, but the figure was just a snapshot of growth on the eve of war. However, it served as a reminder that continued positive momentum of output growth is not inevitable. The sector is highly reliant on global supply chains for materials and sanctions on Russia is disrupting key materials. The issues with sourcing materials will weigh on output growth, even if demand remains strong.

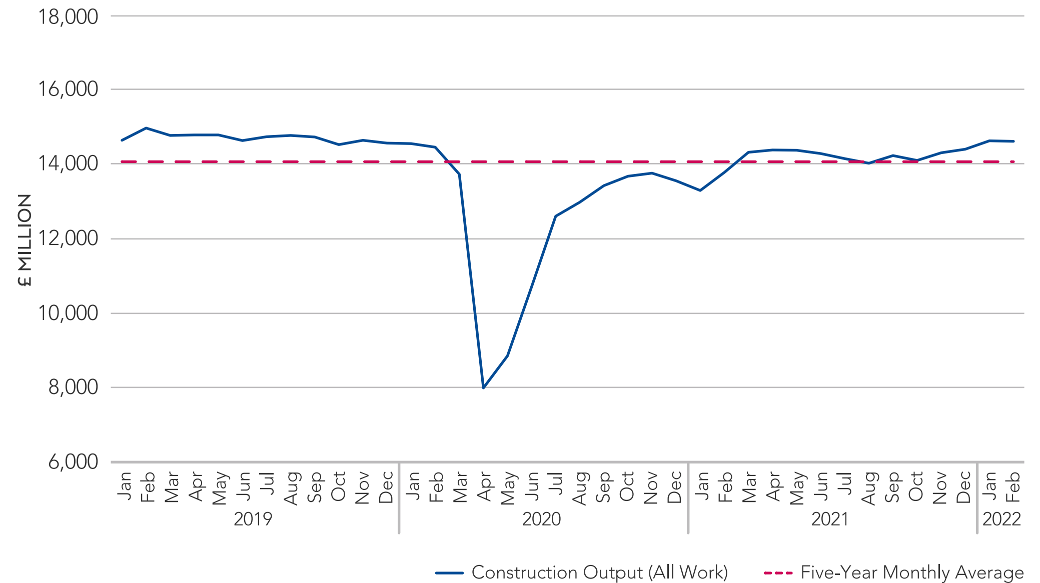
New orders grew by 9.2% in Q4 2021 compared to Q3 with all sectors recovering above their pre-COVID levels. The private industrial sector was the stand-out performer over the past year with new orders increasing by 62% (or £751m). Commercial new orders have also recovered strongly (+58%).

More recent data from recent S&P Global/CIPS UK Construction PMI surveys indicate that trend of positive new order growth will continue into Q1 2022. March's PMI survey showed a sustained rise in new work – the fastest increase for seven months, in fact. The New Orders Index accelerated for the fifth consecutive month, hitting 58.9 in March 2022.

Construction firms cited improving tender opportunities and resilient customer demand, despite some reports that economic uncertainty

CONSTRUCTION OUTPUT: ALL WORK

Seasonally adjusted



Source: *ONS*

NEW ORDERS INDEX

sa, >50 = growth since previous month

58.9
Mar '22

Source: *S&P Global*

and rising costs are limiting new business growth. However, the survey did pick up a drop in optimism in light of the war in Ukraine, dropping to its weakest since October 2020. There were concerns that clients will cut back spending in response to rising prices and the heightened economic uncertainty. The ongoing skills shortage and a lack of builders could also act as a roadblock to future new order growth.

Although new order growth has been positive and there is a strong pipeline of planning approvals and main contract awards, data from Glenigan shows that actual construction project starts continued their year-long downward trend in Q1 2022. The value of work starting on site in Q1 2022 fell 7% against the preceding quarter to stand 22% lower than Q1 2021. This has been driven by persistent material price inflation, and with recent events in Ukraine only exacerbating inflationary factors, this is likely to delay a recovery in project-starts. Starts on site have not fallen across all sectors though. Construction-starts in both the office and industrial sectors performed strongly in Q1 2022 but starts in most other sectors fell compared to the previous quarter.

Despite some difficulty converting new orders into new starts on site, contractors remain upbeat about their relatively strong pipelines and the current level of tendering activity. While mindful of the ongoing effects of Russia's invasion in Ukraine (ie input cost inflation and disruption to raw material supplies), these are generally being managed well by contractors. Alternative avenues for materials supply are starting to emerge and a number of Main Contractors have suggested that most material inflation for the year has already happened and that the upward inflation curve will start to soften. Accordingly, new starts on site should pick up in the second half of 2022 and against this backdrop we have increased our tender price forecasts.

G&T TPI SURVEY FEEDBACK

Workload

On the whole, most of those surveyed reported continuing opportunities and a busy market. Workloads on some existing projects are being affected by the challenge of bringing project development costs within budget and the need for additional time to work through value engineering – a consequence of hyper-inflation. Higher workloads are involved with schemes pre-contract to ensure they work and are still viable for clients. Also, the time between successful bid to project start is extending, primarily because contractors do not want to become trapped in loss-making, fixed-price contracts and clients want to reduce their exposure to the market (as well as potential supplier bankruptcies).

The recent compounding inflationary pressures and market volatility has resulted in some jobs stalling (or even being 'mothballed' if their viability has been impacted), but generally the project pipeline remains strong and there are a large number of enquiries that could be converted into projects in the medium to long-term. Interest in the early stages of projects (RIBA stages 1 and 2) remains particularly robust, but some of those surveyed said that a small number of the major projects they are working on are being delayed or paused for a period until an element of cost certainty is seen.

While there is some nervousness around inflation, new opportunities continue to present themselves and older projects are also coming back to life. The UK Government is going through a major infrastructure investment programme to replace aging, end-of-life assets and its recently published Energy Sectary Strategy will create new opportunities for work in nuclear, offshore/onshore wind and solar. However, turning positive and proactive intent into the delivery of these often-complex pipeline infrastructure projects will take some time, so this is unlikely to be an immediate shot in the arm for the construction industry.

Market Conditions

Brexit, the pandemic, the energy crisis and the war in Ukraine are having a compounding effect on the market. One saving grace is that suppliers are getting better at managing supply chain disruption using new processes and systems.

Around 1.25% of construction products imported into the UK originate from Russia or Ukraine. While not a significant amount, the UK Government has added a 35% tariff on most building materials imported from Russia. This has invariably had an impact on the prices of those material prices supplied directly to the UK from the region, but it has been the wider impact to global supply and demand and global market conditions that has been most damaging.

Prior to the war in Ukraine, we had hoped inflation would begin to recede after showing signs of levelling off towards the end of 2021, but subsequent moves higher in commodity prices has brought us back to the drawing board.

As the Ukraine effect filters through, strong upward price pressure has impacted project budgets, in some cases pushing projects over budget. Many TPI survey respondents expect huge initial hikes in costs, primarily concentrated in Q1 and Q2, but followed by a subsequent cooling off or normalisation period. However, the supply chain will likely try to benefit from these abnormal conditions for as long as possible, particularly if tendering activity remains high, so it is very difficult to pin a timeline to any easing of tender price inflation.

Inflation on key trades has jumped which has impacted tender returns. Additional risk pricing is also being applied due to the level of uncertainty which is deterring most contractors from fixing prices and taking on inflation risks. Most respondents do not expect inflation to ease significantly anytime soon, but the reactive market will stabilise as supply chains diversity. Other avenues for supply are already emerging (eg importing more semi-finished and finished steel from China or oil and gas from Saudi Arabia) and this will ease input cost pressures.

Viability concerns may shelve some projects or cause delivery issues in the coming months. If this drop in demand materialises, one potential consequence would be increased tendering competition, prompting some contractors to change their views on risk and bid more competitively. According to a number of survey respondents, this will initiate a price correction process. However, even when the 'correction' commences, contractors' short-term order books will still be relatively full, and it is likely that the effect on tender prices will not materialise until 6-12 months later once contractors become more active in looking for work.

Increases in material and material supply costs, prolongation of lead times, increased project risks, and greater difficulty in securing fixed priced tenders are all issues we expect to see in the market in the short-term. To what extent client capital expenditure plans and projects are consequently put on hold or paused largely depends on the longevity of the current market pressures. A short-term conflict will likely mean short-term pricing spikes while a long-term conflict will result in sustained high prices with increased issues for project viability and delivery. Clients will be more inclined to proceed once early indicators suggest inflation has peaked and is starting to subside.

INPUT COSTS

Key inflationary and deflationary pressures

Based on our observations of the market in tender returns, survey feedback and our extensive discussions with the supply chain, we have established that a number of inflationary and deflationary pressures are likely to impact tender pricing. While many of the pressures from our previous TPI report continue to impact tender pricing, the Ukraine crisis has exacerbated many existing inflationary factors as well as creating a few new ones. Consequently, the number and severity of inflationary pressures continue to far outweigh any current or potential deflationary pressures.

In G&T's Russia-Ukraine Conflict Report, we explored to what extent the UK is exposed to the impacts of the Ukraine crisis, and how it might impact construction costs. In it, we included a scenario-based fan chart outlining how three possible scenarios could potentially impact tender price inflation. In each scenario various supply, demand and macro-economic conditions and qualifying criteria were outlined.

Since publication of the report, it has become clear that the situation has evolved, increasing in severity and moving beyond what was originally described as our 'Limited Disruption Scenario'. Many of the conditions outlined in our

Inflationary Pressures

- Interrupted global supply chains and new bottlenecks in wake of Ukraine conflict, forcing some to seek alternative sources of supply at greater cost
- Elevated fuel and energy prices increasing material production and transport/logistics costs
- Limited direct exposure from materials exported from Russia overall, but more heavily exported items (rebar, asphalt, and certain wood products) are at risk supply availability and cost inflation
- Red diesel rebate ban in construction increasing operational cost of running plant/machinery on site
- High vacancy levels, an aging workforce and skills shortages are increasing labour rates and the cost of employee retention
- Growing risk of contractor insolvencies if contracts have been won on lower prices pre-Ukraine conflict. Insolvencies would reduce supply chain capacity and tendering competition
- Strong and stable public sector spending/investment pipeline, leading to increased construction activity and competition for resources
- Low freight availability and port congestion adding upward price pressure
- Increased NIC rates from April
- Strong contractor pipelines easing immediate pressure to win new work. Greater ability to be selective
- Contractors targeting higher margins and increasing risk allowances/premiums
- Widespread awareness of global inflationary pressures generally allowing for potential profiteering and artificial inflationary uplifts
- Retreat from globalisation and return to protectionism (eg decoupling accompanied by reshoring/near-shoring of manufacturing and production to higher-cost regions)

Deflationary Pressures

- Cost of living crisis prompting consumers to spend less. Resulting investor uncertainty may see a reduction in construction activity and output growth
- Supply chains will eventually adapt to interrupted trade flows and establish new trading partners
- Higher input costs may lead to project deferrals or cancellations, reducing pipeline and increasing tendering competition in the medium to long-term
- Stagflationary conditions and risk of UK recession potentially impacting client investment plans and spending decisions
- Improving productivity through adoption of digital practices and new/more productive ways of working
- Some cost absorption by contractors looking to secure workload for 2023 and beyond
- If interest rates continue to rise significantly, increased borrowing costs may impact investor demand

'Intermediate scenario' have now been met and so we have updated our fan chart to show what are now the two most relevant scenarios – the 'Intermediate' and the 'Substantial' disruption scenarios.

The adjacent chart shows G&T's latest weighted UK average TPI forecast, which now sits roughly in between the upper and lower inflationary ranges of the Intermediate scenario. Also displayed are the upper and lower ranges of the Substantial disruption scenario. Descriptions of each scenario, and the relevant qualifying conditions for each, are provided in our Russia-Ukraine Conflict Report.

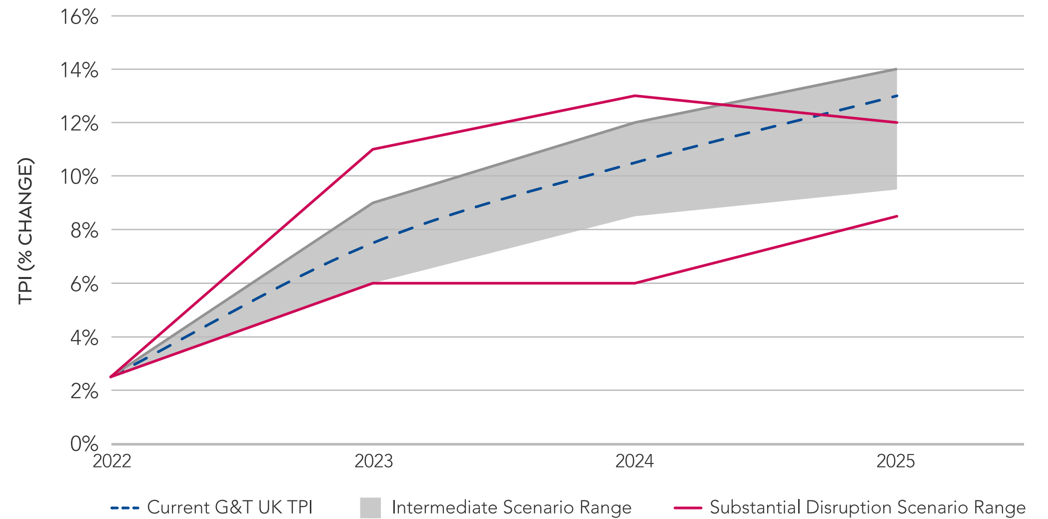
Material Costs

Construction input cost inflation is being heavily driven by material price increases. Trades that are heavily fuel/energy-driven or materials-based are experiencing the worst of the inflationary pressure (eg steel, M&E, concrete, brick/blockwork and even roofing due higher bitumen costs – a by-product of petroleum of which Russia is a major supplier). Carpentry and joinery are also being impacted by interrupted supplies of timber from Ukraine. While there is a good supply of most products and materials across the UK, challenges remain for materials such as bricks/ blocks, roofing products, boilers etc, all of which have long lead times.

BEIS data is yet to show the impact of the Russia-Ukraine war on material prices, but the 'All Work' index rose by 1.2% in February – its largest monthly increase in six months. The rise came after a reduction in the rate of material price inflation (ie disinflation) in the final half of 2021 as supply/demand imbalances caused by the pandemic began to normalise. However, unprecedented rises in fuel and energy prices have since spurred a second wave of post-pandemic inflation.

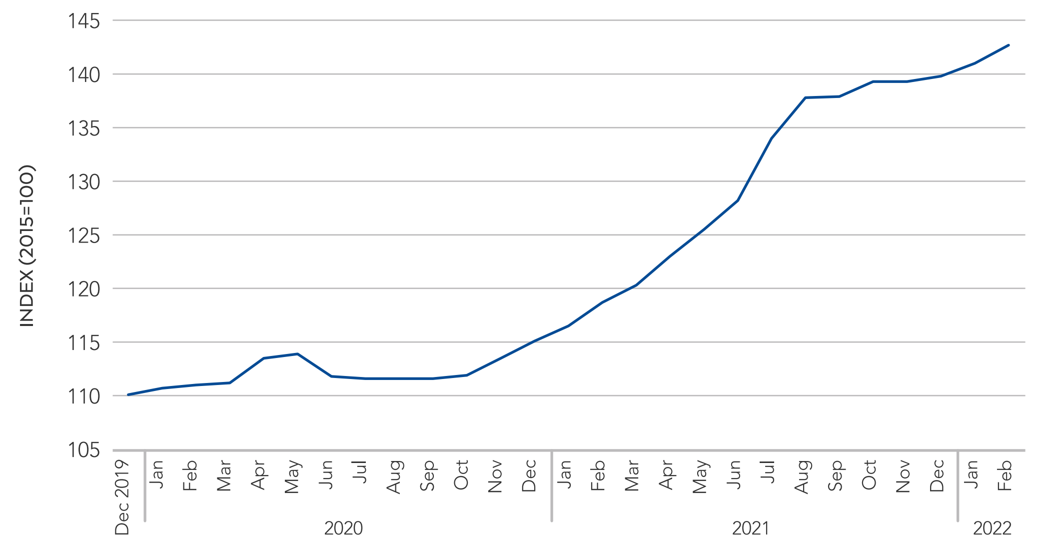
March's UK construction PMI survey data (which does capture the early effects of the conflict) showed a sharp uptick in input prices, indicating that any levelling off of material price inflation was merely a brief pause in what is set to be an otherwise sustained upward trend. The

DISRUPTION SCENARIO RANGES COMPARED TO G&T TPI (CUMULATIVE INFLATION) FORECAST



Source: *G&T*

BEIS: 'ALL WORK' CONSTRUCTION MATERIAL PRICES INDEX, UK



Source: *BEIS*

survey's Input Prices Index rose to 88.7 – the highest reading since last September. Surveyed purchasing managers noted that the war in Ukraine had driven up commodity prices and haulage costs, resulting in across the board rises in average cost burdens for all construction firms.

These recent material price rises are largely a result of surging wholesale gas and electricity prices increasing production costs for energy-intensive materials. An in-depth review of which materials and trade packages will be most affected by the Ukraine crisis is outlined in our Russia-Ukraine Conflict report, but according to the Construction Leadership Council (**CLC**), the war's impact on UK construction is "only beginning to be felt". Many items such as metals and electrical goods have already seen double-digit rises – rises that are being stacked on top of already significantly inflated key material prices seen prior to the conflict.

Fabricated structural steel sections, for example, were already 65% higher in February 2022 than they were just before the pandemic hit. Since then, British Steel has announced an additional £250/tonne increase for all new orders, followed by another £100/tonne in early April. British Steel blamed the sustained high level of steelmaking costs and continued disruption to international trade flows for the hikes. With the supply chain anticipating further price rises, customers are placing new orders at a record pace, thinking that if they do not buy now and fix costs, in a few months' time steel will be even more expensive.

While similar problems are being felt by steelmakers across Europe, the situation is particularly acute in the UK. The UK steel industry faces electricity prices that are 50-60% above those faced by steelmakers in France and Germany due to environmental policies, a reliance on gas, as well as power transmission and carbon permit costs above those in Europe. For now, customers are accepting price increases but if demand slows, producers may have to increasingly halt production in response to surging prices. Steelmakers, such as ArcelorMittal, have already been operating their electric arc furnaces cross European sites in a stop-start mode for some months to avoid peak electricity prices.

BEIS material price data shows that cement, ready-mixed concrete and pre-cast-concrete products were already edging higher prior to the Ukraine crisis, but spiking energy prices will likely induce a step change to inflation rates in the coming months as natural gas fuels cement kilns as part of the production process.

According to the CLC, due to higher copper, steel and aluminium prices, as well as supply shortages of neon from major producers in Odessa and Mariupol and COVID-related bottlenecks for microchips and semiconductors from Asia, the electrotechnical sector is now experiencing inflation on products above 20%. MEP suppliers expect further price impact in the coming months. High aluminium prices will impact lifts, heat exchangers and fans, while steel-related products (eg M&E containment, pipework, conveyance products and fabricated products) are all likely to experience significant price rises. Record high copper prices will see pipework, conveyance products, cabling and general system components all increase, while high gas prices will increase the cost of refrigerant gas.

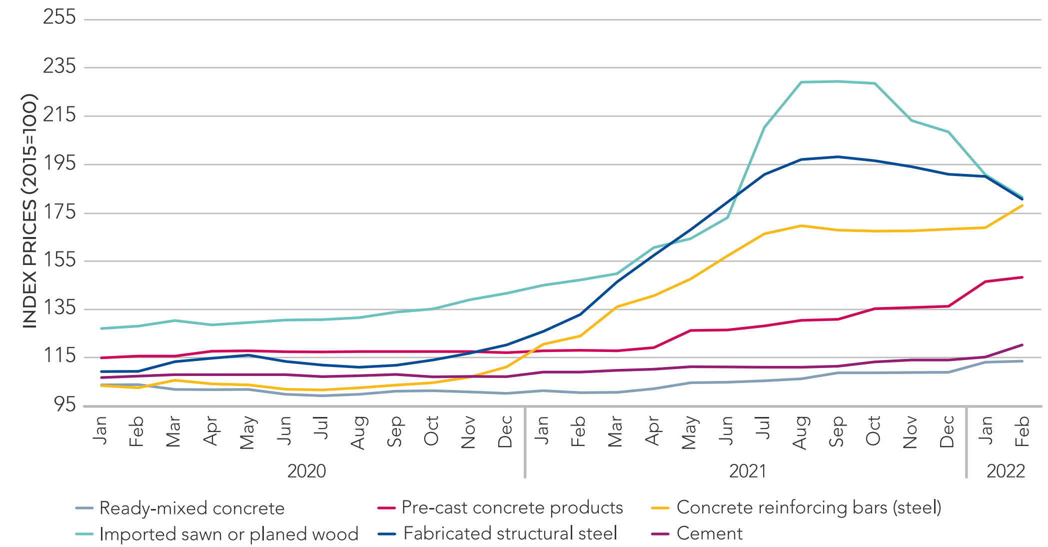
Labour

There is some inconsistent messaging with regards to labour availability. Some Main Contractors indicate they are not currently struggling with skills shortages, stating that Brexit has actually had relatively little impact on labour availability. Several Tier one Main contractors also said there has been little, non-standard changes to rates or availability. However, other contractors are stating there is very low availability of both staff and project labour resource, noting the dearth of skilled construction workers has been decades in the making and the shortfalls have been compounded during the pandemic. Regardless, almost all contractors expect sustained upward pressure on labour rates as workers move around to secure the highest rates amid a 'cost of living crisis' and contractors try to retain skilled workers.

Official ONS data (which covers all roles within the construction industry) suggests that construction average weekly earnings increased by 3.7% year-on-year to February 2022[1]. This

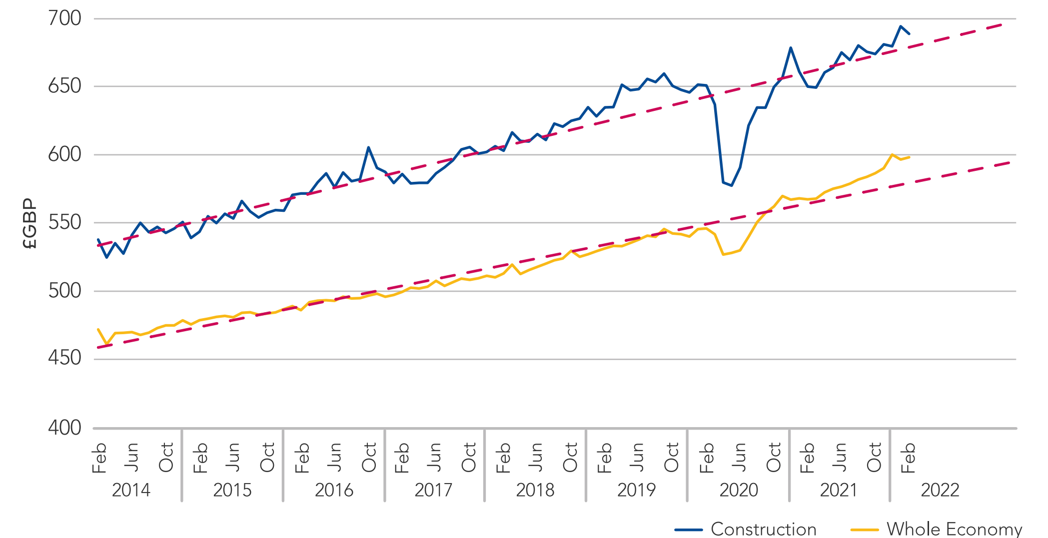
KEY MATERIAL PRICES

Index 2015 = 100



Source: *BEIS*

AVERAGE WEEKLY EARNINGS: UK CONSTRUCTION V WHOLE ECONOMY *Seasonally adjusted*



Source: *ONS*

[1] Year-on-year, three-month average to February 2022

annual growth rate is higher than the industry's long-term average annual growth rate of 2.9% but is well below the wage growth seen over the past year from the whole economy (**5.4%**).

While ONS data suggests that average weekly earnings (**total pay**) in February was £689/week, rates from Hudson Contract suggest that labour rates on building sites in London are much higher. Weekly earnings for self-employed tradespeople hit £1,027 in London during March according to the payroll provider – a 13.1% year-on-year increase. Other regions, such as the East Midlands, saw similar earnings growth rates, helping to push the AWE figure across England and Wales as a whole to an all-time high of £959 in March.

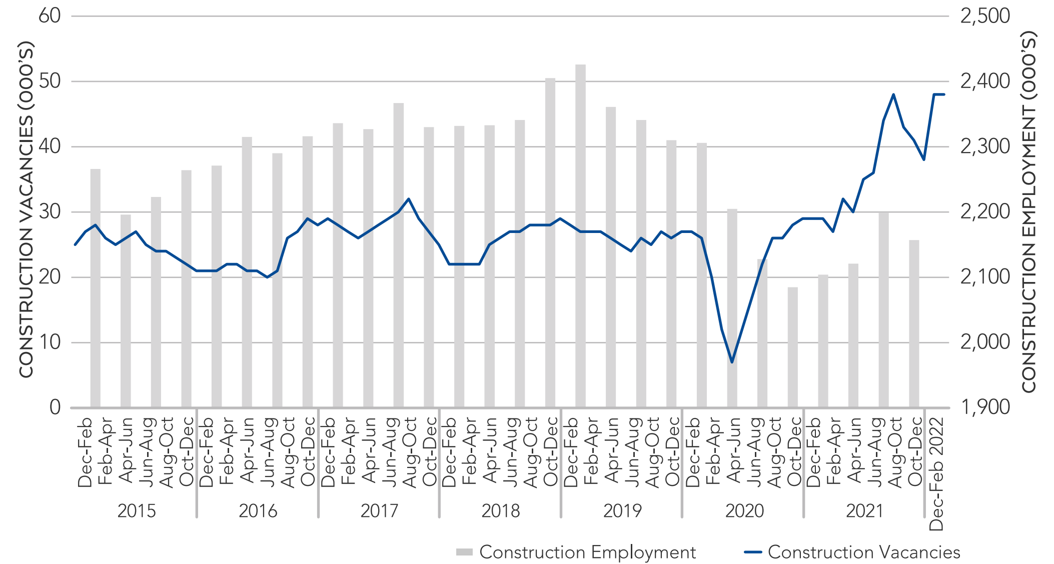
To hit record earnings at this time of year (when sites are hit by adverse weather and lower activity levels) suggests that the remainder of 2022 will be a strong year for workload and earnings. Even though there may be fewer tenders coming through due to the issues around material price inflation, labour rates are being driven higher by strong pent-up demand and full order books.

Staffing numbers continue to rise according to purchasing managers, but the rate of job creation eased to its least marked since December 2021 according to the March UK Construction PMI survey. This slower employment growth was attributed to tight labour market conditions and a lack of suitable skilled candidates to fill vacancies. That said, official UK construction vacancy levels remain indicative of strong underlying momentum. According to the ONS, vacancies were the highest they have been in more than 20 years at 48,000 between January-March 2022, while the total number of construction employees remains well below pre-pandemic levels.

Vacancies are evidently proving difficult to fill, growing faster than any other sector in Q1 2022. The number of construction jobs that need to be filled grew by 18.7% in the three months to March, amid a bigger picture that the labour force of the entire economy is contracting. While it is certainly still possible to hire from the EU (albeit with additional bureaucracy and extra cost), job applications are down on pre-pandemic levels, which is widening the skills deficit. This will ultimately add pressure on contractors to increase rates and improve training and work conditions.

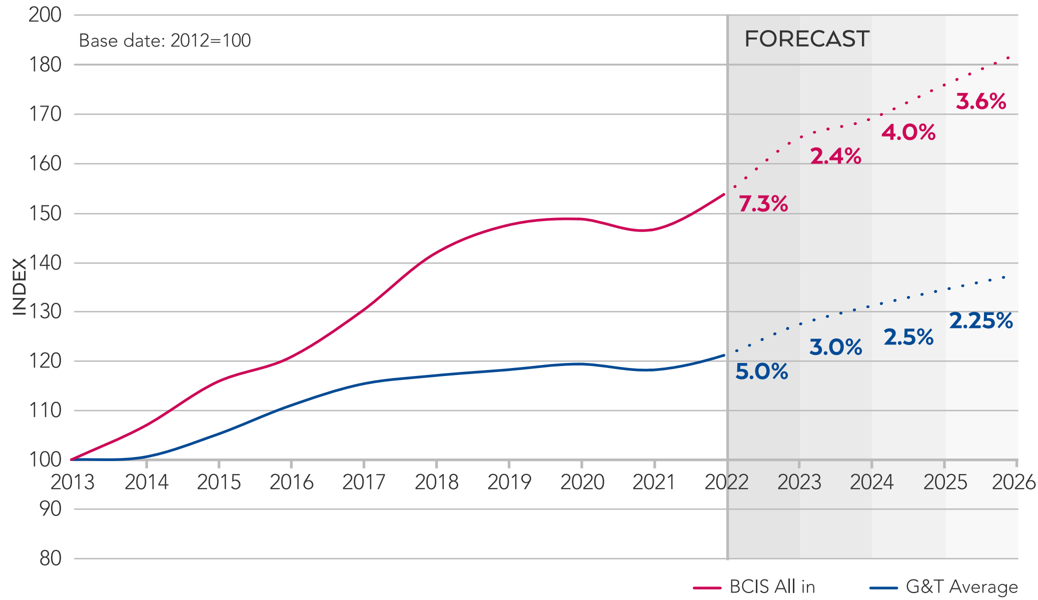
In addition, there is potential for further labour shortages as Ukraine goes through a re-building process and an aging construction workforce retires. What is clear is that the age of cheap, steady streams of labour from the continent is over.

VACANCIES IN UK CONSTRUCTIONS (SA) V CONSTRUCTION EMPLOYMENT (NON SA)

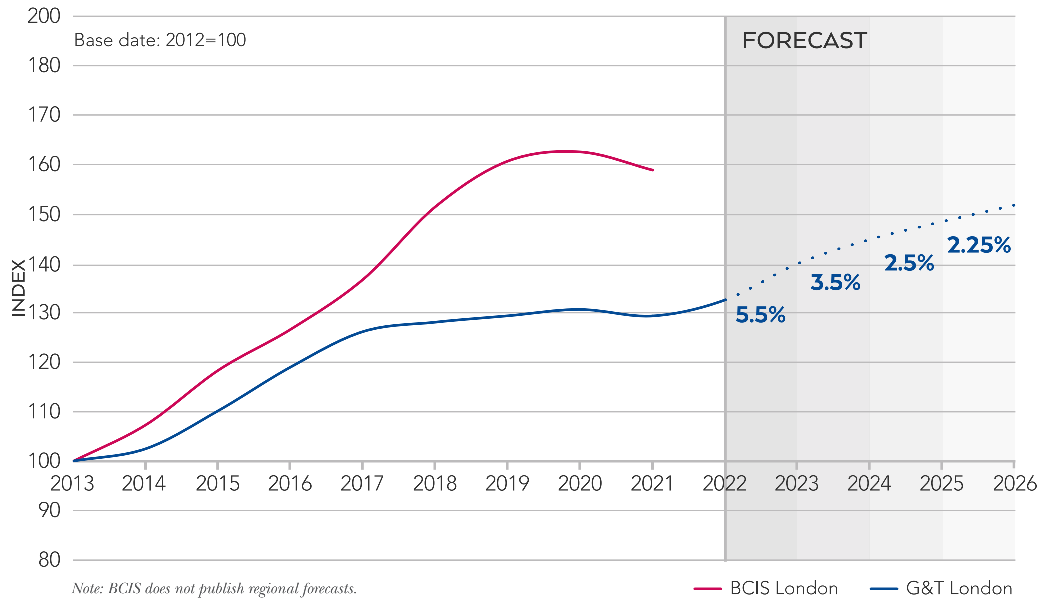


Source: *ONS*

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE TREND 'LONDON TPI'



Note: BCIS does not publish regional forecasts.

TENDER PRICE ANNUAL PERCENTAGE CHANGE Q2 2022

%	2022		2023		2024		2025	
Regional forecasts	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***
Greater London	5.50	2.50	3.50	2.00	2.50	2.00	2.25	2.00
South East	5.50	2.50	3.50	2.00	2.50	2.00	2.25	2.00
South West	4.50	2.50	3.00	2.00	2.50	2.00	2.25	2.00
East	4.50	2.50	3.00	2.00	2.50	2.00	2.00	2.00
Midlands	4.50	2.50	3.00	2.00	2.50	2.00	2.25	2.00
Wales	4.50	2.00	2.00	1.75	2.00	1.75	2.00	1.75
Yorks & Humber	4.00	2.00	3.00	2.00	2.00	1.50	1.75	1.50
North West	4.00	2.50	3.00	2.50	2.50	2.00	2.25	2.00
North East	4.00	2.00	3.00	1.75	2.50	2.00	2.00	2.00
Scotland	5.50	2.25	3.00	2.00	2.50	2.00	2.00	2.00
Northern Ireland	5.00	4.00	3.00	2.00	2.50	2.00	2.00	2.00
UK Average (weighted)	**5.00**	**2.50**	**3.00**	**2.00**	**2.50**	**2.00**	**2.25**	**2.00**

Last* 1Q22

COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

	G&T UK AVER. Q2 2022	**BCIS** UK AVER. April 2022	**G&T** LONDON Q2 2022	**AECOM** UK April 2022	**ARCADIS** LONDON March 2022
	% CHANGE				
2022	5.00	7.27	5.50	6.30	5.00
2023	3.00	2.44	3.50	3.80	5.00
2024	2.50	3.97	2.50	N/A	5.00
2025	2.25	3.56	2.25	N/A	5.00

Note: Arcadis' London TPI forecasts were compiled prior to the Ukraine crisis

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.

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