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TENDER PRICE **FORECAST**

for 3rd Quarter 2024 is...

2.25%

Annual UK Average

▲ compared to 2.00% Annual UK Avg. for Q2 2024

As interest rate cuts and anticipated planning reforms fuel hopes for a construction revival, inflationary pressures could reemerge. If the brighter growth outlook leads to a surge in construction activity, a key concern is whether the reduced contractor capacity—diminished by insolvencies—can keep pace with the rising demand.

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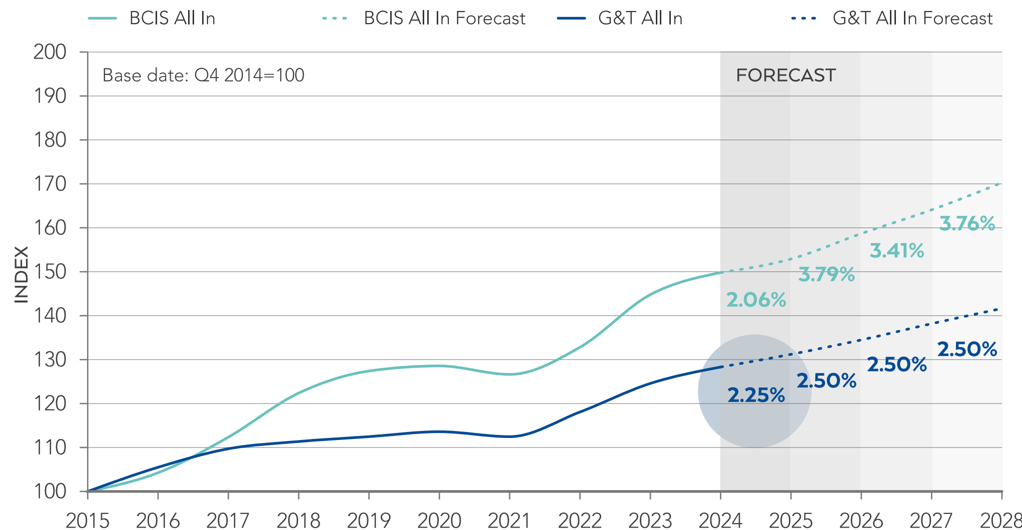
TENDER PRICE ANNUAL PERCENTAGE CHANGE Q3 2024

%	2024		2025		2026		2027	
Regional forecasts	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***
Greater London	2.25	2.00	2.75	2.25	2.75	2.50	2.50	2.50
South East	2.25	2.00	2.75	2.25	2.75	2.50	2.50	2.50
South West	2.50	2.00	2.50	2.00	2.50	2.00	2.50	2.00
East (Anglia)	3.00	2.50	3.00	2.50	2.75	2.50	2.50	2.50
Midlands	2.25	2.00	2.50	2.00	2.75	2.50	3.00	2.50
Wales	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50
Yorks & Humber	2.00	2.00	2.50	2.00	2.50	2.25	2.75	2.25
North West	2.50	2.00	2.50	2.00	2.50	2.00	2.25	2.25
North East	2.00	2.00	2.00	2.00	2.50	2.25	2.50	2.50
Scotland	2.75	2.75	2.50	2.50	2.50	2.25	2.50	2.25
Northern Ireland	2.25	2.25	2.00	2.00	2.50	2.50	2.50	2.50
UK Weighted Average	**2.25**	**2.00**	**2.50**	**2.25**	**2.50**	**2.25**	**2.50**	**2.50**

Last* **2Q 2024**

Our forward forecasts show annual tender price inflation (Jan-Dec)

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

- ▲ 7.8% (High Cost Driver) — BCIS Labour Cost Index, Jun 23 – Jun 24
- ▲ 8.4% (Low Cost Driver) — BCIS Plant Cost Index, Jun 23 – Jun 24
- ▲ 3.8% (High Cost Driver) — BCIS M&E Cost Index, Jun 23 – Jun 24
- ▼ -16.2% (Medium Cost Driver) — Fabricated Structural Steel, Jun 23 – Jun 24
- ▼ -10.7% (Low Cost Driver) — Concrete Reinforcing Bars (Steel), Jun 23 – Jun 24
- ▲ 0.8% (Low Cost Driver) — Imported Sawn or Planed Wood, Jun 23 – Jun 24
- ▲ 3.2% (Medium Cost Driver) — Ready Mixed Concrete, Jun 23 – Jun 24
- ▼ -9.1% (Low Cost Driver) — Oil Prices (Brent Crude), Aug 23 – Aug 24

KEY

Input cost arrows indicate the direction of change over the specified annual period.

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

MACRO ECONOMICS

Unless otherwise indicated, figures show annual growth rates. Arrows indicate the direction of change compared to our previous TPI.

- ▲ 0.9% — UK GDP Annual Growth Rate, Q2 2023 – Q2 2024
- ▼ 2.2% — CPI Jul 2024, 12-month rate
- ▼ 3.6% — RPI Jul 2024, 12-month rate
- ▼ 5.0% — UK Base Interest Rate, Aug 2024
- ▼ 4.2% — UK Unemployment Rate, Apr 2024 – Jun 2024
- ▼ 4.5% — UK Wage Growth, Average Weekly Earnings (Total Pay), Y-on-Y three-month average to Jun 2024
- ▲ 3.2% — UK Construction Wage Growth, Average Weekly Earnings (Total Pay), Y-on-Y three-month average to Jun 2024

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.

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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 and supply chain consultations. This forward forecast illustrates our view of annual tender price inflation from January to December 2024 and beyond.

OUR FORECASTS

As interest rate cuts and anticipated planning reforms spark hopes for a construction revival, will inflationary pressures resurface and how will contractor capacity constraints restrict future workload growth?

The outlook for the UK construction sector has brightened in recent months. With election-related uncertainty behind us and borrowing conditions set to gradually improve, the stage may be set for an expansion in construction activity. As confidence begins to return, we could witness a renewed momentum in project starts. However, challenges remain.

A resurgence in activity may drive up costs across the supply chain, as materials, labour and contractor availability become increasingly constrained. The intensified competition for resources could lead to upward pressure on tender prices, especially in areas where capacity is already stretched thin.

As the market heats up and optimism translates into tangible growth, these constraints and pressures could lead to an inflationary spike. After a brief period of stability, material prices are once again on the rise. Recovering global demand is allowing manufacturers to catch-up with historical input cost inflation, passing on price increases. Labour pressures, which have eased in tandem with weaker growth in new orders and subdued demand in several sectors, could reemerge. The industry continues to grapple with a shrinking labour pool due to demographic trends and reduced access to skilled migrant labour, prompting concerns about the market's capacity to support a recovery. This is coupled with the loss of contractor capacity through business failures and insolvency which will reduce competitive pressure in the market and extend delivery times.

Given this backdrop, we have adjusted our short-term inflation forecast for 2024, increasing it from 2.00% to 2.25% for both London and the broader UK market. We expect further inflationary pressure in 2025 as the anticipated recovery gains momentum, with spikes in key trades and certain sectors as projects currently in a holding pattern move forward. G&T has therefore raised its UK average TPI forecast for 2025 from 2.25% to 2.50%, and its London forecast from 2.25% to 2.75%. Beyond this, forecasts are subject to a significant degree of uncertainty and reflect our long-term average.

All forecasts in this report take account of all sectors and project sizes as a statistical weighted 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

The UK economy grew 0.6% in Q2 – further extending the recovery from last year's recession. This brings total growth for the first half of 2024 to 1.3%, putting the UK on track to enjoy the strongest growth within the G7 group during this period.

At the start of 2024, forecasters were expecting a tepid annual growth rate of just 0.5%. However, the consensus view has now been bumped up. Some economists attribute this unexpected growth spurt to the so called 'catch-up' effect, following on from the short and shallow technical recession we had in second half of 2023. The mild downturn left the economy with underutilised capacity, as it grew by only 0.1% last year—well below its potential. This untapped capacity is now being activated, driving stronger growth and underscoring the power of the catch-up effect.

Another positive economic development has been normalising Consumer Price Inflation (**CPI**). After falling back to the Bank of England's 2% target in June, the headline inflation rate edged up slightly to 2.2% in July. Although an increase was expected, it was somewhat tempered by a decline in certain underlying price pressures, particularly in services inflation, resulting in a smaller rise than initially feared. With inflationary pressures gradually easing, the Bank of England has begun cutting interest rates, a move that should help stimulate economic growth. However, the central bank's decision was finely balanced, as the risk of renewed inflation remains. The bank expects CPI to temporarily rise to around 2.8% later this year, as last year's declines in energy prices fall out of the annual comparison, revealing more clearly the "prevailing persistence of domestic inflationary pressures". The bank will therefore exercise caution in not cutting rates too much or too quickly.

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CONSTRUCTION OUTPUT AND NEW ORDERS

Construction output – a measure of the value of work being completed on site – fell 0.1% in Q2. This was the third consecutive quarter of contraction. The drop in Q2 came solely from a decrease in new work (-0.5%), as repair and maintenance output increased by 0.4%.

Spending decisions in Q2 were reportedly impacted by election-related uncertainty, along with the persistent effects of high interest rates and elevated construction costs, delaying project starts. The ONS also noted that inclement weather affected output growth, though with mixed results. While rain delayed work early in the quarter, warmer weather in June led to increased output in some areas. With total output rising in both May and June, the trend is moving in the right direction. The market remains cautiously optimistic that this will continue, supported by the new government's planning reforms and housing delivery targets. Historically, construction has fared well under a Labour Government.

The Construction Products Association (**CPA**) continues to forecast an overall contraction in output growth this year (-2.9%) but remains optimistic of a U-shared recovery, with output expected to grow 2.0% in 2025 and by 3.6% in 2026. Driving the CPA's outlook is post-election stability benefitting economic activity, spending and investment. The prospect of further interest rate cuts, a recovery in the housing sectors and hopes that planning constraints will ease and draw more private investment also support their outlook.

Meanwhile, new order growth – a measure of the value and volume of new orders received by main contractors – surged for the second consecutive quarter, climbing by 16.5% to reach £12.5 billion.

The quarterly increase was primarily driven by significant growth in new private commercial and infrastructure work, which rose by 15.2% and 23.5%, respectively. Notably, all sectors experienced quarter-on-quarter growth – the first time this has happened for several quarters.

As interest rates start to decline and the new Government's pro-construction policies and ambitious housebuilding targets take effect, we can anticipate a continuation of the positive new order data over the coming quarters. The critical challenge ahead lies in expanding capacity and tackling the skilled labor shortages that threaten to constrain the industry's ability to manage this surge in demand.

G&T TPI SURVEY FEEDBACK

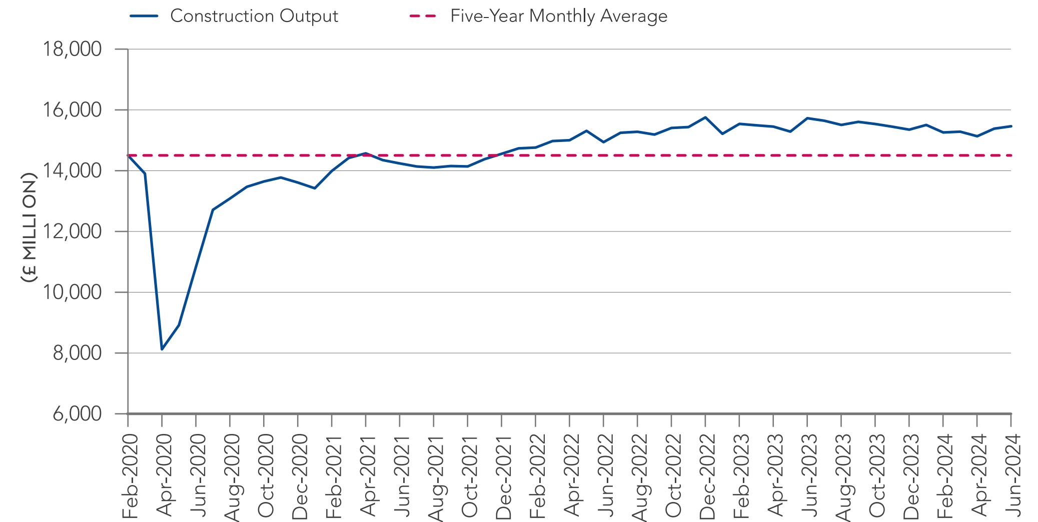
Workload

Feedback from our latest TPI survey reveals significant variation in workload across different sectors. Some, like data centres, life sciences, fit-out and health, are experiencing elevated levels of activity. In contrast, others, such as residential, have stalled. This disparity has led to the emergence of a two-speed tendering market.

In this market, sectors experiencing high or recovering demand are facing capacity constraints. A sharp rise in the volume of the MEP-intensive projects has absorbed much of the available capacity, leading to reduced tendering competition and less pressure on margins. As the more active 'mission critical' sectors draw resource away from those less active sectors, overall capacity among Main Contractors to deliver projects remains pressed.

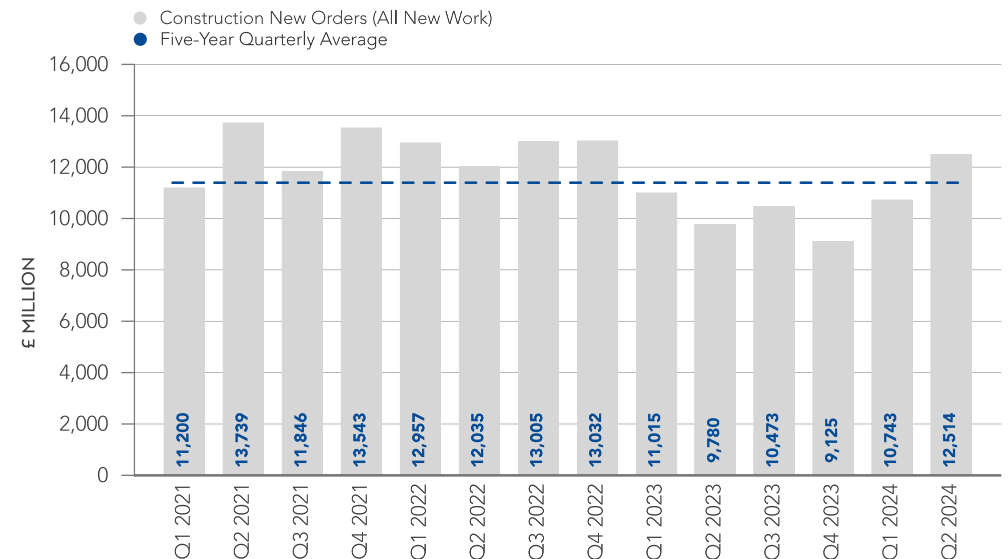
CONSTRUCTION OUTPUT: ALL WORK

Seasonally adjusted



Source: *ONS*

UK CONSTRUCTION: NEW ORDERS (ALL NEW WORK)



Source: *ONS*

Looking ahead, there is cautious optimism driven by improved economic stability, interest rate cuts, and positive post-election sentiment. The new Labour Government's commitment to reducing planning red tape and promoting housebuilding is expected to drive demand. The office refurb trend is also likely to continue, driven by the desire to reduce embodied and operational carbon and deliver best in class space with a lower cost of construction. Feedback suggests a busy market in Cambridge and a resurgence in the London residential sector. The data centre market is also gearing up for new projects, reflecting broader trends of increased investment and enquiry levels. Despite this, significant cross-sector growth is not anticipated until next year, as projects previously on hold gradually resume.

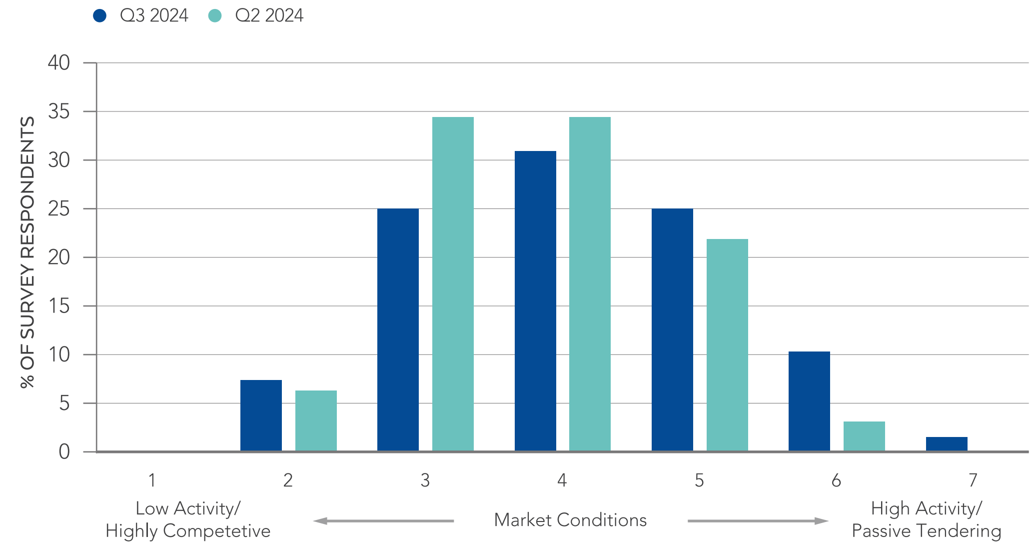
Market Conditions

Market conditions underwent another shift in Q3. Although many still maintain a neutral outlook, there has been a noticeable change in perception, with expectations now leaning towards increased activity and more subdued tendering over the next six months.

Analysing parliamentary terms alongside construction output suggests that Labour governments tend to foster more robust and consistent construction growth compared to Conservative and Coalition periods across most sectors. The data also reveals that construction cost inflation does not show significant fluctuations immediately following general elections. Instead, noticeable effects on inflation typically emerge 1-2 years after the implementation of new government policies.

In the short-term, however, interest rate movements are likely to exert a more immediate influence on construction growth than government policy. Although current financing costs are relatively normal compared to long-term historical rates, funding remains a challenge for investors and developers. This is further compounded by high land values, which negatively impact viability calculations and delay construction. While new policies, such as the Government's target of building 1.5 million homes over five years, will support construction activity, supply is ultimately in the hands of large private developers. Without lower borrowing costs to stimulate private investment and drive occupational demand, achieving these ambitious growth targets will be challenging.

Contractor capacity will be another key driver of market activity and tendering conditions in the coming months. According to G&T's latest Main Contractor survey, short-term forward pipelines remain robust and contractors are largely confident that new work volumes will recover from the recent slowdown in new orders. However, capacity has been depleted by rising insolvencies throughout the supply chain. The remaining contractors have become increasingly selective about the work they take on and the clients they engage with, placing greater emphasis on understanding project risks and managing profit margins. Capacity and willingness to tender on large, complex projects therefore remains tight, and contractors are prioritising smaller, straightforward projects with more predictable risks.



Source: *G&T Q3 2024 TPI Survey*

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INPUT COSTS

Key Inflationary Drivers

With labour cost inflation showing signs of easing, material prices are once again on the rise. In addition to this, construction costs and tender pricing are being driven by several other pressures, including stricter regulatory requirements, planning challenges, supply chain consolidation and capacity constraints. The table on the right highlights these key drivers, while also identifying the deflationary forces that are partially offsetting these cost increases – such as weaker demand for new orders, the need to keep available teams occupied and the importance of securing cash flow.

Material Trends

On an aggregate basis, construction material prices have seen little movement over the past six months, indicating supply and demand pressures have been broadly balanced. However, the latest data suggests prices are beginning to edge higher as demand conditions improve and logistical challenges and supply risks remain.

The Department of Business and Trade's (**DBT**) 'All-Work' index – a basket of goods that tracks price movements for construction materials – has fallen 2.2% over the past year (and 5% since its peak in July 2022). However, compared to early 2020 levels, before the pandemic, material prices remain approximately 39% higher.

Over the past 18-24 months, weaker demand for key construction materials has limited manufacturers' ability to fully pass on rising input costs. However, with demand showing tentative signs of a recovery, manufacturers may seize the opportunity to increase prices and recoup historic losses, potentially leading to higher costs across the construction sector. The latest data from the DBT signals the beginning of a transitional phase in the market, where pricing power gradually returns to suppliers, impacting project budgets.

While some indicators point to a potential reversal in recent material price trends, a recovery is unlikely to be uniform across all product categories. Variations are expected based on the nature of the recovery and shifts in supply and demand dynamics withing specific sectors. For instance, if Labour's housebuilding targets are met, brick production may struggle to keep pace with demand, leading to price surges. The reduction in domestic production capacity over recent years will also impact pricing dynamics for locally produced heavy-side building materials, such as bricks. Conversely, steel prices may remain relatively stable due to an uncertain global demand outlook

Although inflationary pressures have stabilised and monthly price movements have become less volatile, data from the DBT indicate that certain product categories are still experiencing price growth. Timber saw the highest rate of inflation during the three months leading up to June 2024, with prices rising by 3.3%. This increase was largely driven by reduced production volumes, shrinking stockpiles, and rising production and transportation costs.

Other materials, such as pipes and fittings (+3.1%) and aggregates (+2.9%), also experienced upward pressure. Ready-mixed concrete prices increased by 2% during the same period, driven by strong demand for low-carbon variants that carry higher production costs. However, there are signs that concrete prices may be reaching a plateau, potentially indicating a balance between supply and demand in this segment.

INFLATIONARY PRESSURES	DEFLATIONARY PRESSURES
Material prices starting to rise again on aggregate	Disparity in secured workload levels for 2025; desire to fill pipeline gaps
Rise in base metal prices (eg copper, aluminium) in H1 2024, but weaker demand has since triggered sharp reversals	Increased competition among contractors in certain sectors (eg residential, new build commercial office) due to fewer bidding opportunities
Geopolitical tensions and supply risks maintaining price premiums	Lacklustre Chinese demand for certain commodities and manufactured products causing export deflation
Insolvency-related supply chain consolidation	Lower Main Contractor risk allowances due to perception of reduced inflationary risk, improving economic conditions, and more competitive pressure to secure work
Capacity pressures in the MEP market	Technological advancements (adopting AI/automation tools and value engineering solutions)
Strong demand from active sectors	Bulk buying materials early in the process to secure volume discounts and lock in prices
Planning complexity causing delays and increasing costs	Government policy to ease planning constraints
Inflationary impacts of the new Building Safety Act	
Project resource stuck on projects that are on hold, reducing capacity and preventing bidding on future workload	
Ongoing pressure on project labour resource (albeit softening)	
Rising shipping costs due to recovering demand and Red Sea Crisis	

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It is also worth noting the impact of higher shipping costs on imported products. The cost of moving a 40ft container between Asia and northern Europe at short notice has more than doubled since April, from $3,223 to $8,461, following an intensification of Houthi rebel attacks on ships travelling through the Red Sea to the Suez Canal. Heightened political tensions are an upside risk to freight costs, and with a consumer-led recovery gathering strength in Europe and the UK, there is now more potential for companies to pass these costs on. If sustained, higher shipping costs will appear in prices for imported construction products at some point.

Labour Trends

Labour costs are currently the primary driver of construction input cost inflation, but pressure has eased considerably in recent months.

Following the post-pandemic recovery phase (mid-2020 to mid-2021), where there was a surge in construction activity as projects resumed and new schemes began, vacancies began to decline noticeably. The decline was driven by several factors – high inflation, supply chain issues, rising interest rates and an economic slowdown – all of which led to weaker new order growth and softer demand for labour (dampening employment and recruitment activity over the past year).

Despite returning towards normal levels, vacancies remain above the 10-year average. Leading sentiment indicators (eg the construction PMI) suggest firms are once again beginning to expand their staffing levels. The rate of job creation has quickened in recent months following expectations of rising workloads.

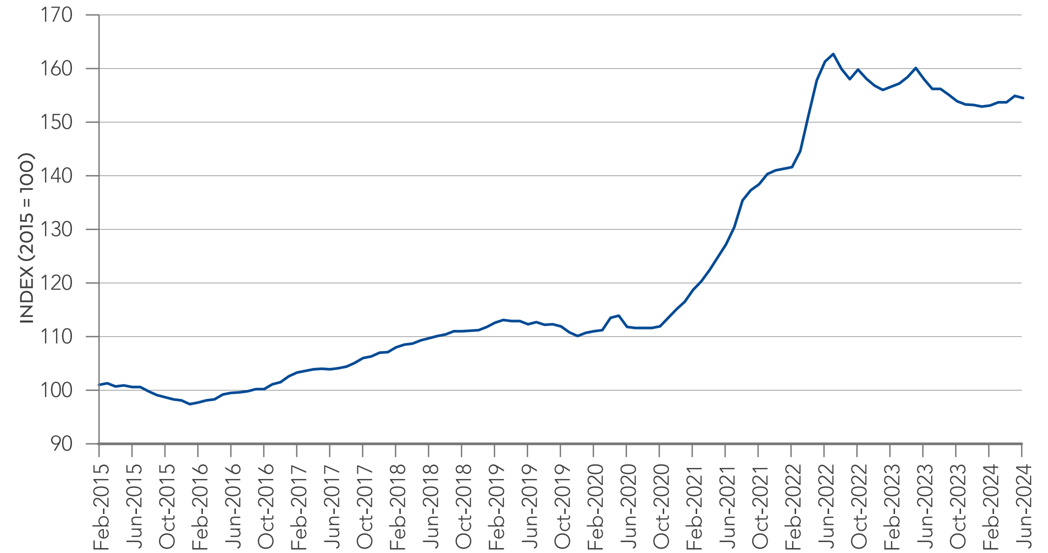
Against this backdrop, average weekly earnings rose 3.2% in June on an annual, three-month average basis. This marked a sharp recovery in construction earnings from the previous month, where annual growth was just 1.9% – the lowest period-on-period growth rate in three years. While earnings data is inherently volatile, June's figures indicate that even as earnings growth in the wider economy slowed, construction wages rebounded, aligning with long-term average growth rates.

Earnings data from the ONS provide a broad overview of construction earnings trends, but the picture is more nuanced. Directly employed site workers were able to leverage their collective bargaining power to secure a 6% wage increase in July 2023 under a CIJC deal, with an additional 1.5% increase effective from 1st January 2024. This results in a compounded total increase of 7.59%. In June 2024, the Building and Allied Trades Joint Industrial Council (**BATJIC**) also agreed a 4% pay rise over the next year, affecting workers employed by small builders.

This disparity indicates that the weaker annual earnings growth over the past year has primarily impacted self-employed tradespeople, who have less bargaining power and are more vulnerable to market fluctuations and reduced demand. Supporting this, data from payroll provider Hudson Contract shows that the average pay increase for self-employed operatives across all regions was just 1.25% in the year to June 2024 – a figure more closely aligned to May's ONS earnings data.[1]

Construction wage growth may be easing overall, but structural shortages and constraints remain. The industry continues to grapple with a shrinking labour pool due to demographic trends and reduced access to skilled migrant

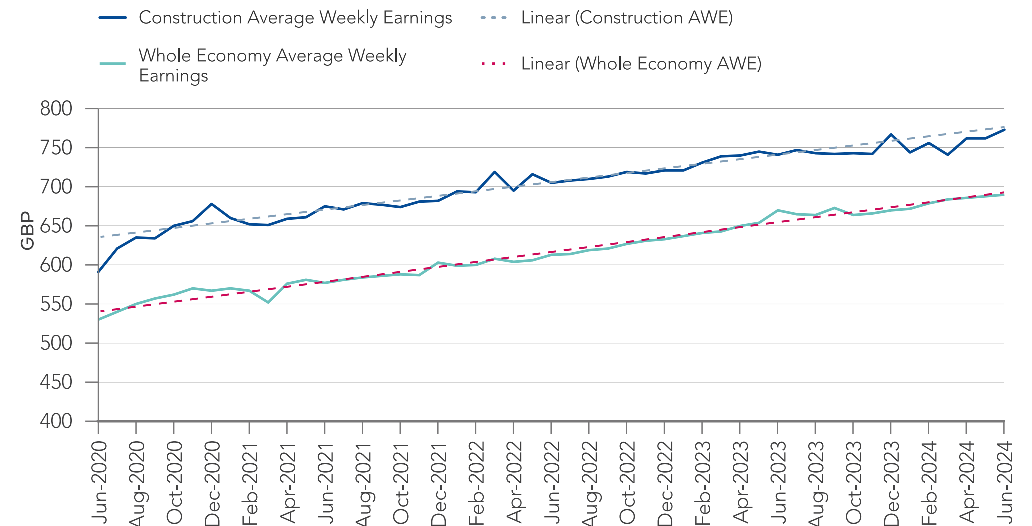
DBT: 'ALL WORK' CONSTRUCTION MATERIAL PRICES INDEX, UK



Source: *DBT*

AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION)

Seasonally adjusted



Source: *ONS*

1. *https://www.hudsoncontract.co.uk/industry-insight/news/freelance-builder-pay-trends-june-2024/*

labour. April's increase in the minimum salary threshold for Skilled Worker visas to £38,700 – a 48% rise from the previous threshold – further intensifies these pressures. Additionally, the new Immigration Salary List (**ISL**), which replaced the Shortage Occupation List (**SOL**), now mandates a minimum salary of £30,960 for roles on the ISL, or the occupation-specific threshold if higher. This is less generous than the 20% 'going-rate' salary discount for shortage occupation under the SOL, making the Skilled Worker route unviable for many occupations.

As demand for construction improves, these constraints will maintain a level of pressure on skilled labour costs as companies seek to retain and attract workers.

On-costs

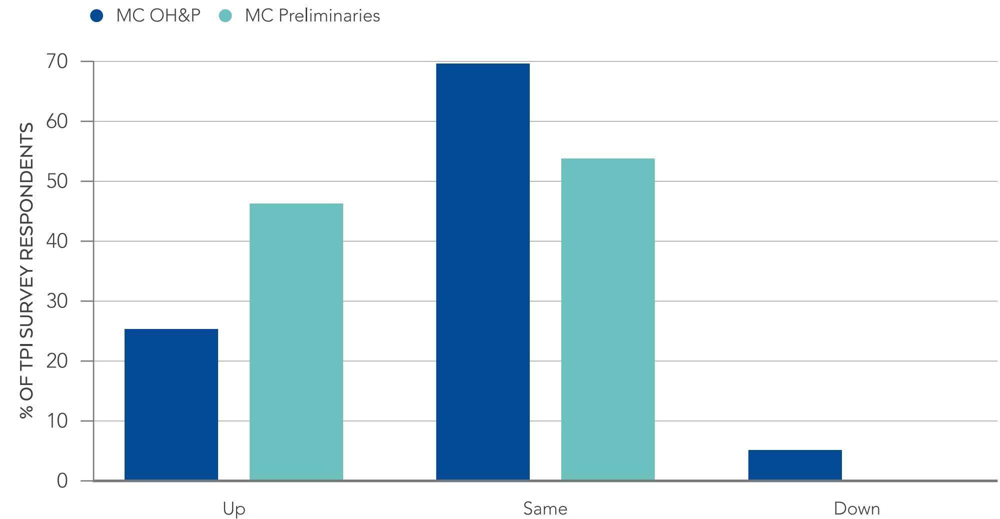
Preliminaries costs are facing continued upward pressure due to rising insurance and bond costs. Additionally, site setup expenses, such as temporary electrics, utilities, consumables and health and safety measures, are increasing. Rising staff costs and the impact of compliance-related requirements under the Building Safety Act are further driving inflation within preliminaries.

Over the next 12 months, opinion is broadly divided on whether preliminaries costs (as a percentage of total project costs) will remain stable or rise further. Proponents of a rise argue that as workloads recover and the contractor pool shrinks, firms will be in a stronger position to pass on increased staff costs and other inflationary pressures, including those from new regulatory requirements and carbon counting. Conversely, those expecting costs to remain steady suggest that until new orders pick up, higher staffing costs and other inflationary pressures may be mitigated by competitive pricing due to reduced workloads. In the short-term, we may see competitive preliminaries for the right client and project.

Overheads and profit (**OH&P**) remain the more stable out of the two cost elements, with the vast majority of survey respondents reporting little change over the last quarter. Despite the slowdown in new order growth, contractors have maintained a cautious approach, pricing work prudently with appropriate allowances for profit and risk, while anticipating a recovery in late 2024. However, notable variation exists based on project value, with schemes costing less than £15 million more likely to have seen an increase in OH&P levels over the past three months. Smaller projects often carry higher relative administrative and compliance costs, as fixed overheads are spread across a smaller budget. To offset these higher per-unit costs, contractors are adjusting OH&P upwards.

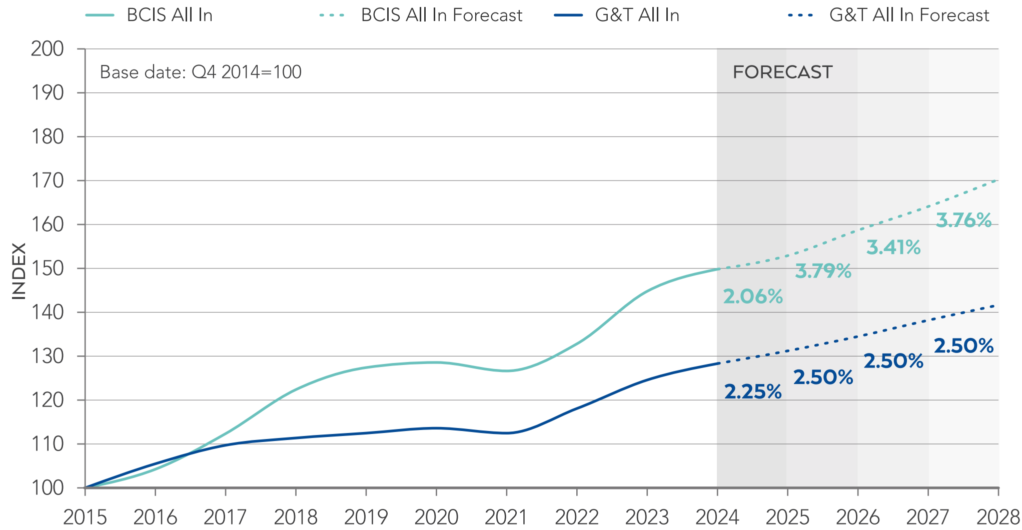
Over the next 12 months, if new order volumes continue to grow, contractors may face less pressure to aggressively compete on returns and controllable costs to secure work. Furthermore, the combination of reduced capacity in the contracting market and increased insolvency risks will bolster support for maintaining or even increasing OH&P levels.

INFLATIONARY PREDICTION FOR MAIN CONTRACTOR OH&P AND PRELIMINARIES OVER THE NEXT 12 MONTHS

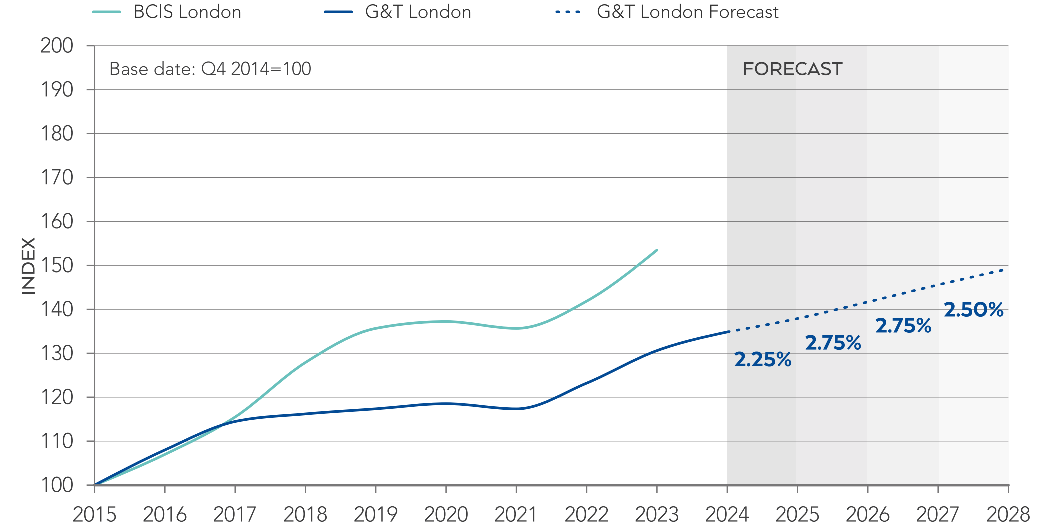


Source: *G&T Q3 2024 TPI Survey*

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE TREND 'LONDON TPI'



Note: BCIS do not publish regional TPI forecasts.

TENDER PRICE ANNUAL PERCENTAGE CHANGE Q3 2024

%	2024		2025		2026		2027	
Regional forecasts	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***
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South West	2.50	2.00	2.50	2.00	2.50	2.00	2.50	2.00
East (Anglia)	3.00	2.50	3.00	2.50	2.75	2.50	2.50	2.50
Midlands	2.25	2.00	2.50	2.00	2.75	2.50	3.00	2.50
Wales	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50
Yorks & Humber	2.00	2.00	2.50	2.00	2.50	2.25	2.75	2.25
North West	2.50	2.00	2.50	2.00	2.50	2.00	2.25	2.25
North East	2.00	2.00	2.00	2.00	2.50	2.25	2.50	2.50
Scotland	2.75	2.75	2.50	2.50	2.50	2.25	2.50	2.25
Northern Ireland	2.25	2.25	2.00	2.00	2.50	2.50	2.50	2.50
UK Average (weighted)	**2.25**	**2.00**	**2.50**	**2.25**	**2.50**	**2.25**	**2.50**	**2.50**

Last*	2Q 2024

COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

	G&T UK AVER. Q3 2024	**BCIS** UK AVER. July 2024	**G&T** LONDON Q3 2024	**AECOM** UK[2] Q3 2024	**ARCADIS** LONDON[1] Summer 2024
	% CHANGE				
2024	2.25	2.06	2.25	1.80	1.00 - 2.00
2025	2.50	3.79	2.75	2.00	3.00 - 4.00
2026	2.50	3.41	2.75	2.70	5.00 - 6.00
2027	2.50	3.76	2.50	N/A	5.00 - 6.00
2028	N/A	3.17	N/A	N/A	5.00 - 6.00

1. Arcadis' TPI figures are for its 'London Building Construction TPI' series.
2. Aecom's forecasts are baseline UK forecasts (Q4 to Q4).

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.