

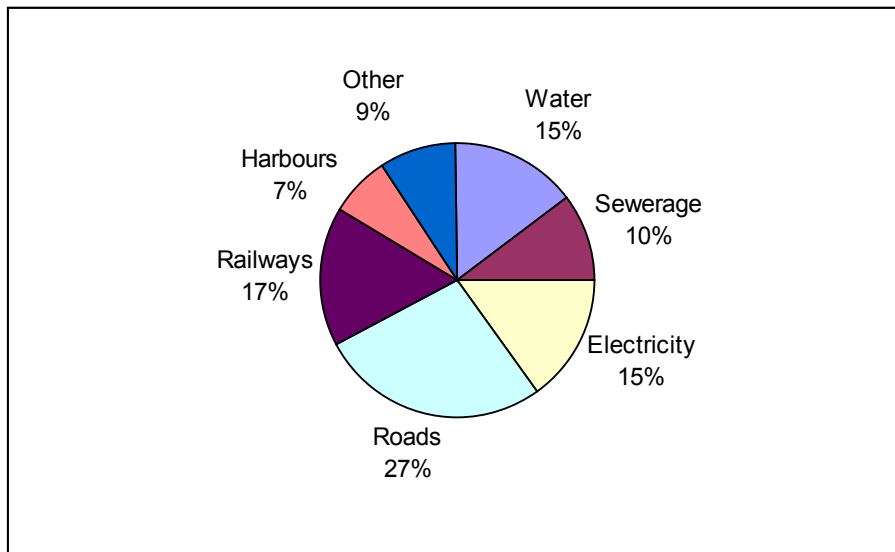
CIVIL ENGINEERING MARKET REPORT

Market Size

New work construction output from civil engineering (Infrastructure) in 2007 was £6,967 million and represented 10% of all new work construction. Infrastructure repair and maintenance is estimated to represent a further £4,000m.

Roads are the largest sector followed by railways and electricity.

Structure of the civil engineering market (2007 new work output)



Source: BERR

Trends in Demand

Construction output in the civil engineering market stabilised in 2007 after three years of decline. The overall size of the sector has reduced by nearly a third over the past five years.

Infrastructure output

	2002	2003	2004	2005	2006	2007
£ million (2000 prices)	7,438	6,734	5,851	5,328	4,930	4,985
Year on year % change	+7.7	-9.5	-13.1	-8.9	-7.5	+1.1

Source: BERR

Orders have been somewhat more consistent but have still declined over the past five years by almost 20%.

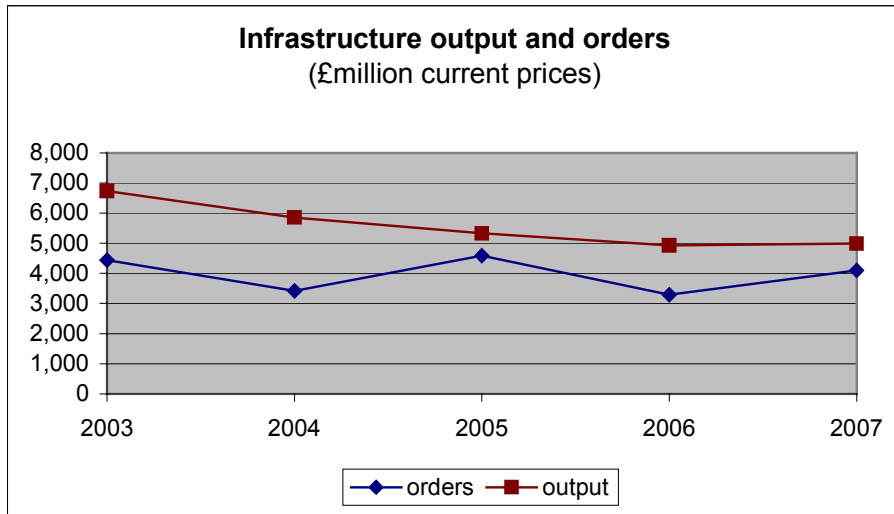
Infrastructure new orders

	2002	2003	2004	2005	2006	2007
£million (2000 prices)	5,061	4,440	3,420	4,588	3,287	4,096
Year on year % change	1.1	-12.3	-23.0	34.1	-28.4	24.6

Source: BERR

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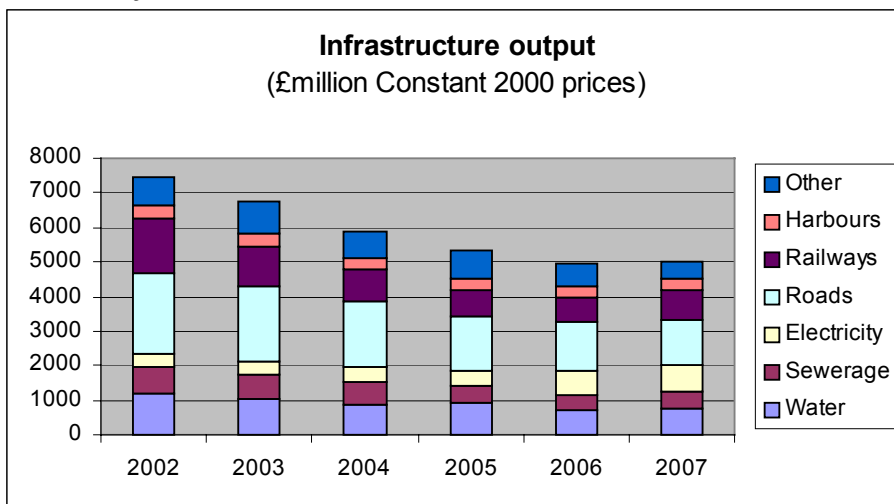
Trend in infrastructure output and orders



Source: BERR

The electricity sector is the only sector to have grown over the past five years, rising nearly 90%; demand from the harbour sector has been fairly stable while all other sectors have fallen over 30%.

Trend in infrastructure sectors



Source: BERR

Future Demand

While growth in the general UK and world economies are slowing down in reaction to the US housing mortgage crisis and the subsequent squeeze on lending, the outlook for civil engineering is much better than it has been for some time, with growing demand expected from all sectors.

Much of the growth will come from public spending and, in the current uncertain economic climate; the threat of delays to some projects due to funding constraints is a real concern. However, the size of the current commitments and the connection of some schemes to the 2012 Olympics should ensure a strong growth in demand over the next three years.

Roads

The Governments Comprehensive Spending Review, which covers the next three years 2008/9, 2009/10, 2010/11, included allocations for motorway widening schemes for the M1, M25 and M6.

The Scottish Government has set a £3bn budget for major roads over the next three years.

Rail

Work on the East London line, the Docklands Light Railway and other Olympic’s related improvements are already underway and further work is planned.

The big projects are the £5.5bn Thameslink scheme, which is underway, and the £16bn Crossrail, which should start work in 2010.

Electricity

The need to replace existing power stations and the drive for more renewable energy sources means that this sector is likely to grow steadily over the next three years.

While there seems to be a strong move in favour of nuclear power generation, any decision to invest in new reactors is unlikely to be reflected in construction work in the next three years.

Water and Sewerage

The failure of the sewer systems to cope with the heavy rains in summer 2007 has initiated an Ofwat review of the water companies’ systems but this is likely to influence expenditure in the next expenditure review period, starting in 2010.

The current expenditure plans should see spending peak in 2009.

Flood defences

The flooding in 2007 has brought about an increased expenditure on flood defences and flood management. Proposed expenditure does not meet the demands made by the insurance industry, so there will be continued pressure for increasing expenditure in this area.

Cost Trends

Civil Engineering costs have risen significantly over the past five years, driven by rising raw material and fuel prices.

Civil engineering costs (year on year percentage change)

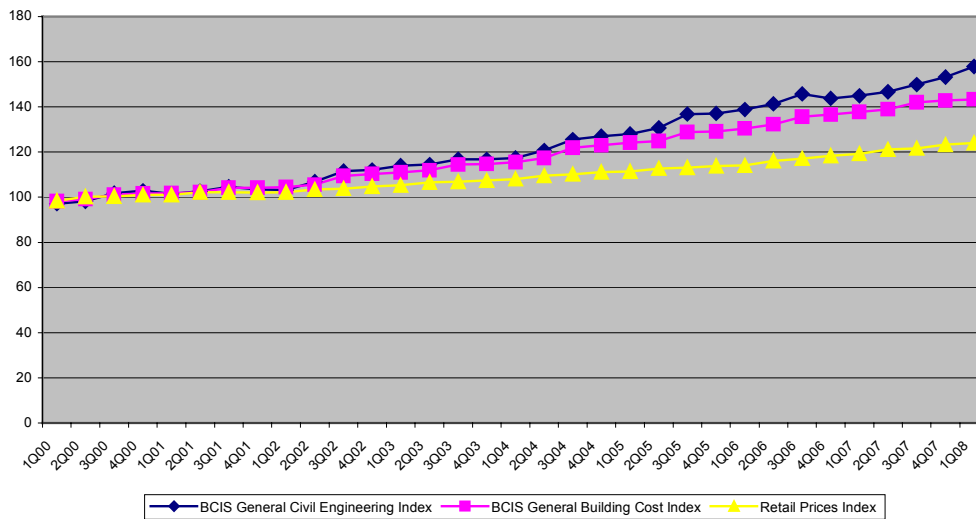
1Q02-1Q03	1Q03-1Q04	1Q04-1Q05	1Q05-1Q06	1Q06-1Q07	1Q07-1Q08
+10.7%	+2.6%	+9.4%	+8.6%	+4.3%	+8.6%

Source: BCIS

Labour and plant are the most significant cost drivers for most civil engineering projects. Wage awards have generally been above the rate of retail price inflation and have had a significant influence on costs. However, the main cost pressures over the last three years have come from metal prices, particularly steel; fuel prices; oil derivatives such as bitumen; and timber.

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Civil engineering costs, building costs, retail prices



Source: BCIS, BERR

Cost Forecast

The 2008 wage award for civil engineering operatives has already been agreed at just under 6%. The expected growth in demand for civil engineering work over the next few years will put pressure on labour supply, and further above inflation wage awards are expected for 2009.

Oil prices have fallen back from a peak but prices are expected to continue to rise over the next two years. OPEC has declined to increase supply and, despite the economic difficulties in the US, world demand is likely to continue to increase. Furthermore, the weakness of the dollar has led to the 'financialisation' of oil futures as a hedge against further declines in the value of the dollar.

Oil prices impact on civil engineering both directly, in fuel prices for plant and machinery, and as a cost in materials manufacture. Prices for petroleum derivatives such as plastics and bitumen products, and high-energy use manufactured products such as cement and bricks, are all likely to continue to rise over the next two years.

Steel prices are also set to keep rising. Recently agreed increases of 60% - 70% in iron ore prices will feed through to steel prices over the next two years. However, it is expected that by 2010, ore production and steel production will match demand from China and elsewhere and that prices will stabilise thereafter.

Overall, civil engineering costs are expected to rise 7% in 2008 and 5.6% in 2009.

General civil engineering cost forecast

1Q08-1Q09	1Q09-1Q10
+7.0%	+5.6%

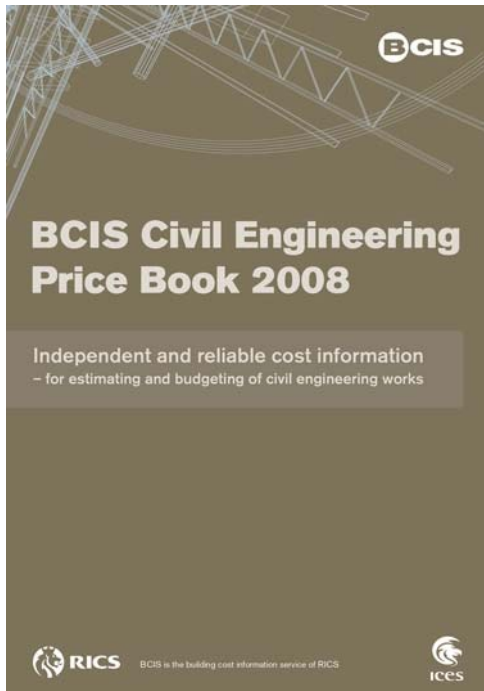
(Source: BCIS)

BCIS General Civil Engineering Index, General Building Cost Index and Retail Prices Index (Base 2000 Average = 100)

Date	BCIS General Civil Engineering Index	BCIS General Building Cost Index	Retail Prices Index
1Q00	97	98	98
2Q00	98	99	100
3Q00	102	101	100
4Q00	103	102	101
1Q01	102	102	101
2Q01	103	102	102
3Q01	105	104	102
4Q01	103	104	102
1Q02	103	104	102
2Q02	107	105	103
3Q02	111	109	104
4Q02	112	110	105
1Q03	114	111	105
2Q03	114	112	107
3Q03	117	114	107
4Q03	117	115	107
1Q04	117	116	108
2Q04	121	117	109
3Q04	126	122	110
4Q04	127	123	111
1Q05	128	124	111
2Q05	131	125	113
3Q05	137	129	113
4Q05	137	129	114
1Q06	139	130	114
2Q06	141	132	116
3Q06	146	136	117
4Q06	144	137	118
1Q07	145	138	119
2Q07	147	139	121
3Q07	150	142	122
4Q07	153	143	123
1Q08	158	143	124

Source: BCIS, BERR

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BCIS Civil Engineering Price Book 2008

Up-to-date hard cost data for contractors, engineers and surveyors engaged in the financial management of civil engineering projects. The price book will help save time and money when preparing or checking estimates.

The costs given in the book will facilitate the agreement of new rates when variations occur and the assessment of costs where claims are raised.

Price: £185

Published: May 2008

Code: 17379

ISBN: 978 1 90482 978 2

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