CONSTRUCTION INFLATION: 2023 – THE YEAR OF STAGFLATION?
March 2023

On 30th March 2023 BCIS held a webinar entitled 'Construction Inflation: 2023 – The year of stagflation?'. During the webinar attendees had the opportunity to submit questions, but due to the volume of questions asked, time ran out for BCIS to provide answers.

Below is a selection of the questions that were submitted with answers from BCIS:

Q: How can we know/forecast how deep any potential recession might be?

A: With difficulty, most forecasts are based on past events which are often repeats of previous events. The last few years have been extraordinary and there is no historic basis to compare. I suspect this will be a long drawn out crisis.

Q: Do we think inflation has peaked?

A: Perhaps in materials cost, but labour costs are likely to drive inflation in the near term. Much will depend on whether the crisis in Ukraine gets better or worse.

Q: Isn't the Green Economy likely to drive growth in the short term?

A: Possibly, if we have some robust policy statements plans from the Govt that could drive the net zero agenda.

Q: To what extent is modular separated from traditional construction to identify off site construction efficiency potential?

A: In its database, BCIS identifies projects that are mainly off-site construction both modular and panel

Q: There has been talk that current economic performance is worse than being reported as the ONS have not accurately reflected current inflation levels in there measures. Do you think this is correct?

A: Possibly, the basket of goods that the ONS use to derive the CPI might not be reflective of all inflationary impacts that we are experiencing. The deflation of GDP from value to volume is a complex process but it is carried out in accordance with EU and UN standard procedures so the results should be comparable internationally.

Q: What then breaks the cycle of stagflation?

A: Good question, my view is that we need investment to drive GDP growth although will need to watch for any inflationary impacts from that investment. The USA has launched a massive tranche of investment to stimulate growth in their economy. However, we are constrained by current borrowing levels in the UK, I suspect there might be some announcements pre-election hopefully that's not too late…

Q: No mention of effect of forecast on residential and commercial values. As a residential valuer in London and North West Kent, I'm seeing residential values are down at the lower end of the market.

A: We don't currently forecast property values, but notice that house prices are falling.

Q: You mentioned that material prices have dropped to pre pandemic levels, however the market doesn't seem to have reacted this way, do you see materials reducing over the next year or so?

A: Yes, The annual rate of materials price inflation should come down but rises tend to be sticky but should work there way through the system by year-end.

Q: Have proposed changes to NPPF spooked the market and impacted predictions on housing output? (removing of 5 year housing supply targets and general abandonment of home ownership)

A: These are expected to have a significant impact on planning permissions – and so housing supply – moving forward.

Q: What are the benefits of using the BCIS indices over those produced by the ONS?

A: ONS do not produce equivalent indices to BCIS TPI, GBCI, GCECI, PAFI etc. Materials cost indices published by BEIS are prepared by BCIS. The ONS PPI are a rich source of information at the individual product level.

Q: What sector do you think is most likely to struggle over the next 2-3 years and, how bad do you think it could get for that sector?

A: Private housing is likely to slump in the short term and Private commercial will be the worst impacted by lack of demand for retail and office space

Q: Given difficulty the public sector is having achieving pay rises, do we expect labour wages to significantly increase in construction, or is the anticipated cost increase based on a lack of supply?

A: Yes we expect construction wages to rise in the near term, predominantly driven by a lack of supply. Although there is also a level of catch-up predicted as wage awards have lagged behind inflation for some time.

Q: Is stagflation a UK issue only or is it global?

A: I suspect there are other locations that are experiencing similar scenarios given the global nature of the crises, in the UK we have an additional impact to deal with Brexit.

Q: Controversial question… how much of this issue is Brexit?

A: Certainly some of it, the problem is that because the pandemic happened almost simultaneously it is very difficult to separate the actual Brexit effect but suffice to say it did have a material impact.

Q: Deferring infrastructure (HS2/LTC) will at least stop further demand increases, albeit not impact the underlying supply/availability issues. What can be done to improve supply issues which are the persisting root cause?

A: In the old days, before just in time delivery, we stockpiled materials/components to ensure availability at the right price. In construction we need to make the sector more attractive to work in, more direct employment, defined career paths and less reliance on sub-contractors would help in the long-run, in the short-run more labour occupations should be added to the 'Occupations Shortage list' to allow workers from overseas to get visas. Also, the fundamental principle of expecting contractors to initially fund clients projects and get paid in arrears needs to change, cashflow problems are the reason that most firms go out of business.