Construction inflation: Is the worst really over?

On 28th September 2023, BCIS held a webinar entitled 'Construction inflation: Is the worst really over?' During the webinar, attendees had the opportunity to submit questions, but due to the volume of questions asked, time ran out to provide answers.

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

Q: Up to what date is the Tender Price Index based on actual data rather than forecast?

A: The last quarter, i.e. currently 3Q2023 is based on our tender price panel survey.

Q: Just to add to the gloom most, if not all, local authorities will be reviewing capital spend and pushing back spend where possible to try and balance budgets (unlikely!). Is this factored into forecasts?

A: Yes, we try to balance the competing pressures in our output forecast, although it will vary from authority to authority.

Q: Although it is hard to evidence greedflation, do you think greedflation plays a big part in the increasing labour/material cost?

A: No real evidence of it in wage increases, but likely to be built into materials costs.

Q: Could you say firmly that the cost inflation is more cost pushed as opposed to demand pulled? Demand is falling for housing due to mortgage rates, but this doesn't seem to have had an effect on house builders' costs.

A: Absolutely, I've been arguing from the start that inflation is cost push rather than demand pull and therefore interest rate increases are unlikely to be effective in lowering the inflation rate. But what they will do is choke demand and lead us into a recession.

Q: Will a change in political party in Government create a positive or negative factor if that is the outcome at the next General Election?

A: Depends on the manifesto pledges of the parties, but Labour are traditionally high spend which might translate into increased output.

Q: What does the BCIS and other data say on a regional basis, for example, London and southeast areas compared to Norfolk/Suffolk/Cambridge areas?

A: While regional pressures are different, the overarching economic situation seems to be driving prices so there is no clear pattern. In our recent TPI panel meeting, two members did identify prices in London as rising faster, but one member also identified the Eastern region as a hotspot.

Q: Will the overarching TPI trends be the same for the Infrastructure sector which was showing a strong future work pipeline?

A: Generally, the Civils TPI has been rising faster than the General Building TPI, and we expect Civils tender prices to rise faster than costs over the rest of the forecast period, if output levels are maintained.

Q: Do you foresee government grants and initiatives becoming available for decarbonisation?

A: One would hope so, as this work needs to be funded somehow. But with the current state of government finances, it seems doubtful in the short-term.

Q: Bearing in mind RAAC is fine as a product and only an issue where poorly manufactured or installed/maintained, is this realistic?

A: We suspect that the predictions of remedial costs are an underestimate, particularly when you start to consider other public buildings where RAAC is present.

Q: In terms of 'greedflation' and there being a demand reduction and capacity being available in the construction market, do you think this will impact on prices being reduced? Or will further restrictions on borrowing be necessary to reduce inflation?

A: This should lead to greater competition and, therefore, a possible reduction in tender prices.

Q: RAAC seems to have taken over the news from Fire Safety remedial works - will this return to the agenda, in respect of a possible cause of future material and labour shortages?

A: If market demand picks up, then labour shortages are likely to become a problem once again.

Q: What can be done to improve the situation?

A: Stimulate investment by making the cost of borrowing cheaper.

Q: Besides two-stage tendering, is there a view on how clients should procure going forward?

A: There is still a nervousness about fixed price contracts, so some form of inflation sharing will get the best prices.