Construction forecasts: navigating inflationary risk

On 28th November 2023, BCIS held a webinar entitled 'Construction forecasts: navigating inflationary risk'. During the webinar, attendees had the opportunity to submit questions, but the webinar team were unable to answer all questions due to time constraints.

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

Q: Why do all-in TPI number stay provisional for so long?

A: This is based on the TPI Revisions policy, which was changed as a result of the Covid-19 pandemic. Calculated indices based on project data are not marked as firm or provisional, but have an associated sample or equivalent sample size. The latest quarters, where the index is based entirely on BCIS TPI Panel consensus, are shown as provisional. Subsequent quarters will be forecasts. In due course, project data will be gradually re-introduced to the calculation process and the number of quarters shown as provisional will reduce.

Q: You mentioned cost consultants providing real-time info on build costs and the impact of building regs. To what extent do the rates indicated by BCIS (for example using the 'default' or 5-year sample to look at average build costs) reflect the recent changes to Part L Building Regs, sustainability etc?

A: Average prices are based on the project costs as reported at the time of tender and will be based on the specification. This will normally reflect building regulations current at that time. BCIS has published some news items on the likely cost of new regulations, including: https://bcis.co.uk/insight/effect-of-building-regulations-on-bcis-data/

Q: Are you forecasting PAFI Series 2?

A: Series 2 of the Price Adjustment Formulae Indices (for building, civil engineering and specialist engineering) are not being forecasted as we would not expect these to be used on new projects. You could use the forecasts of series 3 and apply them to similar work categories in series 2.

Q: How long does it take to change 'Provisional' or 'Forecast' indices to be 'Firm'?

A: See Q1 for TPI. Generally, this will be covered in the Notes and definitions for each series.

Q: How quickly do the forecasts take into account economic and world events?

A: Events like wage awards, national insurance variations and tax changes that might affect employers' costs have a due date that can be factored in. With events that don't have a direct effect, e.g. OPEC cutting the amount of oil produced and how this would affect prices, we look at historic data to see what the impacts are likely to be. We'd also look at the price/barrel to see if it would encourage other providers to pick up production, so the supply of oil is less likely to be impacted. Essentially, we rely on our years of data and experience to forecast.

Answered in webinar (36min:44sec). See recording here: https://youtu.be/efBmfItAL5w

Q: What do you predict will be the most volatile resource in the coming months/years? And how can we plan for this when budgeting?

A: The downward trend of construction output in certain sectors has indicated that even some of the most volatile resources have already started to stabilise and, in some instances, we're now forecasting deflation in the short term for resources like steel and timber. Looking at the longer term, a key inflationary driver is labour, which is currently underpinning a lot of general construction inflation.

In terms of planning for this within budgeting... wherever possible look to align your project to the most appropriate index forecast. If you have sufficient detail to build a project index and can align work category or resource forecasts to each element, then you can use the forecasts as a basis for managing your cashflow forecast. Remember to update your numbers monthly with the latest indices!

The full answer to this question is available in the recorded webinar (38min:21sec). See the recording here: https://youtu.be/efBmfItAL5w