

Construction inflation: recession or recovery?

On 20th March 2024, BCIS held a webinar entitled 'Construction inflation: recession or recovery?'. 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: A previous slide suggested private housing sector to be on the up - can you explain the difference?

A: We are predicting growth in private new housing output to be flat this quarter before showing some muted recovery later in the year, while public new housing shows no growth at all. Overall total housing output growth is likely to flatline this year and remain well below the peak in 3Q2022

Q: What was that rise in tender prices? 17%

A: Over the 5-year period through to 1Q2029

Q: Please could you clarify what you mean by construction output? Is it driven by the volume of construction or by the cost of construction, please?

A: Construction output = the amount chargeable to customers for building and civil engineering work done in the relevant period excluding VAT and payments to subcontractors (ONS definition)

Q: Do you have a more granular level of information on inflation? For instance, dis-aggregating cost by pillars such as tunnels, civil, etc.

A: Yes, we produce forecasts of resources for subscribers and can also provide bespoke inflation estimates for projects and work packages

Q: You said contractors are preferring two-stage? Is this all contractors or just larger ones?

A: Predominantly the larger ones so Tier 1 & Tier 2 contractors

Q: The impression can be given that borrowing costs are currently high. However, the current base rate level would appear relatively 'normal' when compared to historic levels. Was it not the very low level of rates in recent years that were the 'abnormal' and subsequent increases were a correction of this?

A: You are absolutely right. It's all relative, the current situation just seems high given the recent past but, looking historically, rates are around their long-term average. I recall them being significantly higher in the 1980/90s

Q: Are there many delays reported due to bad weather through the winter?

A: Yes, the amount of rain we've had over the winter is likely to have impacted output levels

Q: How long will construction be in recession do you reckon?

A: Growth will be constrained this year before picking up in 2025. Construction is likely to be recessionary for a couple of quarters more

Q: Do you expect interest rates to change in the come 1-2 years?

A: Yes, likely to fall in an attempt to stimulate the economy. Latest predictions expect a cut in the summer, probably in June with scope for more cuts towards the end of the year

Q: The number of insolvencies that the industry is experiencing and the number of subcontractors/contractors reducing, is this reflected in the TPI forecasts?

A: We consider all potential sector-based and wider-economy impacts

Q: In terms of contractors building in pricing for the risk for insolvencies, any idea what percentages they are building into tenders?

A: No hard data available but anecdotally we would expect this to be a fairly small proportion of the total cost