

APPENDIX 4

BCIS five-year forecast

Tender prices are under pressure from the sharply rising materials prices and longer supply times that have resulted from Brexit and Covid-19. 09-Aug-2021

Tender prices will rise by 21% over the forecast period (2Q2021 to 2Q2026).

Tender prices are expected to rise by 3.9% in 2nd quarter 2022 compared with the same quarter in 2021, driven, in particular, by sharp materials cost increases and longer supply times. With demand increasing over the remainder of the forecast, and with less contractors in the market (liquidations during Covid-19), tender prices are forecast to increase faster than input costs, rising by around 3% to 4% per annum. If the access to European labour returns in the latter part of the forecast period it will ease the pressure on site rates and tender prices.

Although government guidance removed social distancing requirements on site in mid-July, contractors seem unlikely to change their Standard Operating Procedures immediately.

The BCIS Materials Cost Index shows that materials prices rose by 4.6% in 2nd quarter 2021 compared with the previous quarter, and by 10.0% compared with a year earlier. The forecast for 3rd quarter 2021 shows an increase of 2.8% compared with 2nd quarter 2021, and a 13.1% annual increase. Anecdotally, there has been a lot of concern about materials shortages this year, which has been reflected in longer lead times, higher prices and price volatility.

Materials shortages have resulted from a combination of a number of factors:

- Covid-19 has affected supply from mills and factories
- Supply chain bottlenecks due to global demand shocks
- Shortage of haulage drivers
- Container shortages and port delays
- Construction demand fluctuations - sharp falls in the first half of 2020 followed by a steep recovery since
- Increased administration at UK ports affecting imports and exports due to UK EU Trade and Cooperation Agreement
- Sharp rises in shipping costs and temporary surcharges

Longer lead times for the supply of materials are likely to be reflected in the BCIS Market Conditions Index, with additional preliminaries costs, and will put upward pressure on tender prices.

The Construction Leadership Council (CLC) has called for the inclusion of new contract clauses to allow for sharing the risk of sharp increases in materials and we may see a return to fluctuating price contracts for longer contract periods, but this is not allowed for in our forecasts.

Materials prices will rise by 15% over the forecast period (2Q2021 to 2Q2026). The main risks to materials prices will be difficulty in obtaining materials during the Covid-19 crisis, oil prices, tariffs on imports.

Building costs will rise by 15% over the forecast period (2Q2021 to 2Q2026).

New construction output will rise by 31% over the forecast period (2025 compared with 2020). This increase is exaggerated by the pandemic induced 16% fall in 2020.

The full forecast and commentary (BCIS Quarterly briefing: August 2021) are published in the Briefing section of the BCIS Online service.

Figure 1. New work output, building costs and tender prices

