alinea's Tender Price Index | July 2020

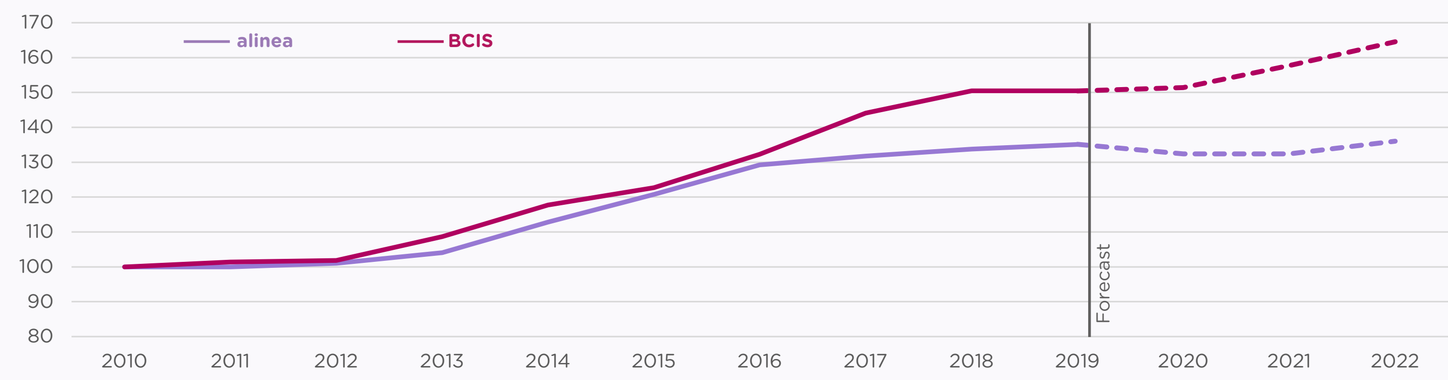
The global economy is experiencing a substantial fall, one which we hope to have seen the nadir of, but unemployment is set to increase after being artificially supported by furlough schemes around the world. Domestically, the UK's Transition Period will come to an end just before Big Ben should ring in the new year, which will bring its own challenges. For now the UK Government is working to support the economy, amid plans to "Build, Build, Build", which we will be watching closely to see how committed these schemes really are, and whether they can replace lost output.

	alinea	BCIS	Range of commentators
2020	-2.0%	0.6%	-4% to 2.0%
2021	0.0%	4.2%	-2.0% to 2.75%
2022	2.75%	4.3%	0.5% to 5.4%

For these reasons (and despite some upward pressure in costs), we anticipate a fall of -2% for construction prices in the near-term with opportunity for further negative movement on certain tenders. We anticipate this trend continuing through the remainder of 2020, with an average nil position for 2021, though again with the possibility of deflation. Upwards price pressure and supply side constraints could force a return to inflation late next year, or perhaps early 2022.

We will be monitoring the situation very closely and issuing further updates as and when it is material to do so.

alinea's Tender Price Index (100 = 2010)



We've only just begun

Rishi Sunak unveiled a raft of measures to kick-start the economy in his Summer Statement in early July, saying "the job has only just begun". The extent to which his job protection schemes, VAT cuts, decarbonisation fund and 'Build, Build, Build' package of infrastructure investment will revive both the UK economy and construction industry, we can only speculate – especially as economists cannot agree on the type and length of recovery that lies before us (with many letters and symbols used to denote their respective views, from a 'V', 'U' and 'W' to a tick and a bathtub).

We are certainly living through a 'moment in history'; a seemingly mad world that has witnessed the panic buying of toilet rolls, dried foods and hand sanitiser and the 'panic flying' in of seasonal farm labourers (99% of whom are normally foreign). We have also suffered the deepest global recession since the Second World War, with governments in the UK and elsewhere trying to spend their way out of trouble.

Property and construction hit hard

Landlords have grappled with tenants struggling or unwilling to pay rent, and ever more uncertainty in demand. The retail sector, already under pressure, collapsed, whilst most sectors have been affected.

There may be money looking for a deal and poised to invest, but decisions are hard to come by, with some existing and many new projects either paused or edging forwards slowly, until there are signs of increasing stability.

Prices softening short-term

The immediate impact of Covid-19 on confidence and pipeline means that we are now seeing slight price compression this year, easing into a further year of stable prices. As ever, there are bound to be instances of greater deflation, where an attractive project meets a hungry supply chain.

Depending on the success of Covid-19 measures and the awaited vaccine, the effect of the government's economic stimuli and the time it takes for confidence to return, we see the possibility of tender price inflation towards the end of 2021 or in early 2022. This might be characterised by something of a 'bounce-back' in prices if the construction industry is hit by further losses, both in labour and companies.

Brexit, and the spectre of tariffs could create price pressures from the end of 2020, particularly for some EU-dependent trades assuming the UK's trade negotiations with the bloc remain unproductive.

More for less

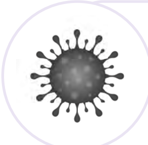
All this makes it ever more important that projects are aligned-for-success – set up and managed clearly and cohesively and led with passion and professionalism.

It also means that we must create better products at lower cost and risk. This can only be achieved through making much more of what we have – BIM, digitisation and data – whilst using 'smart simplicity' to reduce cost, waste and carbon from designs.

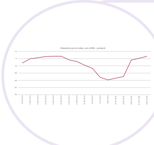
The combination of these things represents our **More for Less** manifesto.

Workforce: Construction wages have fallen since the start of the year providing an inflation release valve. Without an increase in output to levels exceeding where construction was at the start of 2020, it is difficult to see significant short-term labour inflation pressure.

Output has fallen dramatically recently as a result of postponed projects and reduced productivity. Most forecasters expect a significant bounce back next year. Many firms are looking to public pipelines for stability and future workload.



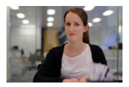
Covid-19 has affected productivity on-site as social distancing and furlough came in to effect. It has also created some material shortages though either delayed imports or reduced capacity factories. However, we have seen a real improvement across all of these issues in a short space of time.



Material prices have increased as a result of supply/demand imbalances for both commodities and finished products.

Brexit has come sharply into focus with real concerns that a lack of a deal could disrupt flow of materials and people into the UK and tariffs could increase the price of imports. This has worked to push the pound down in recent weeks.

Contacts



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The full report is available on our website >>