

COST UPDATE

The quarterly analysis of construction industry costs and prices shows everything going up except wages and employment. **Peter Fordham** of **Davis Langdon** reports

01 / KEY CHANGES

- ▲ Consumer price inflation continues well above target
- ▲ Industry input and output costs are at an inflated level
- ▲ All construction cost measures are on an upward trend
- ▲ Price movements dominated by rise in steel prices in spring 2010
- ▲ Electrical cost increase are their highest since 2004
- ▲ Electrical materials cost increases are the highest since 1984
- ▶ Most wage agreements still frozen
- ▼ Construction employment 10% lower than last year

Percentage change year-on-year (second quarter 2009 to second quarter 2010)

	%	direction
Building cost index	2.7	▲
Mechanical cost index	0.7	▲
Electrical cost index	6.4	▲
Consumer prices index	3.4	▲

(Second quarter 2010 figures are provisional)

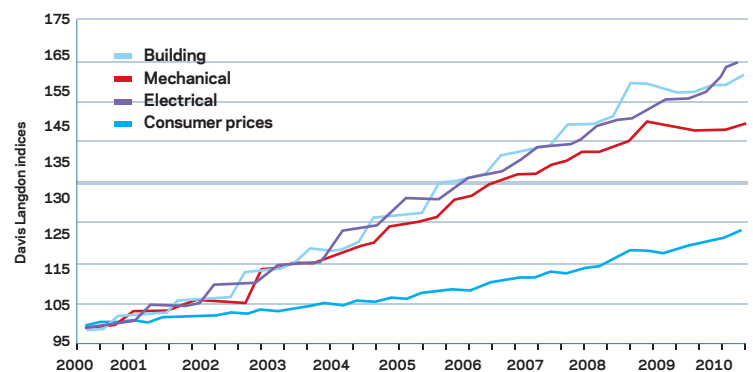
Building cost index Materials price surge results in 1.4% increase in the second quarter of this year compared with the first.

Mechanical cost index 1% increase in second quarter results in first significant rise in index for seven quarters.

Electrical cost index Continues to rise well ahead of other measures. Year on year increase highest since the fourth quarter of 2004.

Consumer prices index Increased further in the second quarter but may have peaked.

Davis Langdon indices



Guide to data

Davis Langdon's cost indices track movements in the input costs of construction work in various sectors, incorporating national wage agreements and changes in materials prices as measured by the government's index series.

They provide an underlying indication of price changes and differential movements in the work sectors, but do not reflect changes in market conditions affecting profit and overheads provisions, site wage rates, bonuses or materials' price discounts/premiums.

In the current market, most costs recorded here are rising but prices charged to some clients are still falling. Market conditions are recorded in Davis Langdon's quarterly market forecast (last published 23 July).

02 / PRICE ADJUSTMENT FORMULAE FOR CONSTRUCTION

Price adjustment formulae indices, compiled by the business and innovation department, are designed for the calculation of increased costs on fluctuating or variation-of-price contracts. They provide useful guidance on cost changes in trades and industry sectors and on the differential movement of work sections in Spon's Price Books.

Over the 12 months between August 2009 and August 2010, the 60 building work categories have recorded an average rise of 5.3%, continuing the upward trend of the past three quarters. The largest price increases over the past year have been:

	% change
Concrete: reinforcement	17.7
Fencing	15.8
Metal: decking	14.2
Steel: piling	14.0
Cladding and covering: coated steel	13.4
Metal: miscellaneous	12.4
Finishes: bitumen, resin and rubber latex flooring	11.8
Cladding and covering: lead	11.5
Raised access floors	10.9
Windows and doors: steel	10.9

Eight out of the 10 work categories showing the highest increases over the past year reflect the rise in steel prices that occurred in the first half of 2010.

Only two categories showing a price decrease over the past 12 months are:

	% change
Concrete: precast	-0.5
Filling: imported, hardcore and granular	-3.5

The results in these two categories reflect a drop in aggregates and cement prices over the past year.



Materials Input costs still in double figures but declining; output prices are static

03 / KEY INDICATORS

Percentage change over past 12 months July 09-July 10

Consumer prices index	3.1
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In August, the Governor of the Bank of England had to write his sixth letter in the past seven months to the chancellor explaining why inflation was above 3%. However this may have been his last for a while as the consumer prices index actually fell slightly in July and the annual percentage change has been in decline since peaking at 3.7% in April. The index is expected to remain above the 2% target throughout the rest of this year and 2011.

The retail prices index has shown a similar decline since April but remains at the elevated rate of 4.8%.

Industry input costs

Materials and fuels purchased by manufacturing industry	10.8
Materials and fuels purchased by manufacturing industry excluding food, beverages, tobacco and petroleum	7.6

The headline figure remains inflated, largely owing to a 23.5% rise in crude oil over the past year but the index is edging down. The narrower measure, excluding food, beverages, tobacco and petrol (FBT&P), recorded its highest year-on-year increase since February 2009 but also edged down as the cost of imported metals, for instance, eased back in June and July. Metal prices rose again in July which may feed through into higher prices over the next month or two.

The percentage movement of some of industry's key input costs over the last year are:

Electricity	-9.7
Gas	27.3
Crude oil	23.5
Imported metals	23.1
Imported wood and wood products	16.5

Industry output prices

Output prices of manufactured products	5.0
Output prices of manufactured products excluding FBT&P	4.7

The headline figure has eased back since peaking at 5.9% in April but prices have been relatively static for the past four months. The narrower measure of prices also remains flat.

Construction industry

Materials price increases over the past year are detailed below:

June 09-June 10 %

Construction materials generally

New housing	7.2
Non-housing new work	9.6
Repair and maintenance	9.2

Overall construction materials prices rose 9% over the year to June 2010 including more than 5% since February, largely as a result of surging steel and timber prices.

July 09-July 10 %

Mechanical services materials

Housing	4.6
Non-housing	3.4

Electrical services materials

	11.9
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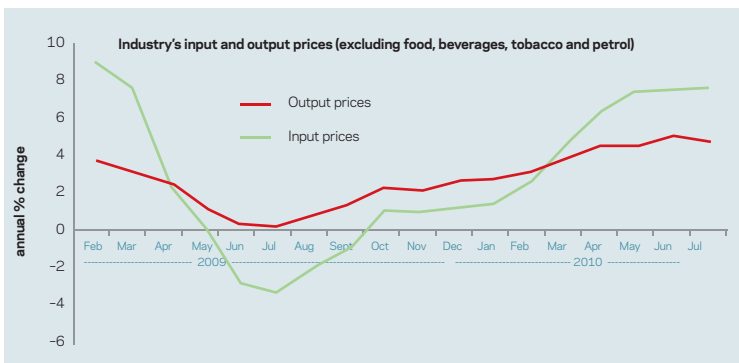
The pace of increase in M&E prices accelerated since February, largely in response to increases in steel and copper prices. The annual increase in electrical materials prices (which reached 12.5% in June) has not been seen since 1984.

Materials showing the most significant price movement over the past 12 months are shown below:

July 09-July 10 %

Recovered secondary materials	34.8
Imported copper	32.0
Structural steelwork	28.9
Sheet steel piling	28.8
Scaffolding materials	27.4
Imported veneers and plywood	26.1
Steel for reinforcement	25.8
Timber	25.5
Insulated wire and cables	25.2
Metal sections	24.1
Gas oil fuel	22.0
Precast concrete goods	-1.2
Non-domestic cooling and ventilation equipment (UK made)	-1.7
Cements	-2.4
Aggregates	-9.6

(Sources: Office for National Statistics and Business Innovation and Skills Department, July 2010 figures provisional)



Labour Wages are fractionally higher but the number of construction jobs is 10% lower than last year

05 / LABOUR MARKET STATISTICS

- Whole economy average earnings (including bonuses) in April to June were 1.3% higher than last year
- Average earnings in construction over the same period were 0.5% higher
- Average pay in construction in the period was £554 a week
- The number of construction jobs in March 2010 (the latest available data) was 10.3% lower than a year earlier

- The number of construction job vacancies in the period May to July was down 2.7% on the year before, compared with a rise of 11.9% for all industries
- About 21,000 people were made redundant in the construction industry in April-June, bringing the total over the last year to 122,000; this compares with 298,000 in the year May 2008 to May 2009

06 / WAGE AGREEMENTS

Building and civil engineering operatives

Building and civil engineering operatives employed under the Construction Industry Joint Council Working Rule Agreement have had their rates of pay frozen for the second successive year and are having to operate on wage rates that came into effect in June 2008. These rates are in force "until further notice". However fare and subsistence allowances did increase from 28 June 2010. Subsistence allowances rose 4.5% to £30.47 per night, and fare allowances rose by the same percentage; travel allowance remained unchanged from 2008.

Operatives working under the auspices of the Building and Allied Trades Joint Industrial Council, generally for smaller companies who are members of the Federation of Master Builders, will receive a 2% increase in basic rates of pay from 13 September. The new hourly rates will become:

S/NVQ3 Advanced Craft	£10.62	(previously £10.41)
S/NVQ2 Intermediate Craft	£9.13	(previously £8.95)
Adult General Operative	£7.88	(previously £7.73)

These rates will be applicable from 13 September 2010 to 12 June 2011.

Wage agreement summary

The following table summarises the wage agreements currently in force for the principal wage-fixing bodies in the construction industry

Operatives	Agreement body	Current basic hourly rate	Effective since	Details in	Date of next review
Builders and civil engineering operatives	Construction Industry Joint Council Building and Allied Trades Joint Industrial Council (BATJIC)	Craft rate: £10.30/hour	30 June 2008	Cost Update 30 May 2008/Spon's Architects' and Builders' Price Book 2010 Cost Update 5 September 2008/Spon's Architects' and Builders' Price Book 2010	Wage rates frozen since June 2008
		S/NVQ3 qualified operative: £10.41/hour	9 June 2008		Wage rates frozen since June 2008; rates rise by 2% from 13 Sept 2010
Plumbers	The Joint Industry Board for Plumbing Mechanical Engineering Services in England and Wales Scottish and Northern Ireland Joint Industry Board for the Plumbing Industry	Advanced plumber: £12.73/hour	5 January 2009	Cost Update 27 March 2009/Spon's Architects' and Builders' Price Book 2010 Cost Update 29 May 2009/Spon's Architects' and Builders' Price Book 2010	Wage rates frozen since January 2009; in January 2011 rates will increase by RPI at June 2010 (5%)
		Advanced plumber: £12.64/hour	1 June 2009		Wage rates frozen since June 2009; rates increase by 2% from June 2011
H&V operatives	Joint Conciliation Committee of the Heating, Ventilating and Domestic Engineering Industry	Craftsman: £11.16/hour	6 October 2008	Cost Update 5 September 2008/Spon's Mechanical and Electrical Services Price Book 2010	Wage rates frozen since October 2008; rates will rise by 2% in October 2010
Electricians	The Joint Industry Board for the Electrical Contracting Industry/Scottish Joint Industry Board for the Electrical Contracting Industry	Approved electrician: £14.35/hour (own transport)	4 January 2010	Cost Update 26 February 2010/Spon's Mechanical and Electrical Services Price Book 2010	January 2011