

# Arcadis: inflation forecast jumps to double figures as markets for energy and materials disrupted by Ukraine War

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Disruption caused by the Ukraine War, seen in both material prices and risk allowances has resulted in **Arcadis** upgrading its inflation forecast for 2022. Inflationary pressures on buildings are expected to peak at 8-10% in London and the regions, with increases of 10% in infrastructure.

The analysis comes courtesy of **Arcadis'** latest Summer 2022 Market View, entitled '*The shadow of stagflation*'. The quarterly analysis of the UK construction market looks across sectors and regions to deliver a tender price forecast to inform clients about what is going on in UK construction, helping financial decision making for projects and programmes.

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Development headwinds associated with labour and product price and availability continue to challenge

the industry, although there are some positive developments, including a 4% increase in the size of the workforce during 2021 and the easing of supply shortages associated with timber and some other construction products.

All of these developments have been overshadowed by the effects of the Ukraine crisis, even though materials sourced from Ukraine barely account for 1.2% of the value of construction's imports. The impact of the war has added 3 to 5% to the cost of typical projects. Although a big jump in steel prices grabbed the headlines in March, the broader impact of the crisis will be felt through sky-high energy costs, which disproportionately affect the construction materials supply chain. Prices are expected to remain high until the UK and European energy markets are retooled to be less dependent on Russian gas and oil.

Higher prices and difficulties in reaching terms that are acceptable to clients, contractors and funders mean that an increasing number of projects are being delayed. In time this will result in lower levels of demand that, all things being equal will create a more competitive market.

As a result:

- **Arcadis** has upgraded its overall 2022 forecast, driven by a combination of energy and material price inflation, labour shortages and the high cost of risk transfer.
- For 2023, with growing evidence of slowdown in the market, we do not believe that high levels of inflation will be sustained into next year.
- From 2024 onwards, we retain our view that construction prices will increase faster than background inflation as continuing scarcity of labour maintains pressure on contractors' prices. As CPI returns to around 2%, construction prices will rise much faster, at 4-5%.

Simon Rawlinson, Head of Strategic Research at **Arcadis**, added: "Shockwaves from the Ukraine War and the wider cost of living crisis combined to threaten the return of stagflation, the potent combination of low growth and high inflation last seen in the 1970s. This has resulted in the jump in our tender price forecast for 2022 to 8-10%. How contractors will respond to a slowing market will determine how quickly price growth returns to a more sustainable level."

The full UK Summer Market View is available to [download here](#).