

Construction price inflation likely to continue into 2022

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Arcadis is predicting that the price of construction will continue to inflate into 2022, thanks to the energy crisis.

The design and consultancy business has issued an updated tender price forecast for 2021. This new report says inflationary pressures on buildings are expected to peak at between 4% – 6% in London (4% – 5% regionally), and with increases of 5% – 6% in infrastructure.

This upgrade, Arcadis says, has more to do with the rising cost of energy than raw materials.

This latest news comes courtesy of Arcadis' latest Autumn 2021 Market View, entitled 'Lift Off'. The company's quarterly analysis of the UK construction market looks across sectors and regions to deliver a tender price forecast.

The report surmises inflationary pressures that began to accelerate at the end of Q2 show no signs of fading, and that there has been a rapid rise in costs during the second half of 2021. This is forecast to continue into next year.

It's not all bad news, however. Overall, the outlook for construction remains positive and business confidence is strong. Output reached £46.2bn in Q3, which is in line with long-term trends dating back to 2016, while new orders for the first three quarters of 2021 were also well ahead of pre-COVID levels.

Increasing energy costs are bringing a second wave of inflation across a much wider range of construction materials. Due to the high energy intensity involved in their manufacture, products such as bricks, glass, cement and concrete are particularly exposed. This is expected to have a much wider impact on prices than the raw materials boom, which mostly affected metals and timber.

Arcadis says it is not sure how the situation will unfold, not only across different sub-sectors but also regionally. Whilst certain sectors including private residential or industrial warehousing will continue to boom, other more price sensitive markets, like affordable housing, could see a slowdown in the market.

Infrastructure is particularly exposed to the cost of materials, and so the forecast has been upgraded from 4% to 5-6% for 2021. But demand remains strong with multiple frameworks entering the procurement phase.

In 2022, the forecast upgrade is less pronounced, but inflation is still expected to be between 3-5%. And from 2023 onwards, the rate of growth in many sectors is expected to ease, with inflation falling back to 3% in London and regionally, and 5% for infrastructure.

Market intelligence lead at Arcadis, Agnieszka Krzyzaniak, said: "Continuing high output proves that the strength of the construction industry shows no signs of abating, and the recovery continues. Strong new orders data indicates that the demand is still there and, as such, prices are not likely to decrease anytime soon. Although we can expect the upward pressure on costs to start easing in 2022, elevated inflation rates will still remain a defining feature of the market. The difference is that it will be mainly driven by rising energy costs and, with the energy used in manufacturing materials translating into around a quarter of total construction costs, the sector is particularly vulnerable to any prolonged price increases."

Agnieszka added: "As well as construction materials, another area exposed to energy price fluctuations – albeit to a lesser degree – are on-site operations. From next April, they will be impacted by the removal of the red diesel rebate. However, there are a number of short-term measures that clients can take now to reduce their exposure to risk. For example, cutting the idle and stand-by time of equipment will save on fuel, and has the added benefit of reducing carbon emission. In the longer term, switching to electric equipment, planning for the adoption of hydrogen and educating plant operatives in managing emissions will not only result in energy cost savings, but pave the way for more positive societal impacts too."