

COST UPDATE

The quarterly analysis of changes to costs and prices shows building costs falling year on year for the first time in four decades. **Peter Fordham** of **Davis Langdon** reports

01 / KEY CHANGES

- ▼ The building cost index shows year-on-year fall for first time in 40 years, and the mechanical cost index will follow suit next quarter.
- ▲ The trend of falling prices has generally been reversed.
- ▲ Consumer price inflation is heading back towards target.
- ▲ Industry input costs and output prices are beginning to rise.
- ▲ The trend of falling construction materials prices has reversed.
- ▶ Wages are frozen for builders, plumbers and heating and ventilating operatives.
- ▲ Pipefitters and scaffolders were the highest construction earners last year.

Percentage change year on year (third quarter 2008 to third quarter 2009)

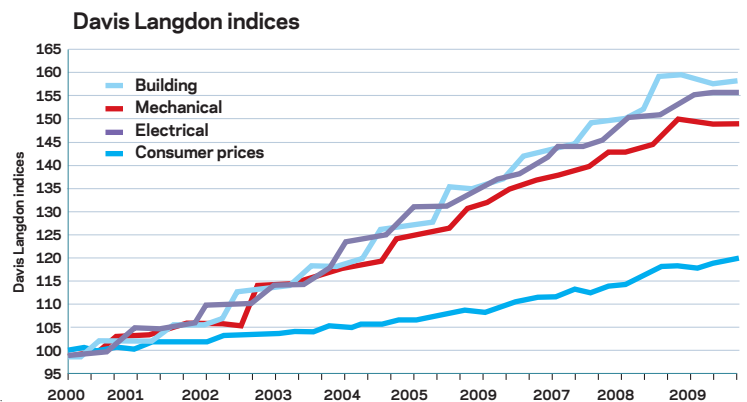
	%	Direction
Building cost index	-1.3	▼
Mechanical cost index	1.6	▼
Electrical cost index	3.3	▲
Consumer prices index	1.5	▲

(Third quarter 2009 figures are provisional)

Building cost index The year-on-year fall was the result of this year's pay freeze combined with falling materials prices.

Mechanical cost index This has declined for three consecutive quarters. Materials prices bottomed out in June but a wage freeze for heating and ventilating operatives will turn the year-on-year percentage change negative in the fourth quarter.

Electrical cost index The year-on-year percentage change is its lowest since 1999 but, unlike the other indices, it has risen over the past three quarters.



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 government 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, site wage rates, bonuses or materials price discounts/premiums. In the current market, many costs recorded here are still rising but prices charged to clients have been falling sharply. Market conditions are recorded in Davis Langdon's quarterly Market Forecast (last published 30 October).

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 to November 2009, 26 of the 60 building work categories have recorded a fall in price of up to 19% and the average change of all 60 categories is a fall of 1%. However, over the past six months, the average change has been an increase of 1.3% with only 15 categories showing a price

reduction, and then down only to 3.8%. Over the past year, the categories showing the greatest price falls were:

	% change, Nov 08-Nov 09
Piling: steel	-19.4
Concrete: reinforcement	-17.2
Metal: decking	-13.5
Metal: miscellaneous	-12.4
Windows and doors: steel	-11.1
Fencing	-10.4
Cladding and covering: coated steel	-9.8

The large price falls reflect the drop in steel prices that occurred in the first half of the period before they bottomed out and began to

rise at the end of the summer.

Over the past six months, there have been more price increases than falls, with the largest being:

	% change, May-Nov 09
Cladding and covering lead	10
Windows and doors: softwood	7.1
Softwood carcassing and structural members	6.6
Pavings: coated macadam and asphalt	5.4
Concrete reinforcement	4.8

These price changes reflect the rise in lead, timber and oil prices over the past six months as well as the recovery in rebar prices.



Materials The industry's costs and prices are showing signs of rising from last year's nadir

03 / EXECUTIVE SUMMARY

- ▲ Consumer price inflation below target but will jump in new year.
- ▲ Industry's input costs have risen owing to higher fuel prices.
- ▲ Industry output prices show moderate rises.
- ▲ Construction materials prices rise after nine months of falling.
- ▲ Plant costs higher following increase in fuel costs.
- ▲ Steel prices have edged up, but recovery may have come to an end.

04 / KEY INDICATORS

	% change, Oct 08-Oct 09	Apr 09-Oct 09
Consumer prices index	1.5	1.5

The annual rise in consumer prices fell from 5.2% in September 2008 to 1.1% a year later. The figure rose slightly in October and is now expected to continue to rise, accelerating sharply in the new year as the level of VAT returns to 17.5%. But by the end of 2010 the Bank of England expects inflation to fall back close to 1% as a result of the spare capacity in the economy.

Industry input costs

Materials and fuels purchased by manufacturing industry	0.1	4.9
Materials and fuels purchased by manufacturing industry excluding food, beverages, tobacco and petroleum	0.8	2.2

Industry's input costs fell sharply during the second half of last year. In the first half of 2009, they were flat but they have started to rise in the past three months in response to the movement of oil prices.

The narrower index, excluding the food, beverages, tobacco and petroleum (FBT&P) industries, has been quite stable over the period with virtually no movement between June 2008 and March 2009. Costs then fell by 3%, reflecting a fall in fuel prices and lower prices for imported materials. This has been reversed over the past three months as gas and imported goods have become more expensive.

Industry output prices

Output prices of manufactured products	1.7	1.7
Output prices of manufactured products excluding FBT&P	2	0.9

The headline figure for output prices has started to move up only in the past six months, in response mainly to the rise in petroleum products. Output prices, excluding FBT&P, have shown steady but restrained growth over the year.

Over the last six months the following price changes have occurred:

	% change, Apr 09-Oct 09
Wood and wood products	0.6%
Rubber and plastic products	0.2%
Fabricated metal products	-1.1%
Electrical machinery and apparatus	2.3%
Recovered secondary raw materials	12.4%

A degree of volatility has returned to the scrap metals market, where prices have risen 12% from their relatively stable level in the first half of the year.

Construction industry

Materials price increases over the past year are detailed below:

	% change, Sept 08-Sept 09	March-Sept 09
Construction materials generally		
New housing	0.7	0.5
Non-housing new work	-5.1	0.3
Repair and maintenance	-0.7	1.1

Overall construction materials prices declined by 3% over the year to September but have shown a rise of 0.7% over the last six months.

Price increases in the past six months in the sub-sectors shown above are all between 0.3% and 1.1% but the annual figures indicate a sharp disparity in the first six months of the period, when housing materials rose just 0.2% but non-housing materials fell 5.4%. This was owing largely to the collapse of steel prices that occurred in the latter half of 2008 and continued into the first half of 2009.

Construction materials prices generally fell for nine consecutive months between November 2008 and July 2009, dropping 5%, but reversed the trend in August and September, recovering 1.5%. Mechanical services materials prices have drifted downwards for most of 2009 (losing 3-4% during the year). Electrical services materials dropped 5% between September 2008 and April 2009 but have recovered, thanks in large part to the doubling of copper prices.

	% change, Oct 08-Oct 09	Apr-Oct 09
Mechanical services materials		
Housing	-2	-0.5
Non-housing	-2.2	-1.1
Electrical services materials	0	4.6

Materials showing significant price shifts over the last six or 12 months are shown below:

	% change, Oct 08-Oct 09	Apr-Oct 09
Gas oil fuel	-11.8	16.1
Timber	11	12.7
Insulated wire and cable	2.2	12.5
Crushed rock	14.3	9.8
Reinforcing steel	-23.2	6.9
Macadam	4.2	6.6
Sheet steel piling	7.8	-3.9
Ready-mixed concrete	-5.1	-4.6
Sand and gravel	-6.3	-4.9

Labour Pipe fitters were the top earners, but crane drivers suffered the biggest hit to their pay

05 / EXECUTIVE SUMMARY

- Pipe fitters and scaffolders were the biggest earners last year.
- Crane drivers, steel erectors and rail operatives suffered the largest falls in pay packets.
- Wage rates have been frozen for building and civil engineering, plumbers and heating and ventilating operatives.
- Engineering construction workers and local government craft workers failed to agree to pay offers of 2% and 1% respectively.
- Electricians due to receive 5% wage increase in January.

Hours and earnings data

The Office for National Statistics has published the results from its 2009 Annual Survey of Hours and Earnings (ASHE). It showed that in the UK, median gross weekly earnings for full-time adult employees rose 2% on the previous year, when the same comparison showed a 4.6% rise. The ASHE data is based on a sample of employee PAYE records taken in April of each year.

The survey revealed that, based on a sample of 974,000 jobs, earnings in construction rose by just 0.7% between April 2008 and April 2009 with median gross earnings of £498 a week. Earnings of skilled construction and building trades fell 1.2% to £445 a week. The following table shows median gross weekly pay for construction occupations at April 2009 and the change over the year:

	Median gross weekly pay (inc overtime) April 2009	% change over April 2008
Pipe fitters	£623	+1.6
Scaffolders, staggers, riggers	£569	-1.2
Electricians, electrical fitters	£551	+3.7
Crane drivers	£516	-16.3
Rail construction and maintenance	£515	-10.2
Plumbers, heating and ventilating engineers	£512	-1.4
Steel erectors	£448	-10.8
Carpenters and joiners	£446	-1.7
Road construction operatives	£446	+1.8
Bricklayers, masons	£434	-5.5
Roofers	£429	+7.2
Painters and decorators	£410	-2.2
Plasterers	£410	+2.3
Glaziers, window fabricators and fitters	£373	-5.7
Elementary construction occupations	£350	0

The survey showed that skilled trades typically worked 40 hours a week, the same as the previous two years. Average overtime, however, fell from six hours a week to just over five. However, crane drivers' week fell from 50 to 47.5 hours and steel erectors' from 46 to 42.

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	Craft rate: £10.30/hour	30 June 2008	Cost Update 30 May 2008/Spon's Architects' and Builders' Price Book 2009	Wage rates have been frozen since June 2008; no increases programmed
	Building and Allied Trades Joint Industrial Council (BATJIC)	S/NVQ3 qualified operative: £10.41/hour	9 June 2008	Cost Update 5 September 2008/Spon's Architects' and Builders' Price Book 2009	Wage rates for 2009/10 frozen at June 2008 levels; next review June 2010
Plumbers	The Joint Industry Board for Plumbing Mechanical Engineering Services in England and Wales	Advanced plumber: £12.73/hour	5 January 2009	Cost Update 27 March 2009/Spon's Architects' and Builders' Price Book 2009	3 January 2011: rates will increase by RPI at June 2010; rates for 2010 held at 2009 levels. To be agreed by the union side
	Scottish and Northern Ireland Joint Industry Board for the Plumbing Industry	Advanced plumber: £12.64/hour	1 June 2009	Cost Update 29 May 2009/Spon's Architects' and Builders' Price Book 2010	June 2010
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 2009	October 2010 (rates will rise by 2%); no increase in wage rates for 2009
Electricians	The Joint Industry Board for the Electrical Contracting Industry/Scottish Joint Industry Board for the Electrical Contracting Industry	Approved electrician: £13.67/hour (own transport)	5 January 2009	Cost Update 27 March 2009	4 January 2010 (basic rates will increase by 5%). (September 2007 promulgation)