

COST UPDATE

At this stage of the economic cycle, overall costs are still rising, but some sectors, such as metals, are dropping like stones. **Peter Fordham** of **Davis Langdon** crunches the numbers

01 / KEY CHANGES

- ▲ The cost indices continued to rise into the fourth quarter last year
- ▼ The building and mechanical cost indices will have fallen in the first quarter
- ▲ The electrical cost index will have risen in the first quarter owing to a wage increase for electricians
- ▼ Consumer prices are dropping quickly
- ▶ General industry input and output prices are stable
- ▼ Construction materials prices are falling
- ▼ Steel and non-ferrous metals prices are in sharp decline
- ▼ Construction earnings are down from this time last year

Percentage change year on year (fourth quarter 2007 to fourth quarter 2008)

	Trend	Direction
Building cost index	7.3	▲
Mechanical cost index	5.2	▲
Electrical cost index	5.0	▲
Consumer prices index	3.9	▼

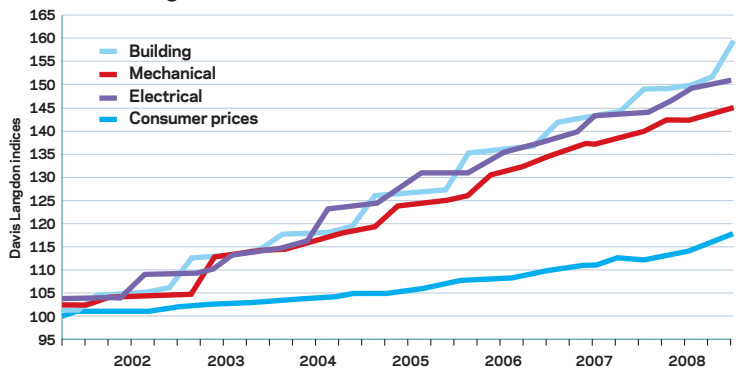
(Fourth quarter 2008 figures are provisional)

Building cost index The annual increase grew in the fourth quarter of last year to 7.3%, its highest level for 10 quarters. It will drop in the first quarter of this year.

Mechanical cost index The rate of increase leaped to 5.2% in the fourth quarter. Wage rates for heating and ventilating operatives rose 4% in October and materials prices rose until the end of the year.

Electrical cost index This rose by a similar amount to the mechanical cost index over the last year but materials prices peaked in September and have been falling since.

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 government index series.

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

Market conditions are recorded in Davis Langdon's quarterly market forecast (last published 30 January).

02 / PRICE ADJUSTMENT FORMULAE FOR CONSTRUCTION

These indices, compiled by the business and enterprise department and the Office for National Statistics, are to help calculate costs changes on fluctuating or variation of price contracts.

Over the 12 months between March 2008 and March 2009, the 60 work categories have recorded an average rise of 4.2%, down from 7.6% four months ago. However, many categories started to decline in the second half of last year. Since last July, the month the 2008 building wage award came into effect, the work categories have fallen by 1.1%.

Since July 2008 the work categories showing the greatest change have been:

	% change
Concrete: reinforcement	-16.7
Cladding and covering: lead	-12.8
Piling: steel	-12.3
Windows and doors: aluminium	-11.0
Fencing	-10.1
Cladding and covering: aluminium	-8.5
Waterproofing: asphalt	-7.6
Excavation and disposal	-6.6
Piling: concrete	-5.8
Finishes: bitumen, resin and latex flooring	+8.1
Sanitary appliances	+7.9
Pipes and accessories: Spun and cast iron	+9.0
Pipes and accessories: Plastics	+12.9

The largest reductions have occurred in categories involving steel and non-ferrous metals. Steel prices in Europe have fallen more than 40% since last July with reinforcement prices dropping 50%. In the UK the falls have been less extreme but still significant (see Materials, opposite).

Most non-ferrous metals prices peaked about the same time: aluminium prices, for instance, have fallen by 60% since mid-July.

Three of the five categories recording cost increases are related to plumbing and reflect a wage increase that came into effect in January.



Materials The price of materials in all sectors has turned south in the past six months

03 / EXECUTIVE SUMMARY

- ▼ Consumer price inflation is expected to continue to fall
- ▼ Oil prices ease industry's input costs
- ▶ Industry output prices static
- ▼ Construction materials prices declining across all sectors
- ▲ Fall in the value of sterling affecting cost of imported materials
- ▼ Steel and non-ferrous metals prices in reverse

04 / KEY INDICATORS

	Jan 08-Jan 09	Jul 08-Jan 09
Consumer prices index (CPI)	+3.0	-0.3

This index peaked at 5.2% in September and has since fallen 1.5%. One contributor to the fall was the reduction in VAT from 17.5% to 15% last December. The retail prices index has fallen from 5% last September to 0.1% in January, reflecting the fall in mortgage interest payments and house depreciation.

Industry input costs	Feb08-Feb09	August 08-Feb09
Materials and fuels purchased by manufacturing industry	+0.5	-9.6
Materials and fuels purchased by manufacturing industry excluding food, beverages, tobacco and petroleum	+8.9	-0.1

The inflation rate has tumbled from 34.1% last June to 0.5% in February. Prices actually fell 14.5% in the last six months of 2008, largely owing to the collapse of oil prices. There was a slight increase in January and February as the oil price bounced back from its \$34 Boxing Day low. Excluding food, beverages, tobacco and petroleum, the rate of increase has fallen from 21.3% in July to 8.9% in February.

Industry output prices		
Output prices of manufactured products	+3.1	-2.0
Output prices of manufactured products excluding food, beverages, tobacco and petroleum	+3.7	+0.1

Prices fell 2.8% between July and November, led by a fall in petroleum prices but have since stabilised. Excluding food, beverages, tobacco and petroleum, prices have been fairly stable since May. Over the past year, the following price changes have occurred:

Wood and wood products	+2.3%
Rubber and plastic products	+4.1%
Fabricated metal products	+7.5%
Electrical machinery and apparatus	+1.2%
Recovered secondary raw materials	-16.6%

The statistic for secondary raw materials disguises the huge increase in price that occurred in the first half of 2008 (up 86% in the first half of 2008) followed by a matching collapse in the second half of the year.

Construction industry

Materials price increases over the past year and the six months to

January 2009 are detailed below:

	Jan 08-Jan 09	July 08-Jan 09
Construction materials generally		
New housing	+3.8	-0.2
Non-housing new work	+8.6	-1.8
Repair and maintenance	+5.6	-0.3

Materials prices rose 6.9% over the year to January but have fallen 2.8% in the past three months. Over the year, prices for non-housing new work rose faster than for other sectors but have now started falling at a faster rate: between November and January they fell 4%. Prices in all sectors are now declining but the fall in steel prices in particular has affected the new non-housing sector more than the housing or repair and maintenance markets.

	Feb08-Feb09	August 08-Feb09
Mechanical services materials		
Housing only	+10.5	+2.0
Non-housing	+5.2	+0.5
Electrical services materials	+1.2	-3.4

Mechanical services materials for housing rose more than 10% last year as the cost of boilers and radiators leaped in response to the increase in steel prices. The cost of electrical services materials have been in decline since last October. Significant price changes recorded by official sources over the last year and the past six months include:

Imported plywood	21.7	23.2
Steel tubes and fittings	18.9	8.1
Asphalt products	16.9	4.7
Cast and spun iron products	14.7	4.9
Coated macadam and bituminous products	10.8	2.0
Cement	9.4	6.9
Timber doors and windows	8.4	7.7
Reinforcing steel	7.1	-28.0
Clay bricks and tiles	2.9	10.30
Fabricated structural steel	1.9	-15.3
Metal sections	1.3	-24.8
Ready mixed concrete	0.8	-0.9
Insulated wire and cables	-2.2	-7.9
Steel sheet piling	-4.7	-23.8
Imported copper tubes and fittings	-8.1	-20.7

Data sources: ONS and BERR, January 2009 figures provisional

Labour Some trades have secured good rises, but others are likely to lose out

05 / EXECUTIVE SUMMARY

- Over the past three months of 2008, average earnings in construction were 1% lower than a year before, while average earnings throughout the economy rose 3.2%
- The start of the year brought in wage increases of 5% for plumbers and 4.5% for electricians (see below)
- Other agreements gave steel erectors 6.6%, thermal insulation contractors 6% and flat glass operatives 3%
- Negotiations between employers and unions for a revised wage agreement for building operatives, due at the end of June, seem unlikely to secure an increase of similar magnitude.

Plumbers

Plumbers in England and Wales received an increase in basic wage rates worth 5% from 5 January 2009 in a deal agreed in September 2007. The deal provided for wage increases of 4.5% but with a safety net that, should the retail prices index exceed this figure in September 2008, rates and allowances would be increased by that amount. Fortunately for plumbers, the RPI peaked in September at 5% and rates consequently increased accordingly.

The current basic hourly rates of pay for the principal grades of operatives are now as follows:

Technical plumber and gas service technician	£14.13
Advanced plumber and gas service engineer	£12.73
Trained plumber and gas service fitter	£10.91

Wage rates for plumbers in Scotland and Northern Ireland will increase by 4.6% on 1 June.

Electricians

Wage rates for electricians rose by 4.5% from 5 January 2009 in accordance with the second part of a three year agreement determined in September 2007. The new national standard rates became:

	Transport provided £/hour	Own transport £/hour
Technician (or equivalent specialist grade)	14.65	15.39
Approved electrician (or equivalent specialist grade)	12.94	13.67
Electrician (or equivalent specialist grade)	11.86	12.60
Electrical improver / senior graded electrical trainee	10.67	11.35
Labourer / adult trainee	9.42	10.11

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	29 June 2009 (rates to be agreed)
	Building & 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	8 June 2009 (rates to be agreed)
Plumbers	The Joint Industry Board for Plumbing Mechanical Engineering Services in England and Wales	Advanced plumber: £12.73 / hour	5 January 2009	See above	Likely to be 4 January 2010
	Scottish and Northern Ireland Joint Industry Board for the Plumbing Industry	Advanced plumber: £12.08 / hour	2 June 2008	Cost Update 30 May 2008/Spon's Architects' and Builders' Price Book 2009	1 June 2009 (basic rates will rise by 4.6%)
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	5 October 2009 (rates to be agreed)
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	See above	4 January 2010 (basic rates will increase by 5%)