Quarterly Construction Price and Cost Indices

Commentary

2Q2013

Coverage: UK, Great Britain and England and Wales
Geographical area: Country and region
Date of publication: 24 September 2013

PCI Headline results

- The *BIS Output Price Index for All Work (2010): All Construction* 2nd Quarter 2013 increased by 0.8% on the previous quarter and by 2.9% year-on-year. Much of the increase was accounted for by rises in the *All Repair & Maintenance* sector which saw output price increases of 1.4% on the previous quarter and 2.7% year-on-year.

- The *BIS Output Price Index for New Construction (2010): All New Construction* for 2nd Quarter 2013 increased by 0.6% on the previous quarter and by 2.9% year-on-year. Above average increases in output prices were noted in two new work sectors, namely *Public Non-Housing* and *Private Commercial*.

- The *BIS Output Price Index for Repair and Maintenance Construction* (2010): All Repair and Maintenance for 2nd Quarter 2013 increased by 1.4% on the previous quarter and by 2.7% year-on-year. Much of the increase was accounted for by rises in the *Private Housing Repair and Maintenance* sector which saw output price increases of 2.7% on the previous quarter and 7.1% year-on-year.

- The *BIS Tender Price Index of Social Housing (TPISH)* 2nd Quarter 2013 increased by 1.1% on the previous quarter and by 1.6% year-on-year.

- The *BIS Resource Cost Indices* in 2nd Quarter 2013 exhibit stable input costs in building, housing and non-housing sectors. However, the *BIS Resource Cost Index of Road Construction (ROCOS)* declined 1.2% on the previous quarter and showed no change year-on-year, while the *BIS Resource Cost Index of Infrastructure (FOCOS)* declined by 1.0% on the previous quarter although again showed no change year-on-year.

Introduction

This commentary accompanies the latest Quarterly Price and Cost Indices, published on the BIS Construction website on 24 September 2013.

It aims to provide a brief overview of recent trends in the data presented on the website. These data cover the following price and cost indices (in parentheses the publication frequency and geographical coverage).

Output Price Indices (OPIs)
All Work (2010): All New Construction and Repair and Maintenance Work (Quarterly, GB)
New Construction (2010): All New Construction (Quarterly, GB)
New Construction (2010): Infrastructure (Quarterly, GB)
New Construction (2010): Private Commercial (Quarterly, GB)
New Construction (2010): Private Housing (Quarterly, GB)
New Construction (2010): Private Industrial (Quarterly, GB)
New Construction (2010): Public Housing (Quarterly, GB)
New Construction (2010): Public Non-Housing (Quarterly, GB)
Repair and Maintenance (2010): All Repair and Maintenance (Quarterly, GB)
Repair and Maintenance (2010): Infrastructure (Quarterly, GB)
Repair and Maintenance (2010): Private Housing (Quarterly, GB)
Repair and Maintenance (2010): Private Non-Housing (Quarterly, GB)
Repair and Maintenance (2010): Public Housing (Quarterly, GB)
Repair and Maintenance (2010): Public Non-Housing (Quarterly, GB)
Direct Labour (2010): Public Housing New Construction (Quarterly, GB)
Direct Labour (2010): Public Housing Repair and Maintenance (Quarterly, GB)
Direct Labour (2010): Public Non-Housing New Construction (Quarterly, GB)
Direct Labour (2010): Public Non-Housing Repair and Maintenance (Quarterly, GB)

Tender Price Indices (TPIs)
All Construction TPI: All Construction (Quarterly, UK)
All Construction TPI: All New Construction (Quarterly, UK)
All Construction TPI: All Repairs and Maintenance, (Quarterly, UK)
BIS Tender Price Index of Public Sector Building Non-Housing PUBSEC[1] (Quarterly, UK)
Tender Price Index of Road Construction, BIS ROADCON[2] (Quarterly, UK)
Tender Price Index of Social Housebuilding (TPISH)[3]: New Build (Quarterly, England and Wales)[4]
Tender Price Index of Social Housebuilding: (TPISH) Derived Rehab (Quarterly, England and Wales)

[1] Regional location factors and Function factors are also available.
[2] Regional Road type and Value factors are also available.
[3] Regional location factors are also available.
[4] Figures for Scotland are prepared by the Scottish Government.

Resource Cost Indices (RCIs)

ALLCOS Index of All Construction (Quarterly, UK)

- All New Work
- All Repair and Maintenance
- All Work
- All Work: Labour and plant
- All Work: Materials

NOCOS Index for Building Non-Housing

- Combined
- Mechanical
- Electrical
- Building
- Labour and Plant
- Materials

HOCOS Index for House Building (Quarterly, UK)

- Combined
- Mechanical
- Electrical
- Building
- Labour and Plant
- Materials

ROCOS Index for Road Construction (Quarterly, UK)

- Combined
- Labour and Plant
- Materials

FOCOS Index for Infrastructure (Quarterly, UK)

- Combined
- Labour and Plant
- Materials

NOMACOS Index for Maintenance of Building Non-Housing (Quarterly, UK)

- Combined
- Mechanical
- Electrical
- Building
- Labour and Plant
- Materials

HOMACOS Index for Maintenance of House Building (Quarterly, UK)

- Combined
- Mechanical
- Electrical
- Building
- Labour and Plant
- Materials

Commentary

Although cost and price pressures have been relatively benign of late the trend appears upwards with momentum growing. The impetus currently is within the *Public Non-Housing* and *Private Commercial* New Work sectors and the *Private Housing* Repair & Maintenance sector.

BIS New Construction Output Price Indices 2Q2013

The BIS *Output Price Index for New Construction (2010): All New Construction* for 2nd Quarter 2013 increased by 0.6% on the previous quarter and by 2.9% year-on-year.

The quarter on quarter change resulted from increases in output prices in all sectors apart from Public Housing (-0.2%) and Infrastructure (-1.6%) where prices fell (Table 1). The composition of the index was influenced by quarter-on-quarter changes in the proportions of volume of output. The proportion of Private Housing increased while the proportion of work in the Infrastructure, Private Industrial and Private Commercial sectors declined. The proportion of work in the Public Housing and Public Non-Housing sectors remained unchanged (Table 2).

Table 1: BIS *New Construction Output Price Indices* 2Q 2013 (% change)

Sector	**Change**			
	on year	*Y-on-Y*	*on quarter*	*Q-on-Q*
Public Housing	-1.0%	▼	-0.2%	▼
Private Housing	2.4%	▲	0.8%	▲
Infrastructure	0.6%	▲	-1.6%	▼
Public Non Housing	4.8%	▲	1.7%	▲
Private Industrial	-1.5%	▼	0.5%	▲
Private Commercial	4.1%	▲	1.0%	▲
All New Work	2.9%	▲	0.6%	▲

The year on year increase is largely attributable to upward movement in output prices in all sectors except for Public Housing (-1.0%) and Private Industrial (-1.5%) where prices fell. Price increases are particularly strong in the Public Non-Housing (4.8%) and Private Commercial (4.1%) sectors (Table 1). The mix of the sectors in the index over the year was influenced by an increase in the proportion of output from the Private Housing and Infrastructure sectors and a decline in the proportion of Public Non-Housing and Private Commercial work (Table 2).

Table 2: ONS New Construction Output proportion by sector
(based on current price non seasonally adjusted volume figures)

Period		Public Housing	Private Housing	Infrastructure	Public Non Housing	Private Industrial	Private Commercial	All New Work
2011	Q1	7%	20%	19%	19%	4%	30%	100%
	Q2	7%	21%	20%	17%	4%	30%	100%
	Q3	6%	21%	19%	17%	4%	32%	100%
	Q4	6%	21%	20%	16%	4%	33%	100%
2012	Q1	6%	23%	19%	16%	5%	32%	100%
	Q2 (R)	6%	23%	19%	15%	5%	33%	100%
	Q3 (R)	6%	22%	20%	16%	5%	31%	100%
	Q4 (R)	5%	23%	21%	14%	5%	31%	100%
2013	Q1 (R)	6%	23%	21%	14%	6%	32%	100%
	Q2 (P)	6%	25%	20%	14%	5%	30%	100%

BIS Repair & Maintenance Construction Output Price Indices 2Q2013

The BIS *Output Price Index for Repair and Maintenance Construction (2010): All Repair and Maintenance* for 2nd Quarter 2013 increased by 1.4% on the previous quarter and by 2.7% year-on-year. Much of the increase was accounted for by rises in the Private Housing Repair and Maintenance sector which saw output price increases of 2.7% on the previous quarter and 7.1% year-on-year (Table 3).

Table 3: BIS *Repair & Maintenance Construction Output Price Indices* 2Q 2013 (% change)

Sector	Change			
	on year	*Y-on-Y*	*on quarter*	*Q-on-Q*
Public Housing	2.5%	▲	-0.3%	▼
Private Housing	7.1%	▲	2.7%	▲
Infrastructure	0.2%	▲	0.7%	▲
Public Non Housing	0.2%	▲	0.7%	▲
Private Non Housing	0.1%	▲	0.1%	▲
All Repair & Maintenance	2.7%	▲	1.4%	▲

Generally, the movement of the Output Price Indices reflects the movement in tender prices in previous periods.

Notes
Details of Construction output volumes are available from ONS.
Details of the Sector output price indices are available on the BIS website

BIS Construction Public Sector Tender Price Indices 2Q2013

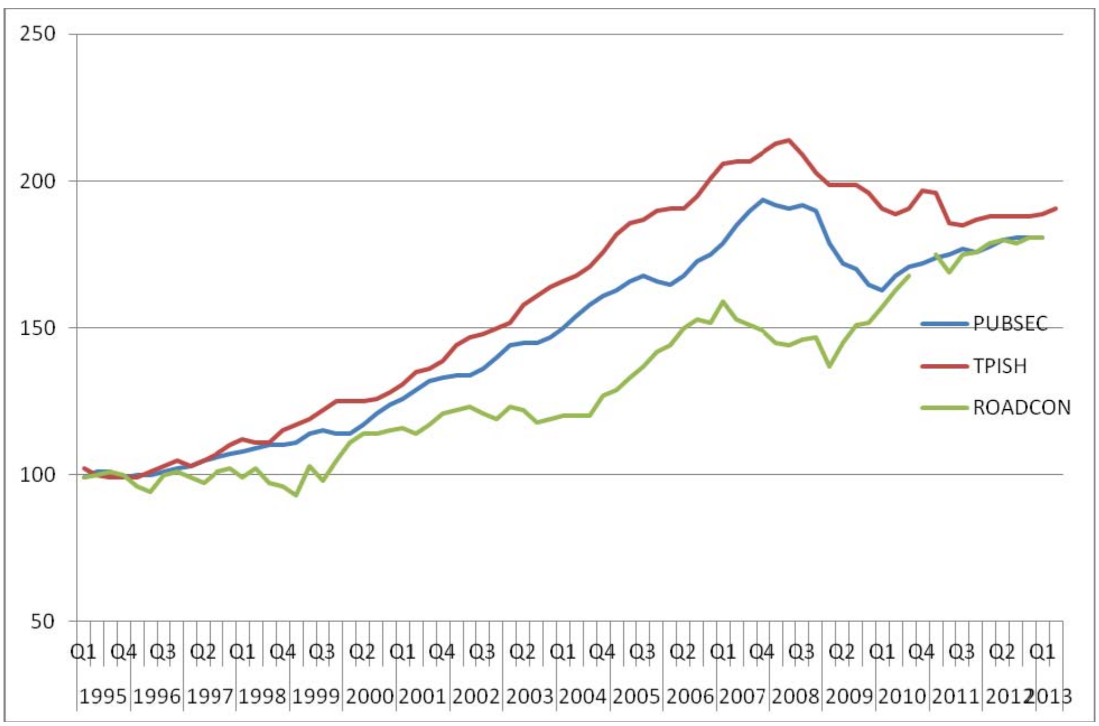
The *BIS Tender Price Index for Public Sector Non-Housing (PUBSEC*) 2nd Quarter 2013 is not available this period due to small sample sizes.

The *BIS Tender Price Index of Social Housing (TPISH)* 2nd Quarter 2013 increased by 1.1% on the previous quarter and by 1.6% year-on-year. The series indicates that prices in this sector have remained steady since 2nd Quarter 2010, but are still some 11% below their peak in 2nd Quarter 2008.

The *BIS Tender Price Index of Road Construction (ROADCON)* 2nd Quarter 2013 is not available this period due to small sample sizes.

Figure 1 below provides quarterly data for *PUBSEC*, *ROADCON* and *TPISH* since 1995 and highlights the relative decline in the TPIs since the recession in 2007/08. However, recent indications suggest a general stability in both PUBSEC and TPISH although with levels still below their peak, while ROADCON is now well above tender price levels last seen during the mid 2000s.

Figure 1: Trends in PUBSEC, TPISH and ROADCON Tender Price Indices (1995=100)



Note:
PUBSEC: BIS Tender Price Index of Public Sector Building (Non-Housing);
TPISH: BIS Tender Price Index of Social House Building;
ROADCON: BIS Tender Price Index of Road Construction.

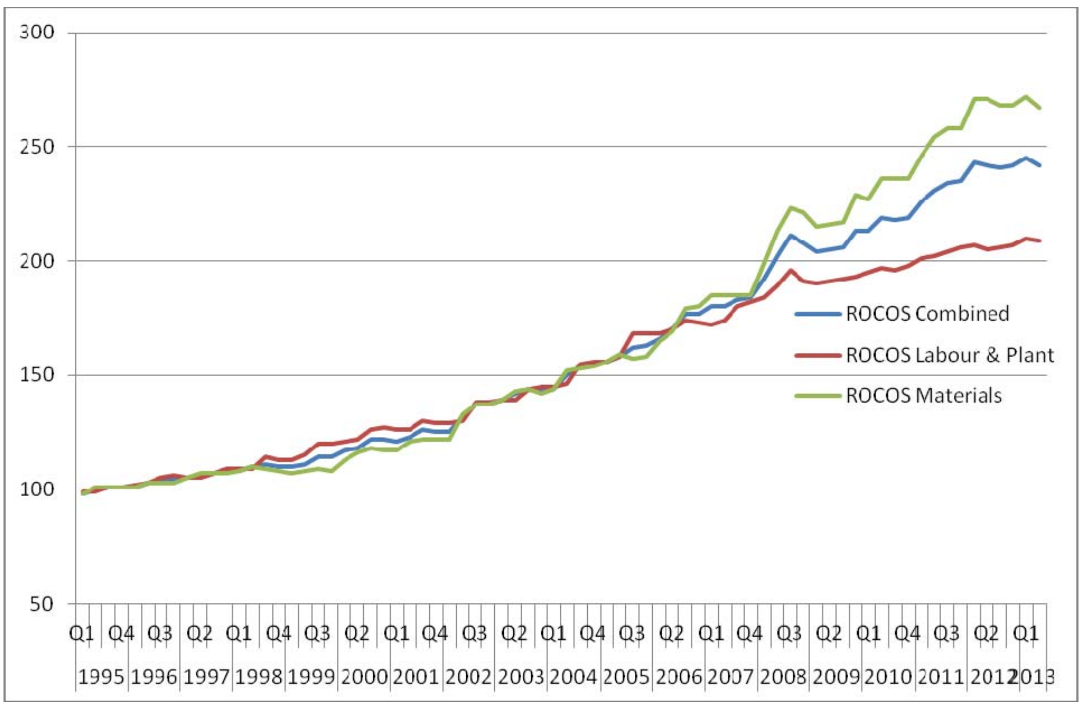
BIS Construction Resource Cost Indices 2Q2013

The *BIS Resource Cost Indices* 2nd Quarter 2013 generally indicate that while labour and plant costs have remained largely static compared to the previous quarter some increase is evident year-on-year. In terms of material costs the indices indicate that these remained largely unchanged both on the previous quarter and year-on-year.

The *BIS Resource Cost Indices* in 2nd Quarter 2013 exhibit fairly stable costs in building, housing and non-housing sectors.

Costs in the infrastructure sectors, both roads and infrastructure generally, have fallen compared with the previous quarter, although prices remain static year-on-year. The *BIS Resource Cost Index of Road Construction (ROCOS)* declined 1.2% on the previous quarter and showed no change year-on-year, while the *BIS Resource Cost Index of Infrastructure (FOCOS)* declined by 1.0% on the previous quarter and again showed no change year-on-year.

Figure 2: Trends in Road Input Cost Indices ROCOS (1995=100)



Note:
ROCOS Combined: BIS Resource Cost Index of Road Construction Combined;
ROCOS Labour & Plant: BIS Resource Cost Index of Road Construction Labour & Plant;
ROCOS Materials: BIS Resource Cost Index of Road Construction Materials.

Figure 2 above provides quarterly data for ROCOS since 1995 and confirms the recent relative decline of input costs since the beginning of 2012, following a period of sustained cost increases since mid 2009, similar trends are also evident in FOCOS. However, despite the recent decline, material costs continue to be the primary driver for any cost increases in the infrastructure cost indices outstripping growth in labour and plant costs by a wide margin.

Economic Background

Within the latest ONS statistical release "Output in the Construction Industry", Construction Output and New Orders have increased both on the previous quarter and year-on-year, although both are still well below pre-recession peaks (http://www.ons.gov.uk/ons/rel/construction/output-in-the-construction-industry/july-2013/index.html)

BIS produce a monthly note on the economic background for construction, published with its Monthly Statistics of Buildings Materials and Components

Notes

Uses of Data

There are three types of indices which have different purposes and uses:

Tender Price Indices: Measure project construction prices to clients agreed at 'commit to construct'. The TPIs are produced primarily for use in estimating, cost-checking and fee negotiation on public sector construction works. They are used by the Office for National Statistics (ONS) to deflate construction new orders from current to constant prices and in the calculation of the OPIs.

Output Price Indices: Measure project construction prices paid by clients at the point that the work is carried out. The OPIs are produced primarily to deflate construction output from current to constant prices and are generally derived from TPIs modelled to sector output in previous quarters.

Resource Cost Indices: Measure the notional trend of input costs to a contractor in terms of increases in the cost of labour, materials and plant by application of the BCIS Price Adjustment Formulae Indices (PAFI) for Building (Series 3), Specialist Engineering (Series 3) and Civil Engineering (1990 Series) to cost models. The PAFI are based on ONS Producer Price Indices (PPIs). The RCIs are used for budgeting, estimating, tendering or paying for construction work.

Quality Information

For the Tender Price and Output Price Indices that are based on project indices, sample sizes are stated for each index.

For OPIs that are based on modelled TPIs, the inputs come from the RCIs and TPIs.

The RCIs are based on PPIs and published wage awards. Details of the PPIs are available on the ONS website

Related Statistics
ONS publish [Producer Price Index (PPI)](), a monthly survey that measures the price changes of goods bought and sold by UK manufacturers and provides a key measure of inflation. This Statistical Bulletin contains a comprehensive selection of data on input and output index series. It contains PPIs for materials and fuels purchased, and output of manufacturing industry by broad sector and includes many construction materials.

ONS publish Construction Output statistics, a monthly series of the output of the construction industry in both the private and public sectors, and for both new work and repair and maintenance.

ONS publish Construction New Orders. This information relates to contracts for new construction work awarded to main contractors by clients in both the public and private sectors. Also included is speculative work, undertaken on the initiative of the firm, where no contract or order is awarded. The value of this work is recorded in the period when foundation works are started.

Revisions Policy
The revision policy for these indices can be found on the BIS Building Price and Cost Indices webpage.

Further Information
As part of this programme of work BIS have published methodology notes for each set of BIS Construction and Price Indices:

- Tender Price Indices (PDF, 276 Kb) including the Tender Price Index of Public Sector Building Non-Housing (PUBSEC), Road Construction (ROADCON), Social Housebuilding (TPISH), and the All Construction Tender Price Index (ALLCON)
- Output Price Indices, (PDF, 188 Kb) including the Output Price Indices for: New Construction, Repair and Maintenance, Direct Labour.
- Resource Cost Indices (PDF, 150 Kb) including the Resource Cost Index of: Building Non-Housing (NOCOS), House Building (HOCOS), Road Construction (ROCOS), Infrastructure (FOCOS), Maintenance of Building Non-Housing (NOMACOS), Maintenance of House Building (HOMACOS), and All Construction (ALLCOS).

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