

- ▲ The building, mechanical and electrical cost indices have recorded similar price rises over the past year (3.4-3.8%), although tender prices have fallen substantially
- ▼ Consumer price inflation is below target and heading lower
- ▼ Industry generally is experiencing falling input prices
- ▶ Industry's output prices are fairly flat
- ▼ Construction materials prices are in a period of steady decline
- ▼ Steel prices are down 30-40%
- ▲ Prices have rallied for non-ferrous metals
- ▶ Builders' wage rates are frozen

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

	%	Direction
Building cost index	3.8	▼
Mechanical cost index	3.4	▼
Electrical cost index	3.4	▲
Consumer prices index	2.1	▼

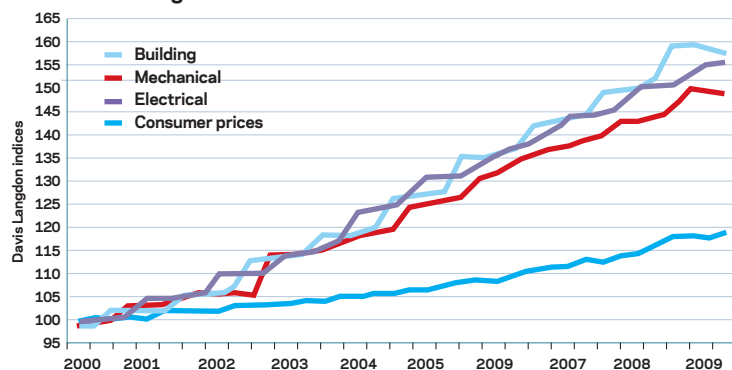
(Second quarter 2009 figures are provisional)

Building cost index This has dropped sharply to its lowest annual increase since the beginning of 2002.

Mechanical cost index This has been falling since December in response to declining materials prices.

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 two quarters: in the first quarter because of a wage award for electricians, in the second because materials prices started to rise again.

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 the various work sectors but do not reflect changes in market conditions affecting profit and overheads provisions, site wage rates, bonuses or materials' price discounts or 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 24 July).

02 / PRICE ADJUSTMENT FORMULAE FOR CONSTRUCTION

Price adjustment formulae indices are designed for the calculation of increased costs on fluctuating or variation of price contracts. They provide guidance on cost changes in trades and sectors, and on the movement of work sections in Spon's Price Books.

From 1 April 2009 responsibility for the price adjustment formulae indices passed from BIS to the Building Cost Information Service. Over the 12 months to August 2009, 32 of the 60 building work categories have recorded a fall in price.

The five items in the table on the right displaying the greatest falls in price all relate

to steel, including fencing, which has a significant steel component. This reflects the fall in world steel prices that began last August but which may have bottomed out in May. Higher input costs have caused prices to lift off the bottom but mainly for strip products rather than construction materials. Aluminium also features as the price for this metal fell by 60% between July last year and early 2009, but the price has been easing upwards since March and has rallied strongly since July.

The positive figures in the table were influenced by the plumbers' wage award in January but materials also rose substantially.

	% change, Aug 08-Aug 09
Concrete: reinforcement	-28.2
Piling: steel	-21.8
Fencing	-15.4
Metal: miscellaneous	-11.4
Windows and doors: steel	-10.7
Windows and doors: aluminium	-9.1
Piling: concrete	-8.1
Cladding and covering: aluminium	-7.3
Cladding and covering: coated steel	-6.8
Pavings: coated macadam	+4.1
Sanitary appliances	+7.4
Pipes and accessories: steel	+8.6
Pipes and accessories: spun and cast iron	+9.3
Pipes and accessories: plastics	+11.4

03 / EXECUTIVE SUMMARY

- ▼ Consumer price inflation below target and heading lower
- ▼ Industry's input costs have fallen at their fastest rate for 13 years
- ▼ Industry output prices show biggest annual fall for eight years
- ▼ Construction materials prices decline for first time in 10 years
- ▲ Electrical services materials prices beginning to rise
- ▼ Steel components show big price falls

04 / KEY INDICATORS

	% change, July 08-July 09
Consumer prices index	+1.8

The year on year increase in this index has fallen steadily since peaking at 5.2% last September and now stands slightly below the government's target of 2%. The index increased monthly between January and June, rising by 2.1% but eased back 0.1% in July. The index is expected to remain fairly static over the next few months.

Industry input costs

Materials and fuels purchased by manufacturing industry	-12.2
Materials and fuels purchased by manufacturing industry excluding food, beverages, tobacco and petroleum	-3.7

Industry's input costs have fallen 12.2% over the past year, the highest annual decline since 1986. The principal contributor was the 41% fall in crude oil prices. The narrower index, excluding the food, beverages, tobacco and petroleum industries, declined by a more moderate 3.7%. Nevertheless this was still the largest fall in this index since 2002. Prices have fallen 1.6% in the past two months and 3.5% since March. Over the year, gas prices have fallen by 27% (though electricity prices are 14% up) and the price of imported metals is down by 13%.

Industry output prices

Output prices of manufactured products	-1.3
Output prices of manufactured products excluding food, beverages, tobacco and petroleum	+0.2

Industry output prices have risen 1.5% in the six months to July but year on year prices have shown the largest decrease since 2001, thanks largely to the fall in oil prices. Products excluding food, beverages, tobacco and petroleum rose 0.5% over the six months, and 0.2% year on year. This is the lowest figure since 2004.

Over the last year the following price changes have occurred:

Wood and wood products	2.8%
Rubber and plastic products	1.1%
Fabricated metal products	-1.1%
Electrical machinery and apparatus	0%
Recovered secondary raw materials	-40.3%

The price of recovered secondary raw materials (largely scrap metals) is 40% lower than a year ago, which was close to the 2008 peak price. The trend in 2009 has been uncertain as the market looks for direction.

Construction industry
Materials price increases for the construction industry over the last year are detailed below:

	% change, June 08-June 09
Construction materials generally	
New housing	+0.8
Non-housing new work	-3.0
Repair and maintenance	-0.3

Construction materials prices declined 1.6% over the year to June. Prices last fell year-on-year in 1999; they have probably fallen for the past eight months and are 5.1% down from October 2008.

The biggest fall in prices has been for new non-housing work for which prices have fallen by 7.2% since October.

	% change, July 08-July 09
Mechanical services materials	
Housing	+1.0
Non-housing	+0.6
Electrical services materials	-1.7

Prices of mechanical materials have fallen by 2-3% since the turn of the year but seem relatively stable now. Prices for electrical materials fell by 5% between September 2008 and February 2009 but have risen nearly 2% since April as copper prices have rebounded.

Significant price changes recorded by official sources over the last year include:

	% change, July 08 - July 09
Gas oil fuel	-38.2
Steel for reinforcement	-37.0
Steel sheet piling	-34.4
Metal sections	-33.8
Fabricated structural steel	-24.9
Sawn wood	-7.1
Insulated wire and cables	-7.0
Coated macadam and bituminous products	+6.6
Precast concrete goods	+6.9
Cement	+8.5
Coated roadstone	+9.6
Timber doors and windows	+10.1
Steel tubes and fittings	+11.4
Cast and spun iron products	+13.1

Data sources: ONS and BCIS; July 2009 figures provisional

- Wages have been frozen for building and civil engineering workers
- Demolition operatives have benefited from an existing agreement
- The three-year agreement for heating and ventilating operatives comes to an end at the beginning of October
- Average earnings in the second quarter were 0.4% lower than 2008

Building operatives

In April the Building and Allied Trades Joint Council (BATJIC) announced that the 2009/10 round of negotiations had concluded, and that there would be no increase to pay or allowances, otherwise due in June. The rates introduced in June 2008 remain in place for a further year.

The wage agreement for building operatives under the auspices of the Construction Industry Joint Council was also due for renewal at the end of June. Talks between employers and unions continued until mid June but concluded without agreement and with both sides agreeing to resume pay negotiations later this year. All of the provisions of the working rule agreement in place for 2008/9 continue with no change to pay rates, travel allowances, lodging allowance or industry sick pay.

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	Rated held "at least until the autumn"
	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	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	4 January 2010
	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	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	Cost Update 27 March 2009	4 January 2010 (basic rates are expected to increase by 5%)

The principal CIJC rates remain:

	Rate per hour
Craft rate	£10.30
Skill rate 1	£9.82
Skill rate 2	£9.46
Skill rate 3	£8.85
Skill rate 4	£8.35
General operative	£7.75

Demolition operatives

A three-year wage settlement for demolition operatives was agreed in 2007. The third part of the agreement came into operation on 20 July 2009 providing an increase of 4.25% on basic rates and allowances.

The new hourly rates are:

Labourer	£7.96
Mattockman, burner (groundman), shorer's mate	£8.48
Topman, burner (topman), shorer	£9.20
Operatives involved in asbestos stripping/removal	+£1.86