

Tender Price Index

Key Indices Forecast Q1 2025



SLOWER GROWTH IN CONSTRUCTION SECTOR

The UK Construction PMI fell to 53.3 in December 2024 from 55.2 in November, a six-month low, due to slowing new order growth, especially in the residential building sector, which saw its sharpest decline since June 2024. While commercial construction remained the fastest-growing segment, followed by civil engineering, both sectors expanded at a slower pace; driven by higher borrowing costs and weak consumer confidence.

SECTOR FACING CRITICAL FINANCIAL PRESSURE

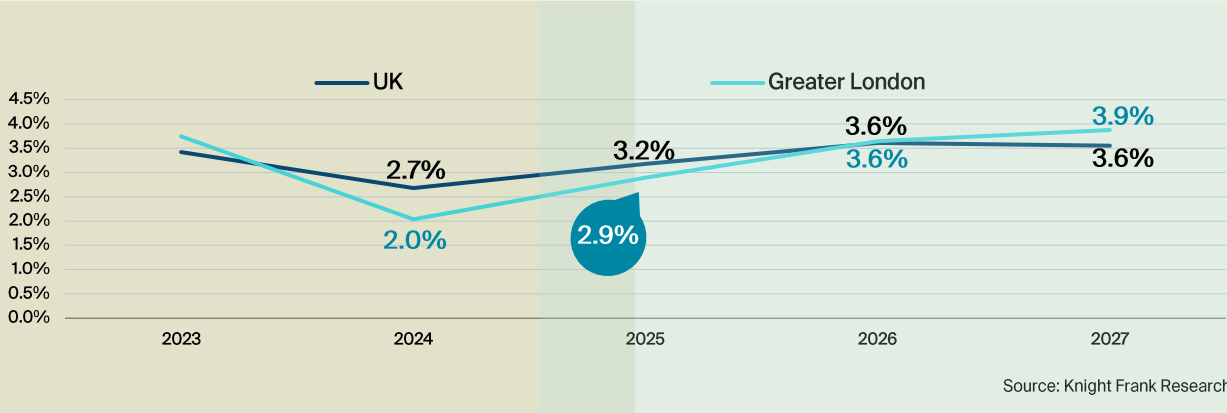
Insolvency practitioner Begbies Traynor reported that 6,830 construction firms ended 2024 in “critical financial distress.” The October budget’s proposed inheritance tax reforms were cited as increasing the financial strain on the sector, with family-run businesses—which comprise 81% of construction SMEs—subject to a 20% inheritance tax on assets above £1m. Data from the Insolvency Service shows that companies in the construction sector accounted for 15.6% (4,102) of total insolvencies in 2024 (YTD-November). In addition, EY-Parthenon’s analysis of profit warnings revealed that 22% of companies in the FTSE Construction and Materials sector have issued profit warnings in the last 12 months.

HIGHER TENDER PRICE INFLATION FORECASTS

We expect tender price inflation (TPI) in Greater London to rise to 2.9% in 2025 from 2.0% last year, but significantly lower than the high inflation of previous years. In 2026/27, TPI is expected to rise to 3.6%, reflecting several compounding factors. Key drivers include escalating material and labour costs, exacerbated by ongoing supply chain pressures and a shortage of skilled workers. Increased demand for construction, fuelled by large-scale infrastructure projects and urban development, further intensifies contractor competition. Higher energy costs and stricter sustainability and regulatory standards also contribute to elevated project costs.

Greater London Tender Price Inflation Forecast 2025

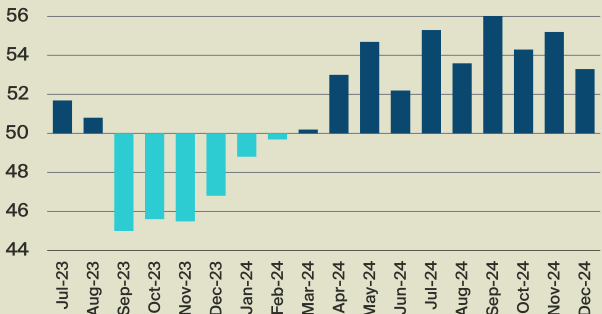
2.9%



UNITED KINGDOM CONSTRUCTION PMI INDEX

Total Construction Activity Index

50 = No change, >50 = Expansionary growth, <50 = Contractionary growth



LATEST ECONOMIC DATA

4.4%	▲	Unemployment Rate (%)
4.75%	▼	Interest Rates Policy Rates (%)
2.6%	▲	CPI Inflation (annual % change)
0.1%	▲	GDP (annual % change)
50.9	▲	UK Purchasing Managers Index
-22.0	▼	Consumer Confidence Index
\$80.59	▲	Brent Crude Oil Prices
5.2%	▲	Average Earnings (3m annual % change)
-1.5%	▼	Producer Prices (Input Prices)

Source: ONS (arrows reflect annual change)

MATERIAL COST “BIG MOVERS”

Fabricated structural steel	-6.9%
Concrete reinforcing bars (steel)	-2.3%
Natural and Artificial Stone	-1.2%
Imported plywood	0%
Builder's woodwork	0.6%
Imported sawn/planed wood	1.1%
Ready-mixed concrete	1.2%
Cement	1.3%
Gravel, Sand, Clays and Kaolin	2.1%
Pre-cast concrete products	4.9%

Source: ONS (Nov 2023 – Nov 2024)

Paul Prior
Partner, Cost Consultancy
paul.prior@knightfrank.com

Bryndis Sadler
Senior Research Analyst
bryndis.sadler@knightfrank.com



© Knight Frank LLP 2024. This document has been provided for general information only and must not be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this document, Knight Frank LLP does not owe a duty of care to any person in respect of the contents of this document, and does not accept any responsibility or liability whatsoever for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. The content of this document does not necessarily represent the views of Knight Frank LLP in relation to any particular properties or projects. This document must not be amended in any way, whether to change its content, to remove this notice or any Knight Frank LLP insignia, or otherwise. Reproduction of this document in whole or in part is not permitted without the prior written approval of Knight Frank LLP to the form and content within which it appears.