



Cost inflation for housing associations

A Cebr report for the National Housing Federation

August 2022

Executive summary

Cebr has been commissioned by the National Housing Federation to conduct a study into inflation, with a particular focus on the categories that are most likely to affect housing associations. To that end, Cebr has analysed publicly available inflation data released by the Office for National Statistics (ONS) to describe the trends across several key indicators.

Some of the key findings of this report are:

- Cost pressures on housing associations have increased further since the last edition of this report, which was published in March 2022.
- Rising construction prices continue to impact businesses in the housing sector, with annual construction price growth accelerating to 9.6% in June 2022. The cost of new work has been increasing at an even higher rate, with annual price growth reaching 11.1% that month.
- Looking at new work in more detail, the cost of new housing has risen at an even higher rate. In June 2022 new housing was 12.3% more expensive than a year earlier.
- Repair and maintenance prices surged over 2021 and 2022, with annual price increases for repair and maintenance materials peaking in April 2022, at 16.8%. However, since then cost pressures have subsided to a limited extent, with annual price growth falling to 14.0% in July, though this is still highly elevated.
- Further pressure on employers and housing associations stems from large increases in nominal pay. Over the first half of 2022, earnings increased by 6.0% on the year, on average, with the most recent datapoint from June pointing towards 6.0% annual growth that month.
- After CPI inflation reached 10.1% in July 2022, Cebr expects annual price growth to accelerate to 11.6% in Q4 2022. Following this peak, inflation is set to subside, though it is still expected to average 5.0% over the second half of 2023. Even in 2024 inflation is set to remain above the Bank of England's 2.0% target, at 3.1%.

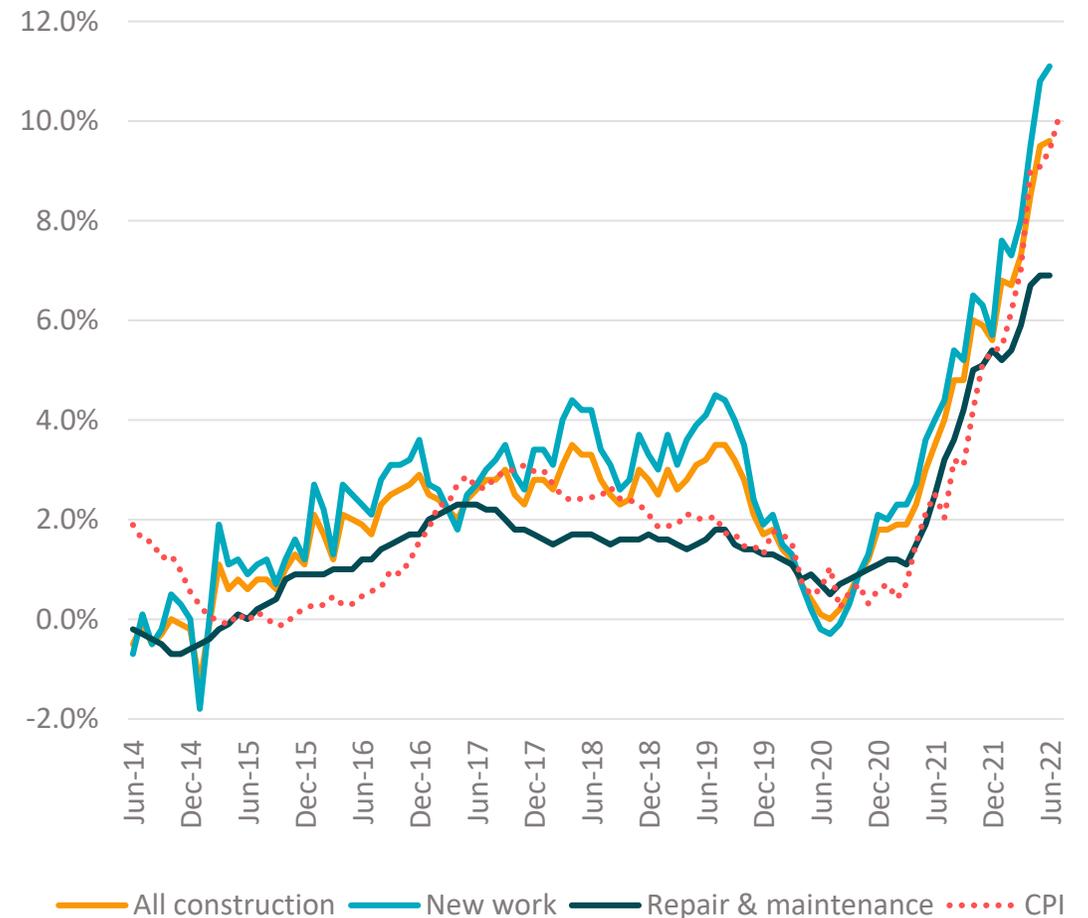
Cost inflation for housing associations



Since mid-2021, construction inflation increased in line with CPI inflation, though new work inflation rose above 11% in June

- Over 2019, construction prices increased at a higher rate than the average consumer prices, with construction inflation averaging 2.8% that period, compared to 1.8% when looking at CPI inflation.
- Construction prices mirrored the increase in the CPI price level that has been observable since March 2021. However, prices for new work increased at a faster rate than repair and maintenance.
- For instance, annual inflation for new work amounted to 11.1% in June 2022, whilst repair and maintenance was 6.9% more expensive than one year prior.
- Overall, construction prices were 9.6% higher in June than they were one year before, with CPI inflation reaching 9.4% in the same month.

Annual inflation for construction and repairs and maintenance compared to CPI inflation in the UK, June 2014 – June 2022

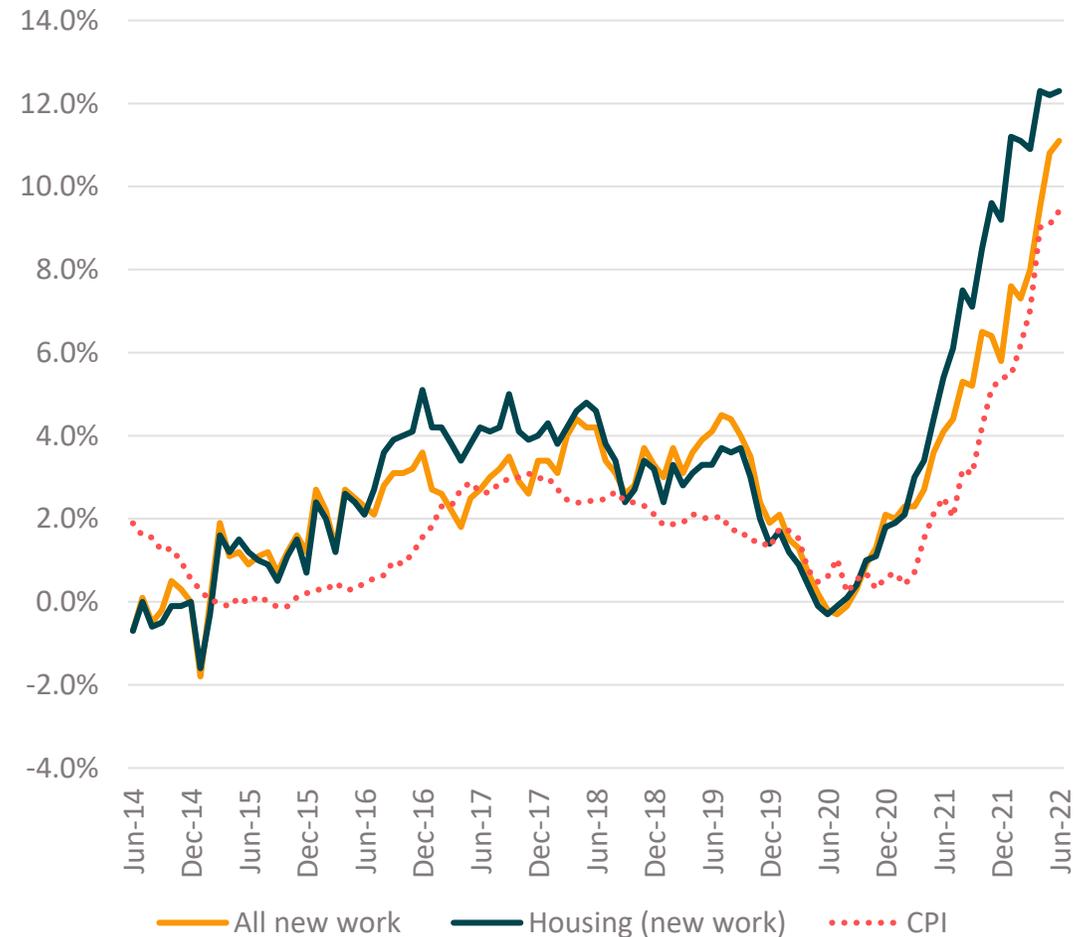


Source: ONS, Cebr analysis

Prices for new housing increase at a faster rate than CPI inflation

- Much of the rising cost of new work has been driven by housing, which increased at a higher rate than new work more generally.
- Up until March 2021 the annual rate of price growth for newly built housing was roughly in line with all new work and amounted to 3.0% in March 2021. Since then, the two indices have diverged.
- Price growth for new housing increased to 12.3% in June 2022, whilst the annual rate of price growth for overall new work grew to 11.1%. That month, CPI inflation stood at 9.4%.

Annual inflation for construction prices for all new work and new housing compared to CPI inflation in the UK, June 2014 – June 2022

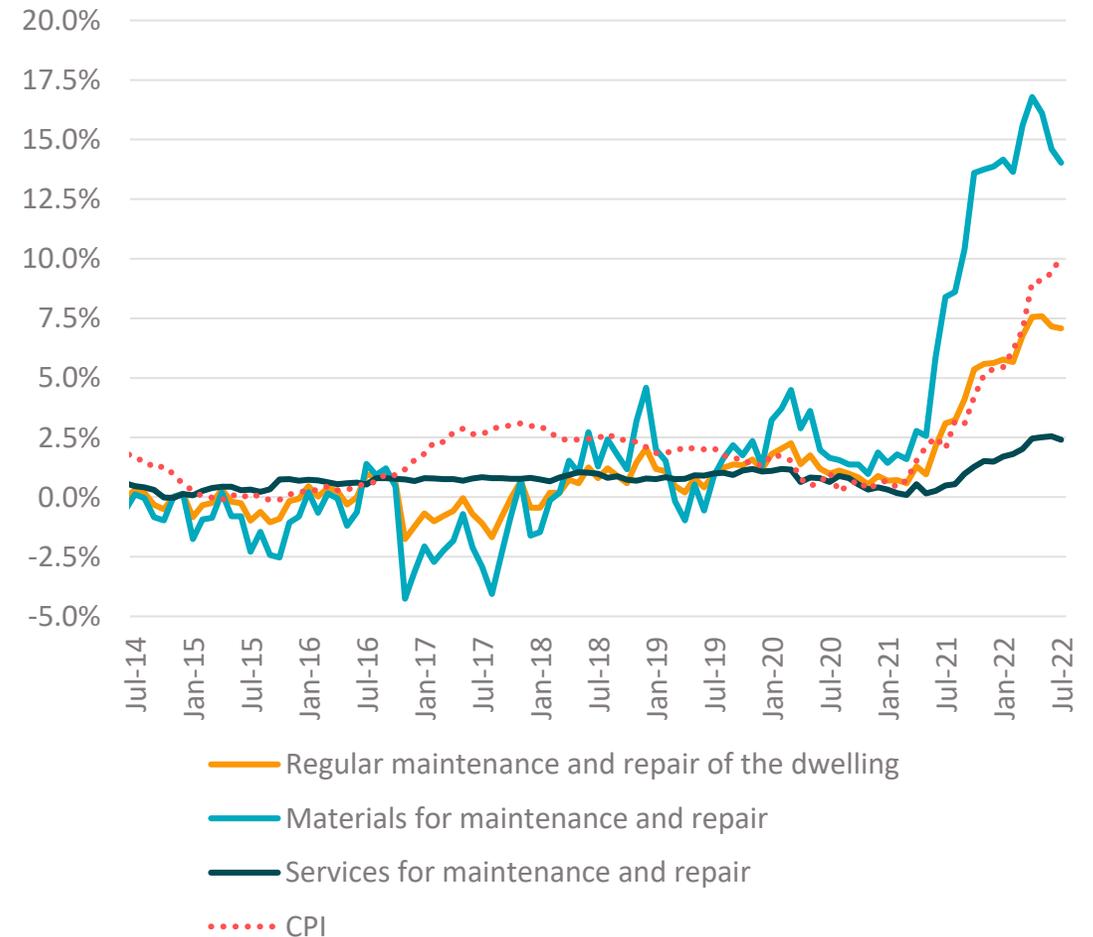


Source: ONS, Cebr analysis

Materials for maintenance and repair have become drastically more expensive, but cost pressures have eased recently

- Inflation for regular maintenance and repair of dwellings has been largely in line with overall CPI inflation since the end of 2019. However, the two series moved in opposite directions between January 2017 and April 2018.
- Subsequently, price growth for this category has increased considerably since April 2021, with inflation rising from 1.5% that month to 7.1% in July 2022. This is down from its peak in April 2022.
- Within costs for maintenance and repair, it is materials that are experiencing especially high rates of price growth. Inflation for materials peaked in April 2022 at 16.8%. However, price pressures have since somewhat subsided, though, growth remains high, decelerating to 14.0% in July.
- Conversely, the cost of maintenance and repair services increased by 2.4% in July 2022, relative to July 2021.

Annual inflation for regular repairs and maintenance compared to CPI inflation in the UK, July 2014 – July 2022

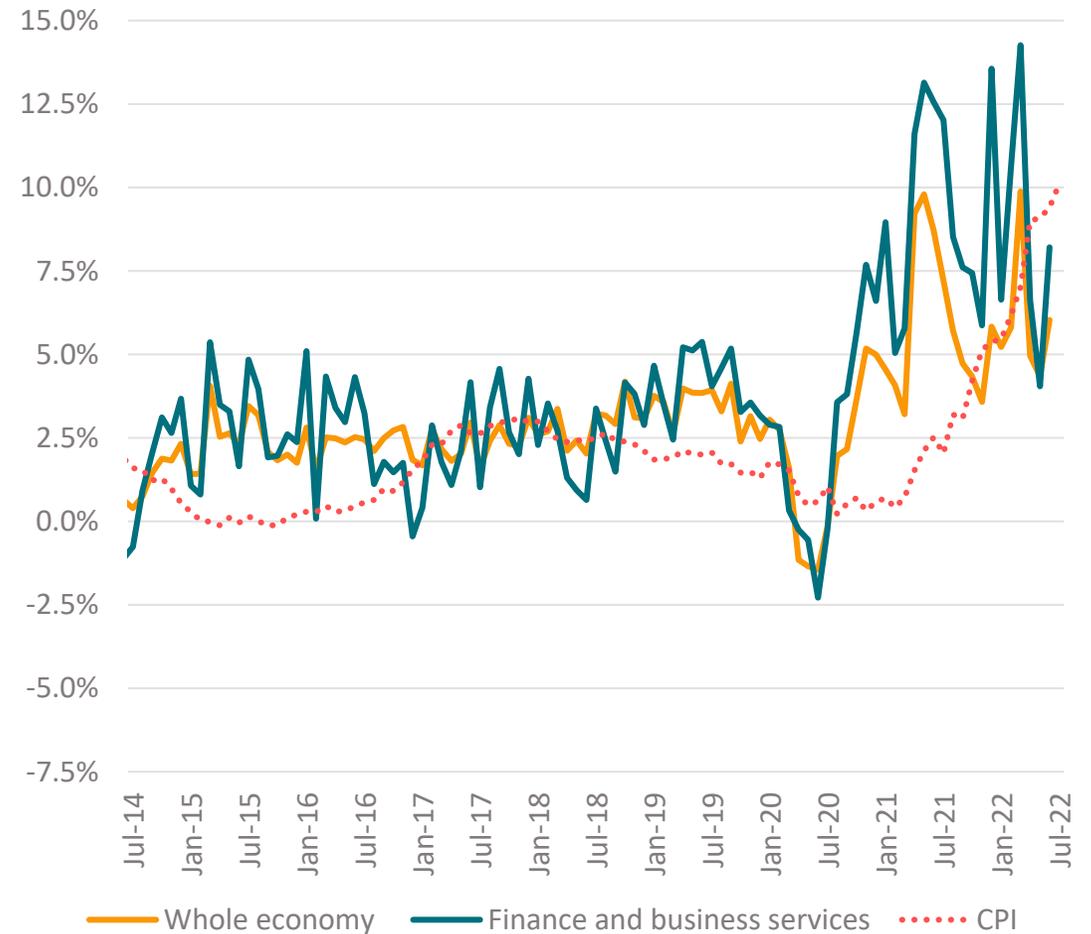


Source: ONS, Cebr analysis

Earnings growth has surged since mid-2020

- Workers in the UK have seen rapid wage growth in recent months, with a peak growth rate of 9.9% in March 2022, which then fell to 4.3% in May. In June, annual earnings growth across the whole economy amounted to 6.0%.
- Rapid increases in nominal earnings will put considerable pressure on businesses.
- Focussing on the finance and business services, wages in that sector have grown at a rapid pace in recent months, although the growth rate has fluctuated. In December 2021, the annual growth rate stood at 13.6%. After a slowdown in January, this then reached 14.3% in March 2022. Following this high, wage growth in the sector fell to 4.0% in May, but picked up again to stand at 8.2% in June.

Annual growth in average weekly earnings, including bonuses in the UK compared to CPI inflation, Jul 2014 – Jun 2022

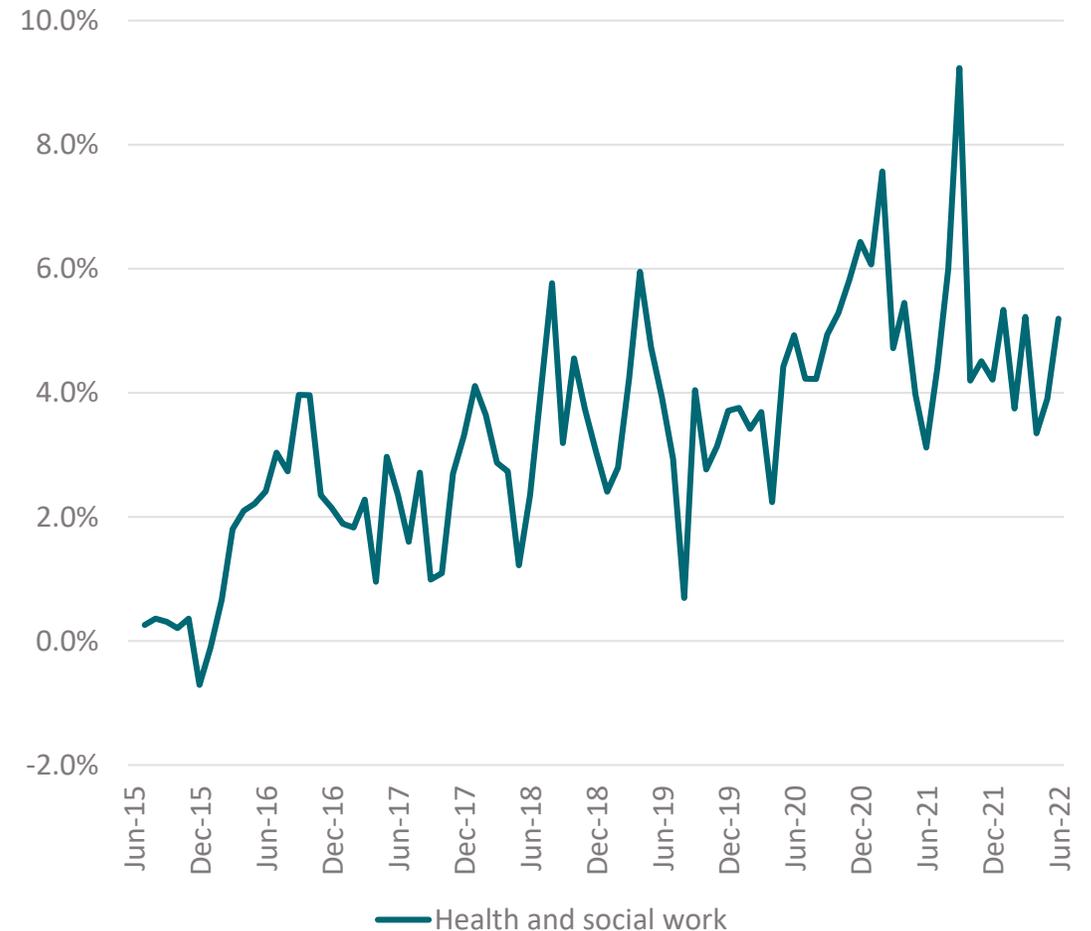


Source: ONS, Cebr analysis

Earnings growth in health and social work has been rising since 2015

- Wage increases in the health and social work sector* have been accelerating over the past seven years, from an average of 0.1% between July and December 2015, to 5.4% over the same months in 2021.
- Indeed, monthly wages have not seen an annual decline since December 2015, when earnings fell by 0.8%.
- In June 2022 annual earnings growth reached 5.2%. Over the first half of 2022, monthly earnings grew annually by 4.5%, on average.
- Whilst rising average earnings are a positive sign for employees, they put additional pressure on employers. Yet, this comes as CPI inflation averaged 7.7% over the first six months of 2022.

Annual growth in monthly earnings for the health and social work sector in the UK, June 2015 – June 2022



*Note that the data on this slide are sourced from ONS PAYE real time statistics, making them a slightly less reliable estimator than earnings data on the previous slide

Source: ONS PAYE data, Cebr analysis

In Q2 2022, CPI inflation was 6.0 percentage points higher than real estate services inflation

- Since Q1 2017, annual price increases for real estate services largely remained below the overall rate of CPI inflation. For instance, between Q1 2017 and Q3 2019, real estate services inflation averaged 1.5%, whilst overall CPI inflation averaged 2.4%.
- However, between Q1 2015 and Q1 2017, real estate services inflation averaged 3.0%, 1.0 percentage points above the Bank of England’s 2.0% inflation target. Meanwhile, CPI inflation averaged 0.5%.
- Since the pandemic, prices for real estate services and prices measured by CPI inflation moved in parallel, with price levels falling after Q4 2019. This decline was, however, much more pronounced for real estate services, which only returned to price growth in Q4 2021. Since then, annual inflation accelerated to 3.2% in Q2 2022, though this is eclipsed by CPI inflation reaching 9.2% that quarter.

Annual price growth of the following services in the UK, Q1 2013- Q1 2022



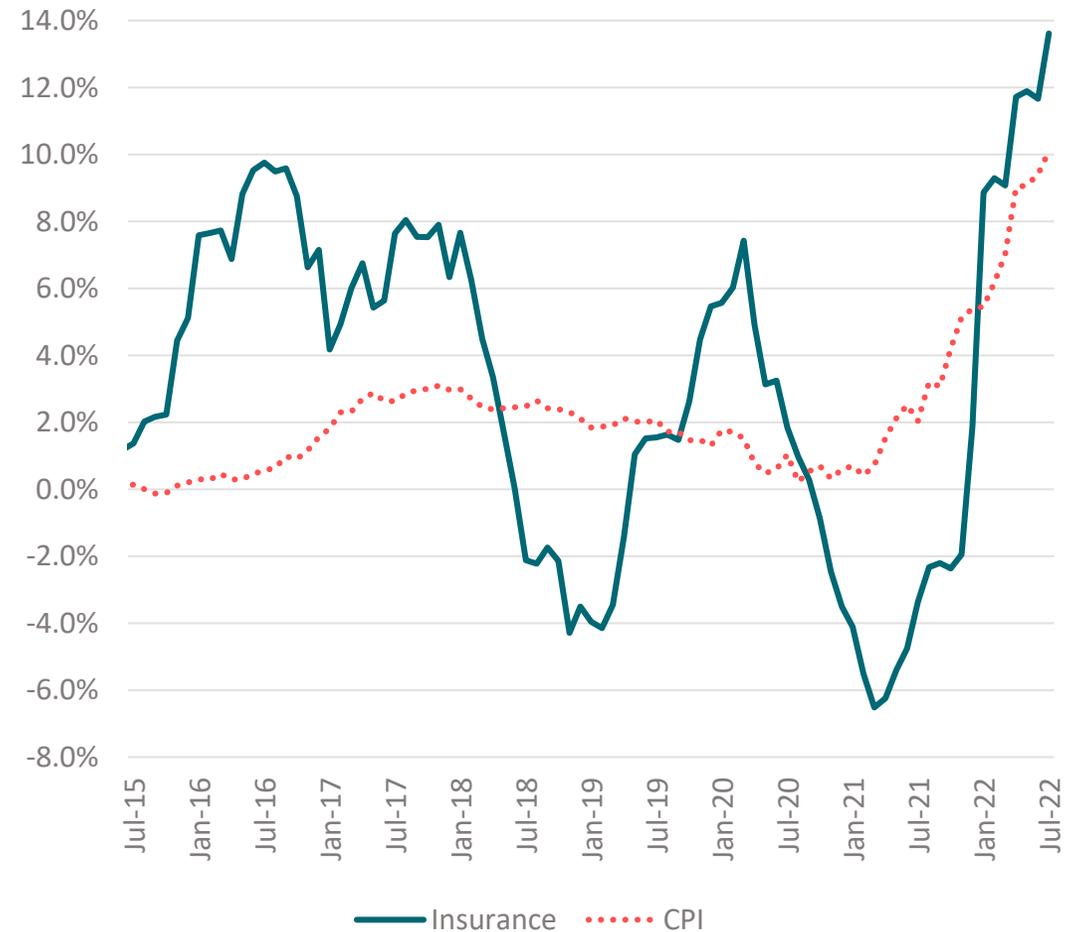
Source: ONS, Cebr analysis



Insurance costs have increased at an even greater rate than the overall CPI price level

- Annual insurance price growth tends to be considerably more volatile than overall CPI inflation.
- In September 2020, both insurance inflation and overall CPI inflation amounted to 0.5%. However, insurance prices then fell, before bouncing back in 2022, with prices rising considerably.
- The annual increase in insurance costs stood at 10.4% in the first six months of 2022 while inflation averaged 7.7%. Some of this will have been making up for the fall in prices observed across most of 2020 and 2021, however, insurance prices rose above pre-pandemic levels in January 2021 and have rapidly risen since, to stand 7.5% above March 2020 levels.
- Insurance costs surged to stand 13.6% above its their level one year prior in July 2022. This is well above the rate of CPI inflation which was 10.1% in July.

Annual growth in insurance prices in the UK compared to CPI inflation, Jul 2012 - Jul 2022

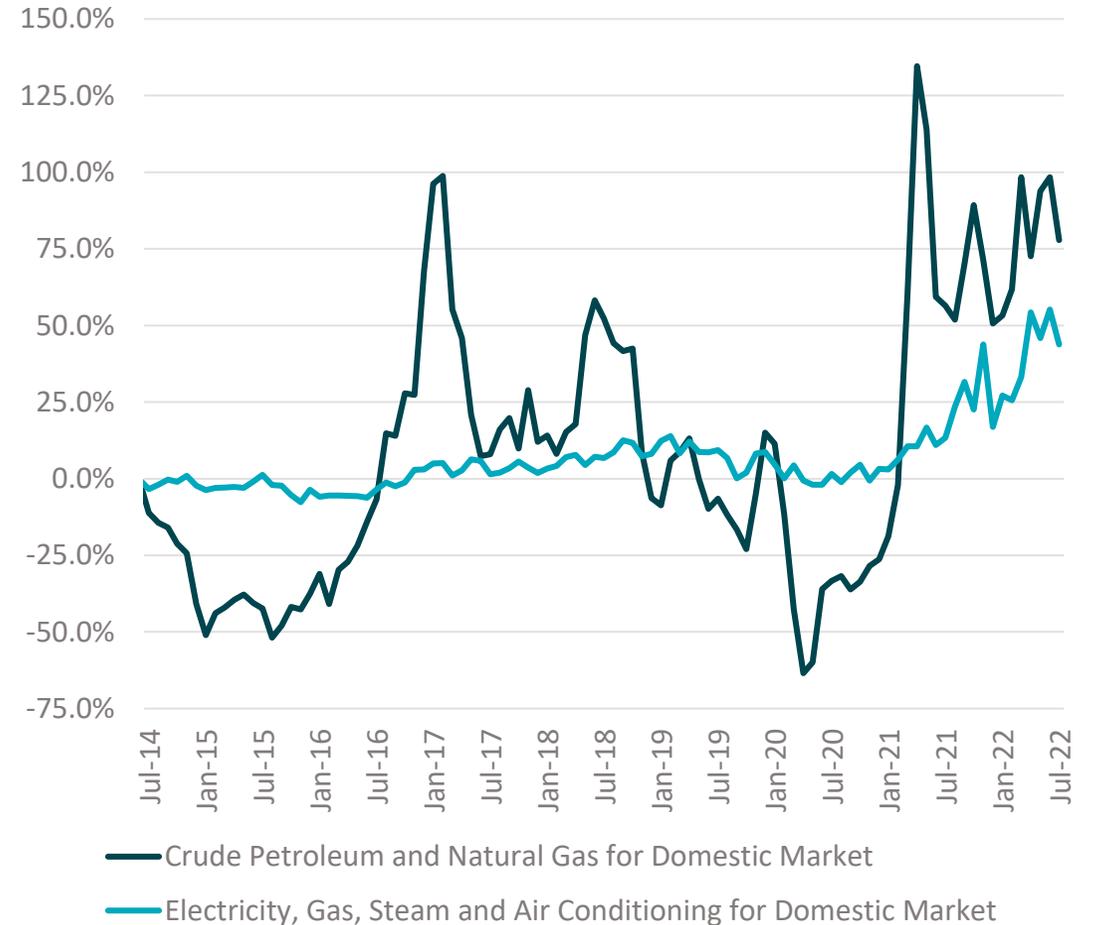


Source: ONS, Cebr analysis

Price growth of crude petroleum and natural gas is subject to considerable volatility but has clear upward trend

- In the years preceding the pandemic, the price of crude petroleum was subject to considerable volatility. For instance, in July 2018 annual price growth for crude petrol amounted to 58.2%. In October 2019 this had dropped to a 23.0% contraction.
- This then fell to a 63.4% annual contraction in April 2020. However, following this, crude oil prices surged drastically, with annual price growth peaking at 134.6% in April 2021. Oil price growth subsided somewhat since then, but remained elevated. In June 2022, crude petrol prices stood 97.6% higher than a year prior, when then fell to 77.8% in July.
- Price growth for electricity, gas, steam, and air conditioning increased from the end of 2020. A first peak was reached in November 2021, at 43.8% annual growth, which was then surpassed by 54.3% in April 2022. In July, prices were 43.8% higher than a year earlier.

Annual changes in producer prices for fuels and energy in the UK, Jul 2014 – Jul 2022

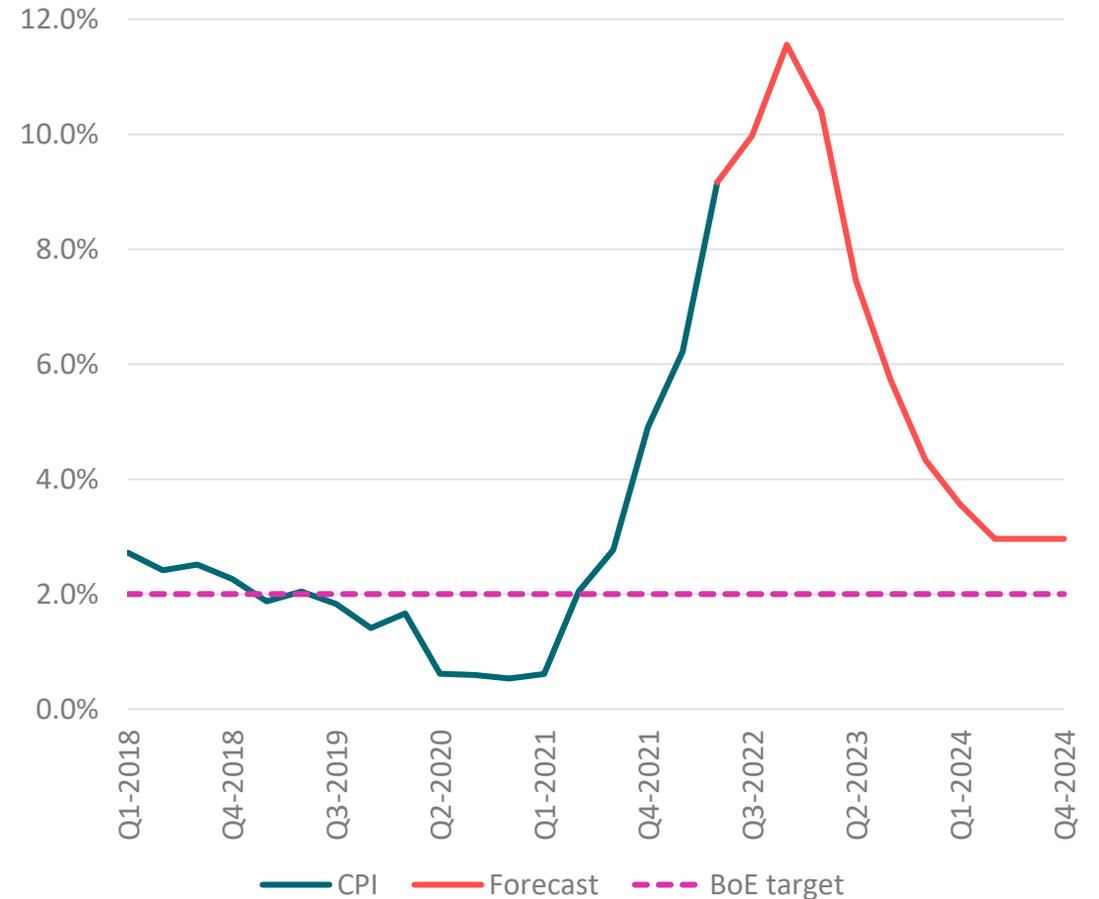


Source: ONS, Cebr analysis

CPI inflation is forecast to peak in Q4 2022, whilst remaining elevated over the following two years

- In Q2 2022 inflation averaged 9.2%, almost fivefold the Bank of England's 2.0% target. Cost pressures in the form of rising prices are not expected to ease in the near future, but rather forecast to rise further to peak at an average of 11.6% in Q4 2022, when a new increase to the Ofgem energy price cap will push up utility bills.
- Following this peak, inflation is set to subside, though it is expected to remain considerably above the BoE's inflation target for the rest of 2023, averaging 8.9% in the first half of 2023, falling to 5.0% in the second half.
- Over 2024 inflation is set to average 3.1%, still above the Bank of England's target.

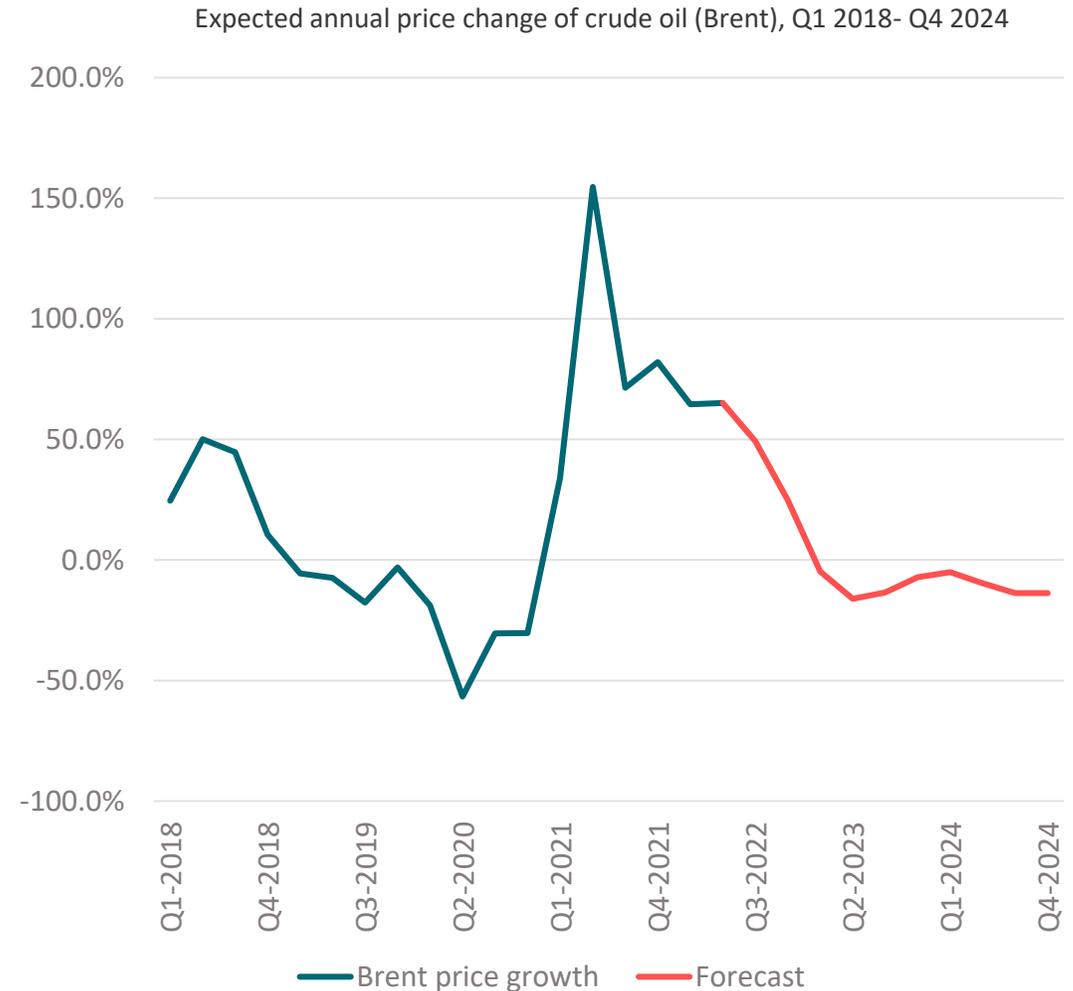
Forecasted CPI inflation in the UK, Q1 2018- Q4 2024



Source: Cebr analysis

Crude oil price growth is expected to remain elevated, but slowly subside over 2022

- Annual brent price growth peaked in Q2 2021, at 154.7%, but has since slowed considerably to stand at 65.1% in Q2 2022, though this is still elevated.
- Cebr's forecasts see brent price growth slowing further over the remainder of the year, down to 24.8% in Q4 2022.
- In Q2 2023, brent prices are set to be 16.1% lower than in Q2 2022.
- Annual price falls are expected for the remainder of 2023 and 2024.



Source: Cebr analysis

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