Gleeds' India Bulletin

Material Price Escalation

(Q42020)

The Construction Industry in India is witnessing a surge in key construction material prices, bringing in a turbulence in the progress of work at ground. Developers are now left perplexed with the unforeseen inflation, on the rise since the end of the monsoons, just as work gained momentum. Cement and steel the fundamentals, see an uplift, a consequence of reduced production, outbreak of pent-up demand, supply chain restrictions and suppliers looking to make a quick profit.

Metals on the other hand are creeping up, at the back of geopolitical issues, such as industrial demand in the quickly recovering country of China and the strike in Chile that only recently worked out a compromise.

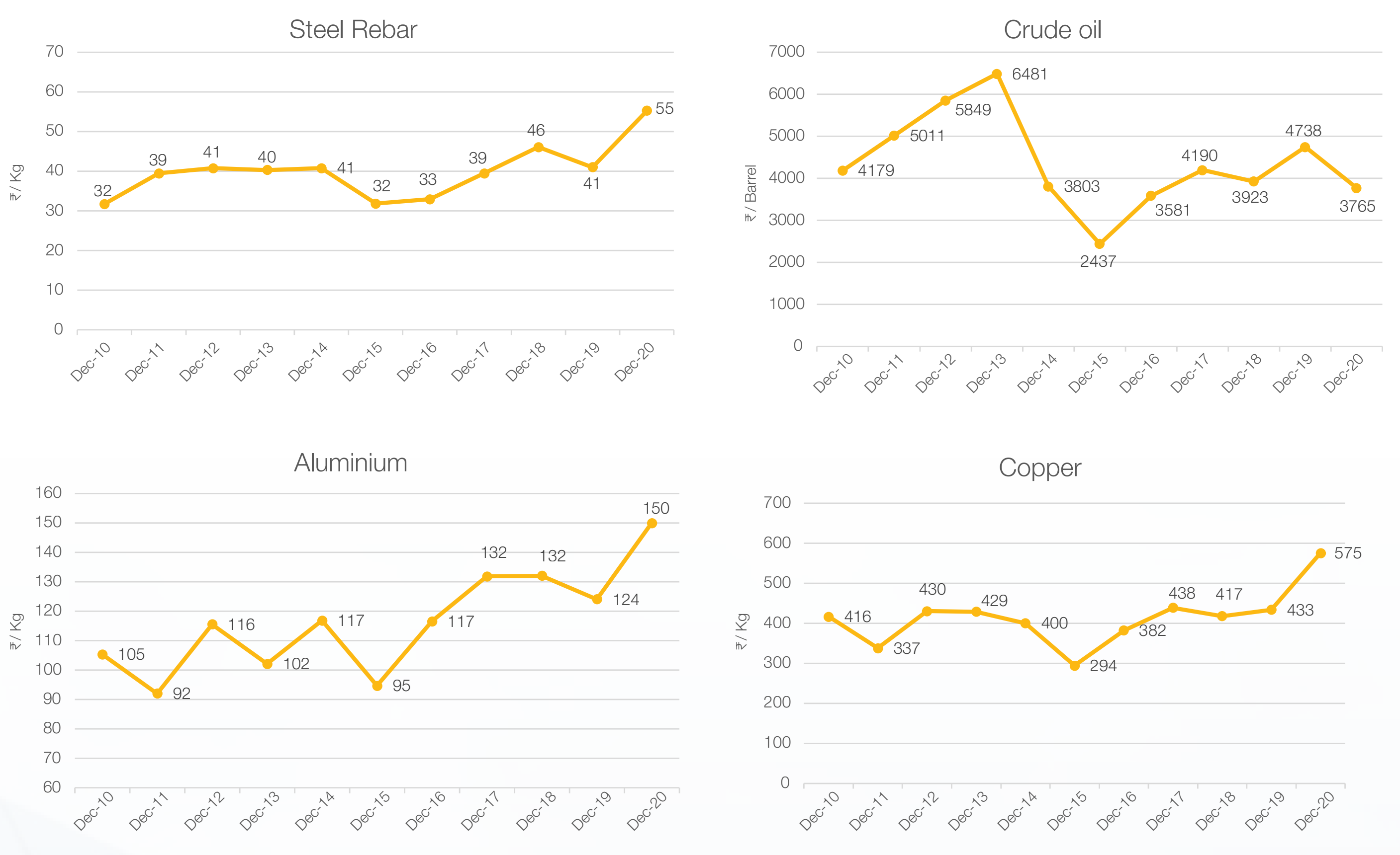
Crude oil production slowed down during the lockdown due to the drastic drop in consumption, which forced oil producers to restrict its production even after, which allowed for some recovery in the third quarter. This, however, has inflated the prices now as the demand is returning to pre-COVID-19, and therefore, influencing other construction material such as paints, glass, plastics, PVC pipes and rubber and its transportation.

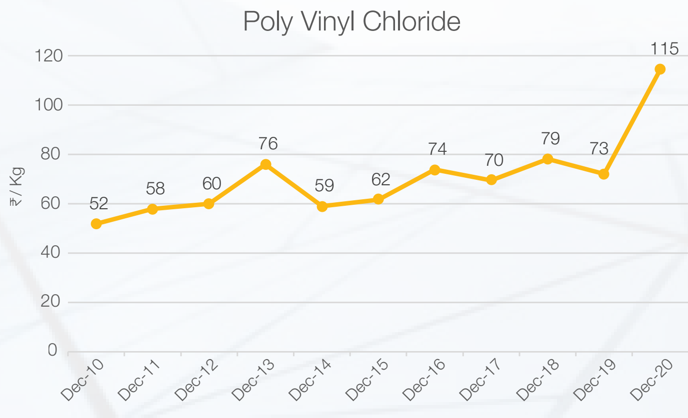
Table 1: Price escalation – Major construction material

Description	Price	% increase from last quarter	Price influencers
Cement	₹ 355/50kg bag	15% to 20%	Increase in pet coke. However, this was only at the beginning of the quarter. Government initiatives, increased demand, resulting in this spike. The Government is taking measures to investigate and then moderate this sudden inflation.
Primary Steel	₹ 53,220 to 55,000 per MT	Circa 30%	Increase in cost of iron ore. Suppliers inflating costs to bridge the profit gap during the lockdown. **Globally:** Geopolitical issues like China Australia conflict and the unprecedented demand from China for iron ore (used in steel production), expanding its Industrial sector, subdued demand, and the complete commencement of mills locally and abroad.
Plastics (PVC)	$1,240 to 1,260/ton ₹ 115/kg (retail value in Mumbai prime grade)	15%	Production plants not completely resumed, increase in exports, deficit for domestic demands and supply chain management. Increase in crude which plays a crucial role in plastic production.
Aluminium	$ 2,023/ton ₹ 150/Kg	16%	Closure of plants in China producing illegal or polluting smelters circa 3.2 million tonnes production. China has also imported more alloy than it has exported, creating a disconnect in the global market.
Copper	$ 7,753/ton ₹ 575/Kg	15%	Strike in Chile the largest miner of copper. The price may subside following the agreement for at least the next 36 months between the company and the workers. Increased industrial activity in China.
Crude oil	$ 51/Barrel ₹ 3,765/Barrel	20%	Sharp cut in oil production, continued reduced production and the rise in demand.
Petrol	₹ 83.7/litre	2.8%	India imports most of its fuel and the price rises in tandem with the global prices.
Diesel	₹ 73.87/litre *Rate in Delhi noted*	2.4%	

Sources: SAIL, London Metal Exchange, Country economy, Media reports.
India is experiencing the ripple effect of global market fluctuation on prices for metals and oil, resulting in price escalation.
Note: Aluminium, Copper, crude oil and rebar global rates have been noted in INR using the conversion of 1USD= INR 74.15
All rates exclude taxes

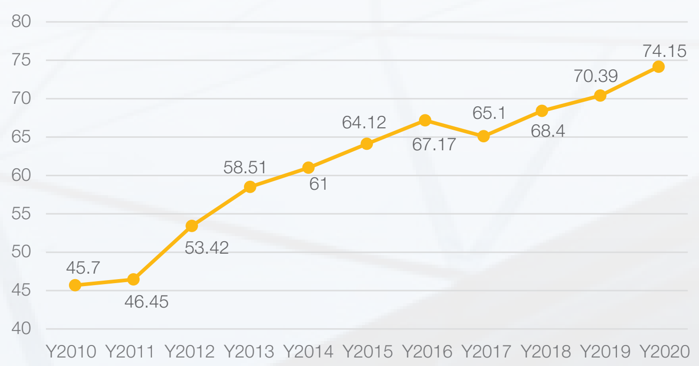
Graph 1: Trend graphs





Sources: *London Metal Exchange, Country economy*

Graph 2: USD to INR trend graph



The USD has strengthened steadily over the years and now stands at INR 74.15.

For any further queries please contact **Gleeds India Insight and Analytics** at insights@gleeds.in

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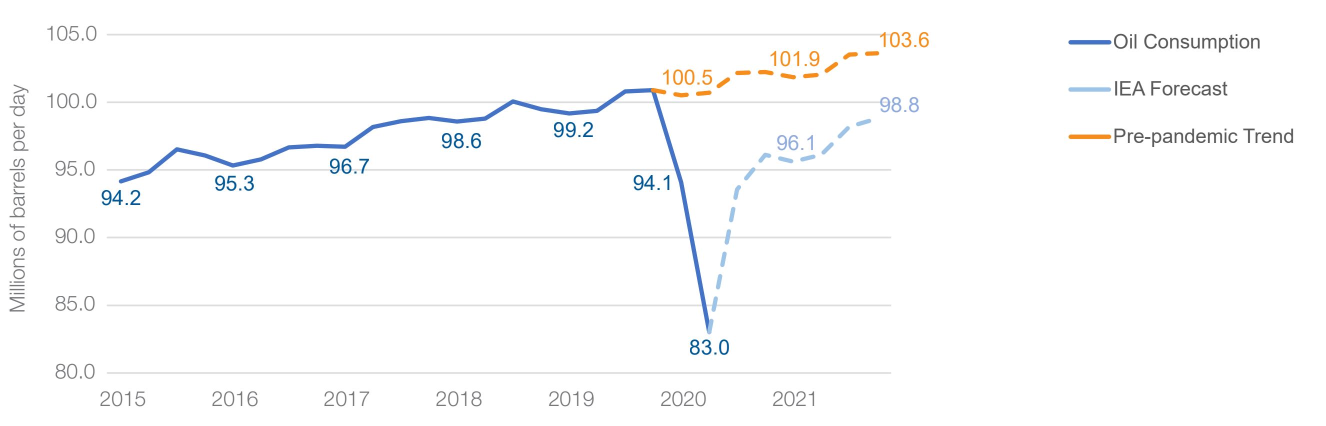
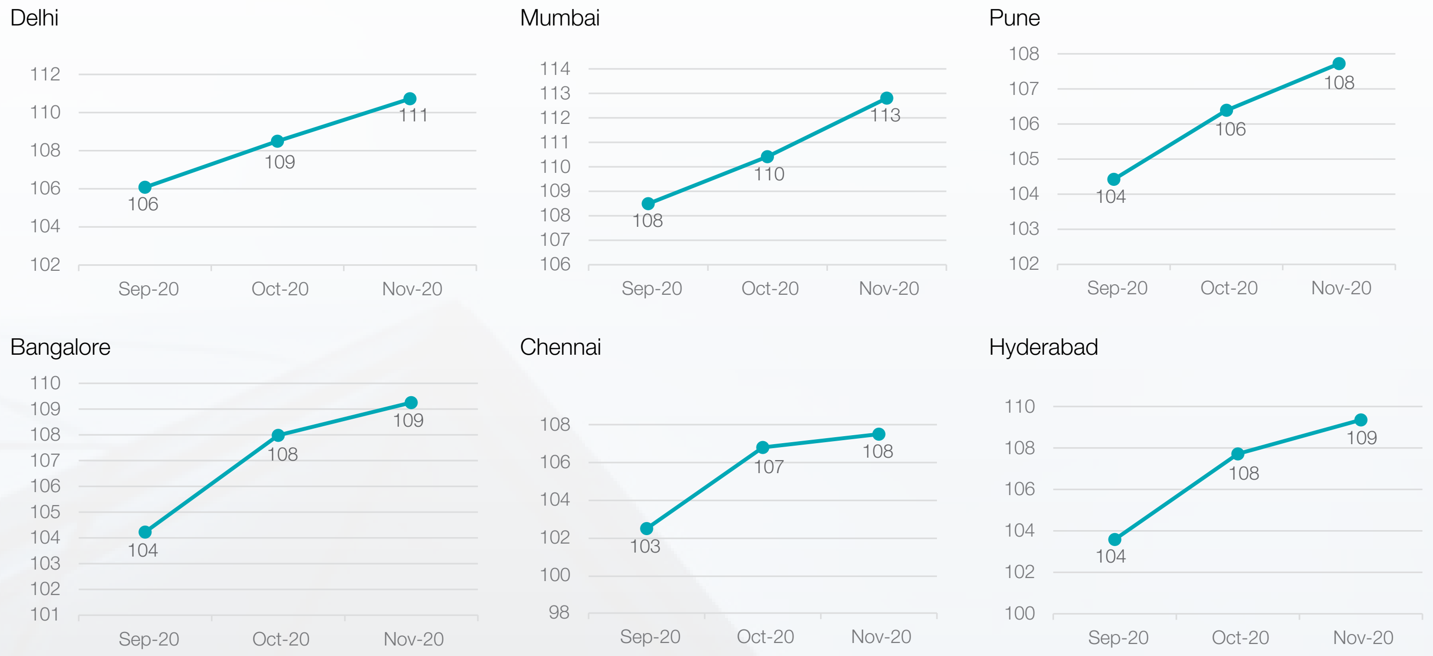
Graph 3: Historic and future trend graph – Oil



Sources: *IEA September OMR; World Bank*

Graph 4: Gleeds construction cost index



Price spikes cannot be curtailed only with domestic procurement, as envisaged in the previous quarters.

Factors to be carefully considered which influence price escalation of the present times are:

- Right assessment of demand
- Production capacity
- Moderation of export in the light of the accruing domestic demand
- Cap off costs restricting unprecedented inflation
- Supply chain management (rerouting/redetermining)
- Geo-political issues

Clients/Developers/End-users are advised to carefully consider the cost influencers, an outcome of the lock-down and the slow recovery to normalcy with the pandemic. Material costs in the dynamic market are impacting project budgets differently per the stage of construction. Material costs add up to about 55% of the total project budget and price fluctuation can interfere with project budgets. Construction materials such as cement, steel affect base build budgets, MEP services budgets bear the brunt of the upswing of PVC, copper and oil prices whilst interior fit-outs are affected with the aluminium price rise in addition to the accumulating costs from labour shortage, transportation and health and hygiene provisions. Additional budgets or contingency spends seem inevitable in the present, to allow accountability towards the dynamic price trends, which are unprecedented, following the unknown circumstances. A review of the status of the project in the present conditions is very much recommended.