

Cover Note to the NTA Inflation Bulletin

February 2024

Introduction

The inflation bulletin is the outcome of a forward looking exercise undertaken by the National Transport Authority (NTA) which seeks to provide insights to Sponsoring Agencies to inform their inflation assumptions as part of their cost estimation for projects and programmes where the NTA is the Approving Authority.

The bulletin is updated annually, or more frequently if changes in macroeconomic conditions warrant interim updates. The current version of the bulletin is as at February 2024 and replaces both the previous May 2023 version and the October 2023 supplementary note.

The inflation bulletin card is complemented by a full "Report on Future Inflation" which contains a wide range of price indices, the methodology behind the forecasts, and details of how the inflation forecasts should be applied. The inflation bulletin and associated documentation are available to download from the NTA Cost Management Guidelines webpage at <https://www.nationaltransport.ie/publications/nta-cost-management-guidelines-updated-2024/>

Background and Context

The NTA's inflation bulletin has been prepared by ChandlerKBS, cost management specialists with the support of Grant Thornton in relation to the development of tender and cost price indices and Avison Young, in relation to land and property price forecasts.

The inflation bulletin provides Tender Price Indices and percentage price changes per annum. Unless otherwise agreed, the NTA requires that the Tender Price Index be used when assessing inflationary allowances for projects and programmes where it is the Approving Authority. Land and Property Price Indices are also provided.

It is noted that there are substantial changes in the inflationary percentages presented in the February 2024 bulletin and those published in the 2023. Forecasting is an inherently uncertain activity, which is subject to unexpected changes in the macro-economic and geo-political environment. Events that are unknown at the time of a particular forecast exercise, or were viewed as low risk at the time but subsequently escalated, could significantly impact the forecast outcome. In the case of the February 2024 and May 2023 bulletins, these changes are as a result of prices returning to more stable levels much quicker than anticipated at the time of forecast in 2023. This reflects the easing pressures around supply chains, which resolved faster than anticipated, and the impact of the Central Bank's implementation of significant increases in interest rates, thus taming recent inflation.

Approach

An inflation forecast model was developed to derive the trend in inflation over the coming years for Tender Prices and building and materials. The model focussed on the relationship between price changes in building materials, macroeconomic factors and Tender Price Inflation. The model utilised both historical and forecast data in order to develop a baseline outlook for inflation levels. A wider range of data sources was employed to populate the forecasting models, including those from:

- The Central Statistics Office (CSO);
- The Department of Finance;
- The Department of Public Expenditure and Reform;
- The Society of Chartered Surveyors Ireland (SCSI);
- The Construction Industry Federation (CIF);
- IDA Ireland;
- Building Cost Information Services (BCIS) of the Royal Institution of Chartered Surveyors (RICS);
- The Central Bank of Ireland;
- The Economic and Social Research Institute (ESRI);
- The European Commission;

- The International Monetary Fund (IMF); and
- The Organisation for Economic Co-operation and Development (OECD).

Next steps

The February 2024 Inflation Bulletin should be used as the source of inflation rates for project and programme cost estimates for schemes where the NTA is the Approving Authority from February 2024 onward, unless otherwise agreed.

The NTA will continue to monitor inflation and update the bulletin annually or sooner as appropriate.