MARKET UPDATE

May 2021

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G&T's Market Update for May 2021 provides an overview of the UK construction market. Against a backdrop of ongoing disruption caused by the coronavirus (COVID-19) pandemic and new Brexit trading rules, our latest report highlights changes to key macro-economic indicators over the reporting period, as well as construction-specific metrics such as the UK Purchasing Managers' Index (PMI), construction output, new orders and key material costs. We also outline our latest trade package and tender price inflation forecasts based on our quarterly surveys and regular discussions with the supply chain.

In this update we:

- Review some of the factors putting upward cost pressure on rising input costs as workload returns
- Provide our insights and forecasts on trade package inflation for the next 12 months
- Analyse the ONS' Business Insights and Impact on the UK Economy dataset in order to gain an insight into the impact of the pandemic on turnover, trade and employment

Please note – whilst our Market Update uses the most recently published data at the time of writing, release schedules between datasets differ. This inevitably means that not all datasets will cover identical periods.

UK economy
CONTRACTED
BY
1.5%
(Q1 2021)

Recovery gathering momentum after record annual slump in 2020

EY Item Club
upgrades
UK economic outlook
(2021)
6.8%

The locked-down UK economy shrank by **1.5%** in the first three months of 2021 but economic momentum gathered in March as lockdown restrictions began to ease.

On course for a bumper bounce-back this year, the economy is set to see a release of pent-up demand. While this will mostly be an arithmetic consequence of the sharp hit in 2020, it nevertheless demonstrates strong economic resilience.

With good growth momentum going into Q2, the economy appears to be on track to reach its pre-pandemic level before the end of the year. The consensus rate of output growth (ie an average across all forecasts) for 2021 is **5.4%** but many (including the BoE who is forecasting **7.25%** growth) are predicting this is far too pessimistic in light of the substantial government support announced in the Chancellor's March Budget and the progress made on reopening the economy.

Although difficult to determine how Brexit has impacted the UK economy so far, the costs (and disruption) associated with leaving the trading bloc could act as a drag on the post-COVID recovery, potentially holding down investment and net migration.

In its Spring Forecast the EY Item Club upgraded its economic outlook and it now expects the economy to grow by **6.8%** this year (previously **5%**).

- Inflationary risks are expected to grow as the recovery gathers pace and monetary policy remains accommodating, but interest rates aren't likely to rise until late 2022 or early 2023 at the earliest.
- Ongoing bottlenecks in supply chains and released pent-up demand/consumption poses upside risks to inflation in the short-term but it's thought that the UK is unlikely to be the hardest hit country.
- UK unemployment is now expected to peak at a lower rate of **5.5%** in Q3 2021 while business investment and consumer spending are both expected to rebound strongly.
- The substantial near-term fiscal support for the economy announced in the Chancellor's Budget, the roadmap towards economic reopening and the continued rapid roll-out of COVID-19 vaccines have helped to improve growth prospects significantly.

UK Construction activity continued to expand in April, with the UK construction PMI nearly matching the six-and-a-half-year record that was struck in March.

The IHS Markit/CIPS Construction Purchasing Managers' Index (**PMI**) eased slightly to 61.6 in April (from 61.7 in March) but the survey's gauge of new orders rose to its highest level since September 2014.

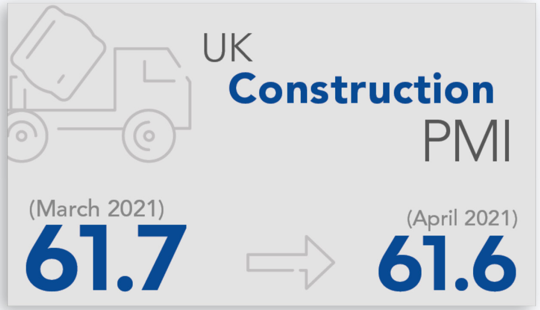
The recovery is now more evenly balanced across the housebuilding, commercial and civil engineering categories as contract awards on delayed commercial projects surged in April.

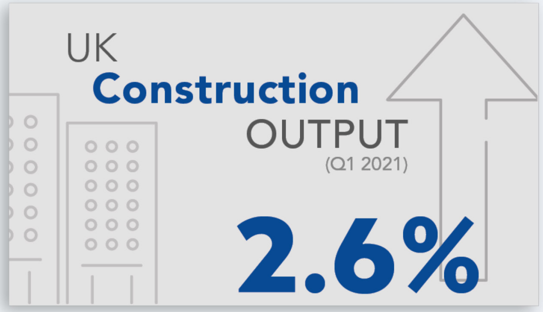
Momentum in civil engineering work (where activity lagged in 2020) has grown significantly with construction companies citing increased levels of work on major infrastructure programmes, including contract awards from HS2 and Highways England.

Since the start of 2021 the construction sector has enjoyed increasing workloads and rising output volumes – both of which are expected to rise even further in the coming months.

According to the latest ONS data:

- UK construction output ('All Work') rose by **5.8%** in March 2021 compared to the previous month, hitting an 18-month high and recovering to pre-pandemic levels.
- Since May 2020, monthly output has only contracted on one occasion (December 2020) - proof of the construction sector's continuing resurgence.
- New orders increased by **12.2%** (or £1,227m) in Q1 2021 compared with Q4 2020. As confidence returns order books are steadily being filled and a good pipeline of work is building.
- Although new orders are still lower than they were one year ago in Q1 2020, recent new work growth reveals that client and developer sentiment is more buoyant.





SUMMARY OF KEY FINDINGS: MATERIAL PRICES AND TPI

Material Price Index
(All Work)
7.8%
(Mar 2020 - Mar 2021)

Upward trend in Structural Steel prices shows
NO SIGNS OF EASING

Upward inflationary pressure on *input costs* continues to build

Ongoing imbalances between supply and demand have given rise to higher prices for a wide range of construction products and materials. Rising raw material prices and constrained supply, combined with a strong global recovery in construction, has pushed up costs significantly. As a result we've seen seven consecutive months of input cost inflation according to purchasing managers.

- The ONS' material price index for **'All Work'** rose by ***7.8%*** in the year to March 2021. A quadrupling of shipping costs in the four months to February has compounded the inflationary pressures.

- Official data from the ONS reveals that fabricated structural steel prices have risen by **10.8%** in the three months to March 2021 alone while imported timber prices have increased by more than **7%** over the same period. However, the Construction Products Association suggests that the price increases have been more substantial.

- Being less able to order large quantities in advance, smaller contractors are likely to bear the brunt of the recent material price rises. Meanwhile, importers are also focusing on supplying the largest businesses.

- Manufacturing shutdowns and reduced production capacities have made it difficult for material processing plants to replenish stocks.

- Unprecedented and excess demand for materials such as timber throughout the winter period (a time in which companies typically bolster stocks for the spring) prevented replenishment. Upcoming shut-down periods in June and July for European sawmills will keep supply tight for the remainder of the year.

- British Steel's recent decision to close its order book and halt new structural steel orders citing "extreme demand" is likely to result in shortages and higher stockholder prices that could impact large construction projects.

- As input cost pressures build, the ability of contractors to absorb these price increases will lessen. Firms operating in sectors with strong projected new order and output growth will be better positioned to pass these costs on, in full or in large part, via higher tender prices.

0.4%

Consumer spending **expanded** by 0.4% *year-on-year in April*

5.1%

OECD forecasts a 5.1% **expansion in GDP** *for 2021*

Demand Growing

Residential market **overheating** as demand outstrips supply and accelerating inflation

Oil US$67
(May 2021)

Prices rising on signs of a speedy economic recovery and upbeat forecasts for energy demand

UK Construction PMI
61.6
(April 2021)

Little-changed from March indicating a **strong pace of expansion** in activity

CPI 1.5%
(Apr 2021)

Inflation expected to **exceed 2%** as economy reopens

0.1%

Base Interest Rate held

Falling EU Imports

Value of EU imports **outstripped** by non-EU imports for first time on record in Q1

9.8%

UK economy shrank 9.8% in 2020. BoE expects a recovery to pre-pandemic levels by end of 2021

4.8%
Unemployment Rate
(Jan – Mar 2021)

Rate fell in latest three-month period. BoE expects unemployment to peak at **5.5%** in the autumn

4%

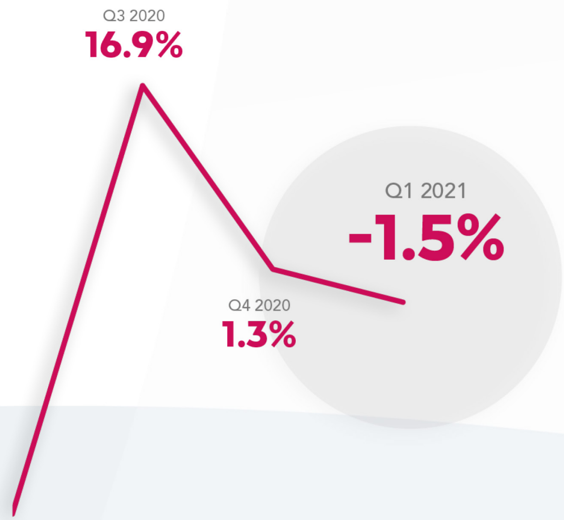
Average weekly earnings *(Y-on-Y three month average)* **rose in Mar 2021**

UK Economy

Overview	Latest Q1/21	Forecast Q2/21	Forecast Q3/21	Forecast Q4/21	Forecast Q1/22	Units
GDP Growth Rate	-1.5	5.1	1.5	1.1	1.4	%
Unemployment Rate	4.8	5.2	5.5	5.1	4.9	%
CPI (Annual Rate)	1.5	2.5	2.3	2.1	2.2	%
RPI (Annual Rate)	2.9	1.7	1.4	1.5	1.6	%
Interest Rate	0.1	0.1	0.1	0.1	0.1	%
GDP from Construction	29,141	24,591	30,218	30,307	31,123	GBP Million
Government Debt to GDP (the ratio between a country's government debt (cumulative amount) and its GDP)	100.2	107	107	107	110	%

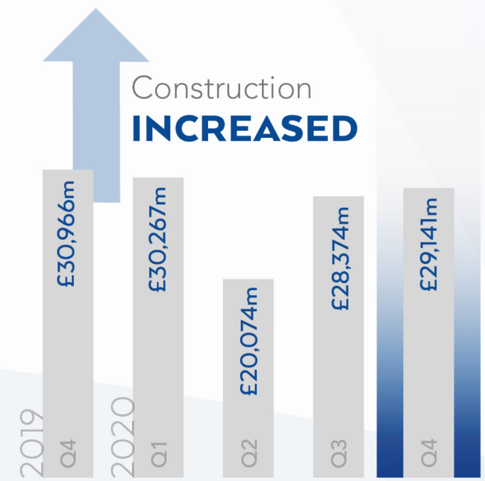
Source: *Trading Economics and ONS*

Please note: *The economic forecasts provided above have been sourced from Trading Economics. These forecasts are updated periodically and do not necessarily reflect G&T's UK economic outlook.*



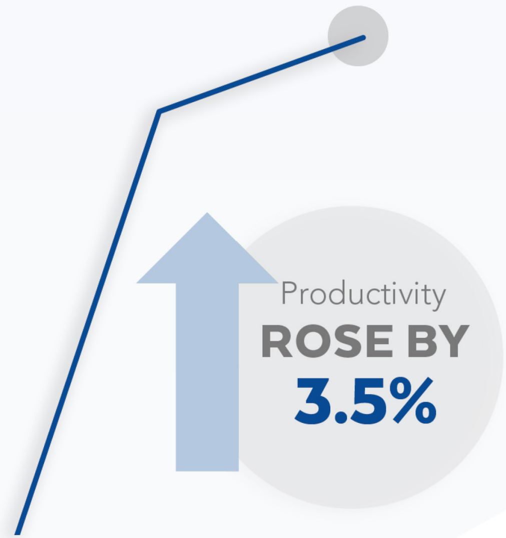
GDP: Quarter on Quarter Growth: Chained Volume Measure Seasonally Adjusted

UK economy estimated to have shrank by **1.5%** in Q1 2021. Although the economy is **8.7%** smaller than it was before the pandemic, March marked a possible turning point as lockdown restrictions began to ease



UK GDP From Construction

GDP from Construction in the UK increased by **2.7%** in Q4 2020. However, GDP from construction still remains some **5.9%** lower than it was one year ago



Construction Productivity Index: Output per job (Q1 1990=100), SA, UK

Construction productivity rose by a further **3.5%** in Q4 2020, meaning that productivity levels were just **1.5%** lower than they were in the same quarter in 2019 (pre-pandemic)

***Please note** – Chained Volume Measure (CVM) means that data from successive years has been put in real (inflation-adjusted) terms by computing the production volume for each year in the prices of the preceding year, and then 'chain linking' the data together to obtain a time-series of production figures from which the effects of price changes (ie monetary inflation or deflation) have been removed.*

Source: *Trading Economics and ONS*

Europe

The eurozone economy shrank by **0.6%** in Q1 – the second consecutive quarter of contraction.

A third wave of coronavirus infections pushed the eurozone into a double-dip recession but its vaccination programme is gathering pace. Countries in the region are also due to start receiving EU-wide COVID support funds in the second half of 2021.

Eurozone inflation hit **1.6%** in April with the rebound in price growth moving inflation closer to the ECB's target of just under **2%.** Concerns about medium-term inflation remain very mild as the factors pushing up prices are temporary.

Eurozone industrial production rose marginally in March but the less-than expected rise (**0.1%**) suggests that the recovery in the manufacturing sector is still in the doldrums due to supply-side constraints.

ECB expects GDP to grow by **4%** in 2021 and return to its pre-pandemic level in 2022 with growth of a further **4.1%.**

US

US GDP expanded at an annual rate of **6.4%** in Q1 2021 as massive fiscal stimulus fuelled consumer spending.

US output is now close to pre-pandemic levels, helped by a $1.9tn fiscal stimulus plan in March. A proposed $2.3tn infrastructure spending plan would provide a boost to the country's heavy civil and social infrastructure.

US CPI has surged due to supply bottlenecks and the reopening of the economy putting upward pressure on prices. However, many think this is a transitory acceleration rather than part of an upward inflationary spiral.

The US labour market is lagging many of the country's other economic activity indicators with a lackluster growth in jobs and a rising unemployment rate.

The IMF projects a **6.4%** growth rate in the US in 2021 (compared to an annual GDP average of **2%** over the last several years) in light of the additional fiscal support.

China

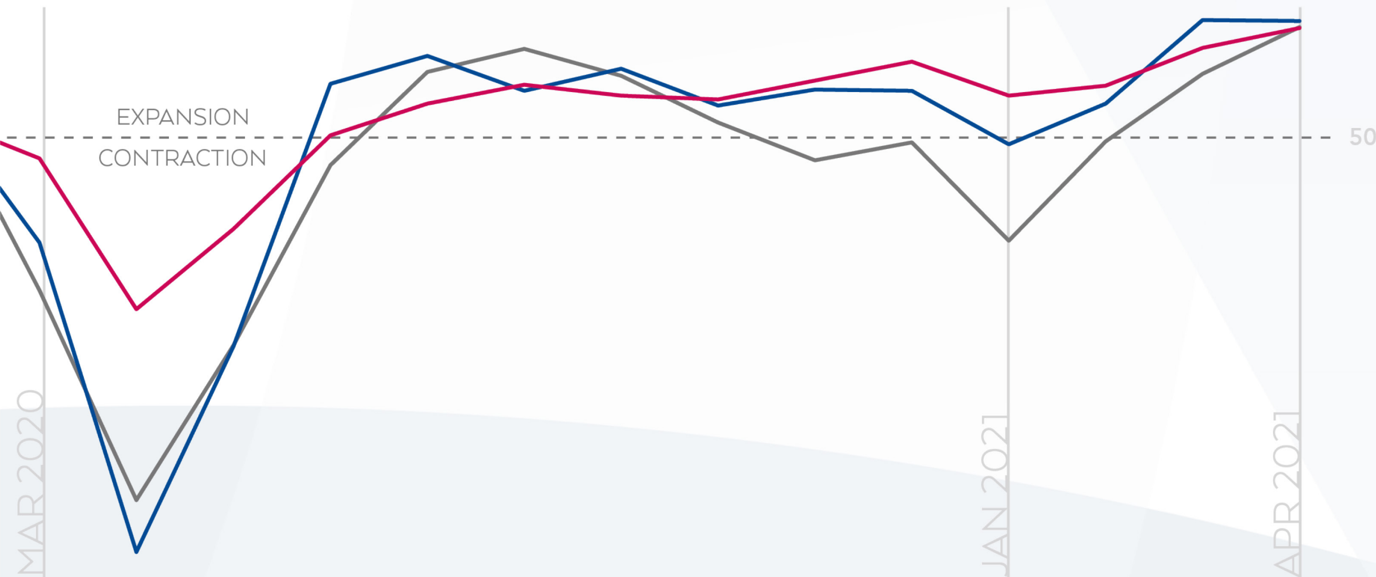
China's year-on-year GDP growth in Q1 2021 was **18.3%** – the fastest rate since records began in the early 1990s.

The high rate was anticipated because in the same period last year China's economy contracted for the first time in decades as the country went into lockdown. On a quarter-on-quarter basis, the economy expanded just **0.6%**.

Strong industrial production has helped China surpass its pre-pandemic GDP growth rate and will enable the government to wind down some of its stimulative macroeconomic policies.

China's Producer Price Index (ie the price of goods leaving factories) has increased significantly in recent months on the back of a rally in commodities and recovering demand.

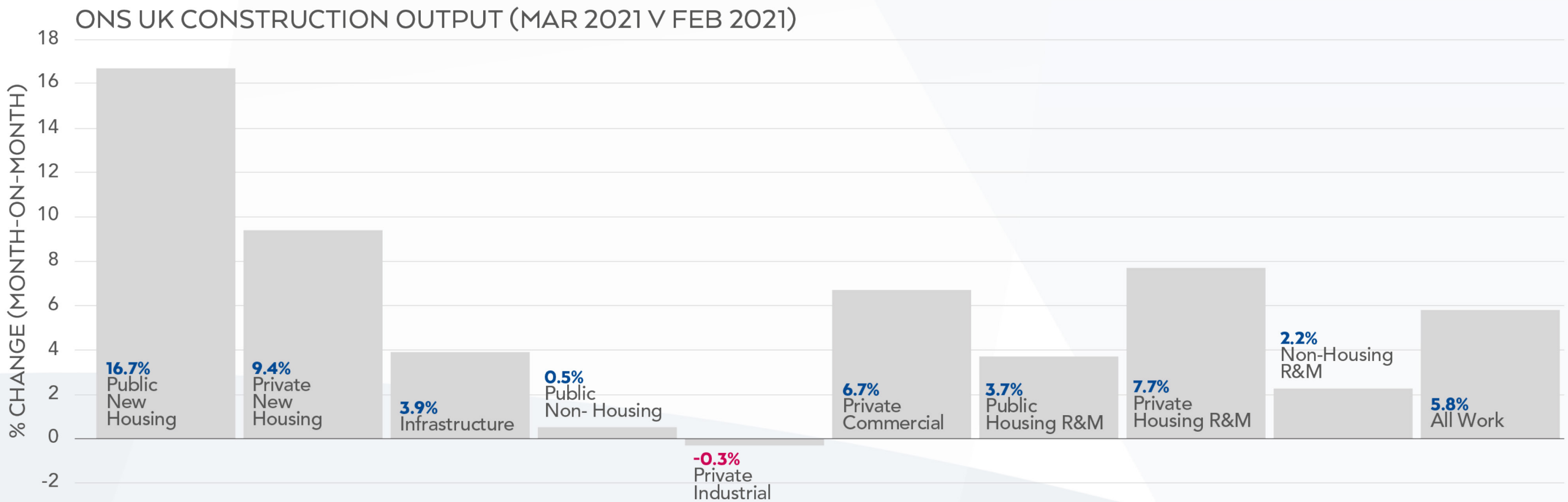
The IMF has increased its 2021 projected growth forecast to **8.4%** as effective COVID-19 containment measures boost the economy's strong recovery.



Manufacturing **60.9**
Construction **61.6**
Services **61.0**

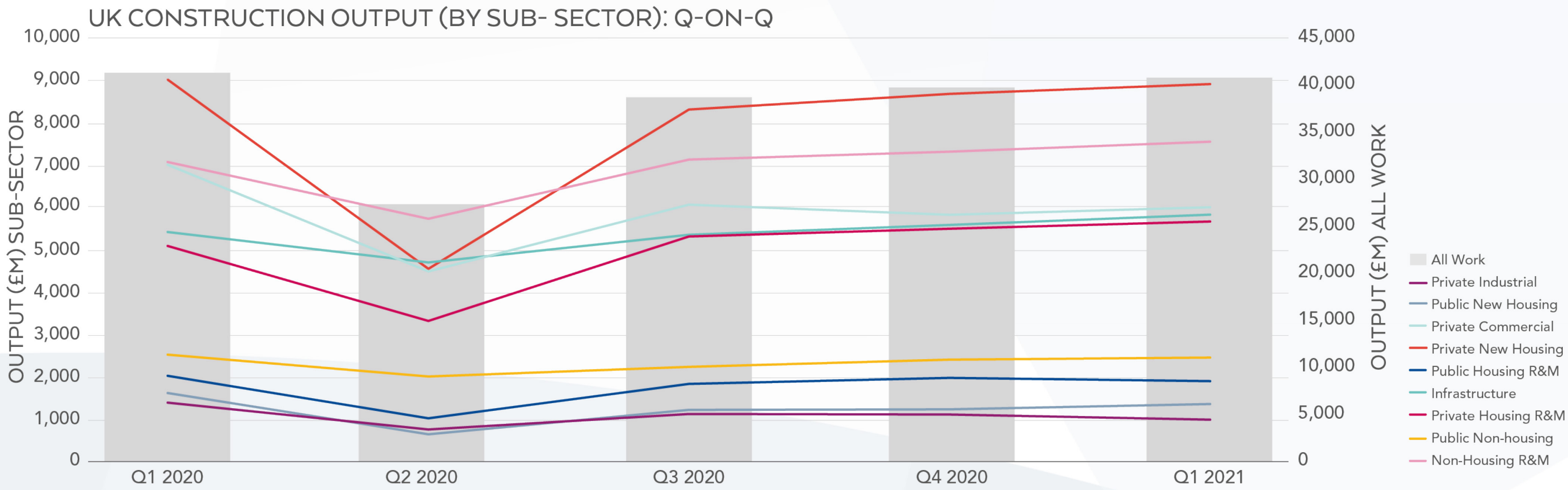
- Strong pace of expansion in the construction sector, with commercial work, civil engineering and housebuilding all growing at solid rates.
- Commercial was the best-performing category in terms of output growth with respondents widely commenting on a boost to client demand from rising business confidence and the reopening of the UK economy.
- Total new work increased for the 11th consecutive month with the latest improvement in order books being the strongest for just over six-and-a-half years.
- The pace of job creation was the steepest since December 2015, signalling sustainable growth in the sector.
- Input buying expanded at the fastest pace since September 2014 and the rapid rise in demand for products and materials stretched supply chains.
- The lengthening of suppliers' delivery times in April was the third-greatest since the survey began in 1997.
- On the price front, input cost inflation jumped to an all-time high due to supply and demand imbalances and higher steel, timber and transportation costs.
- Construction companies remained highly upbeat about their growth prospects in April and more than half of the survey panel (**57%**) expected a rise in business activity during the next 12 months.

Source: *IHS Markit/CIPS*



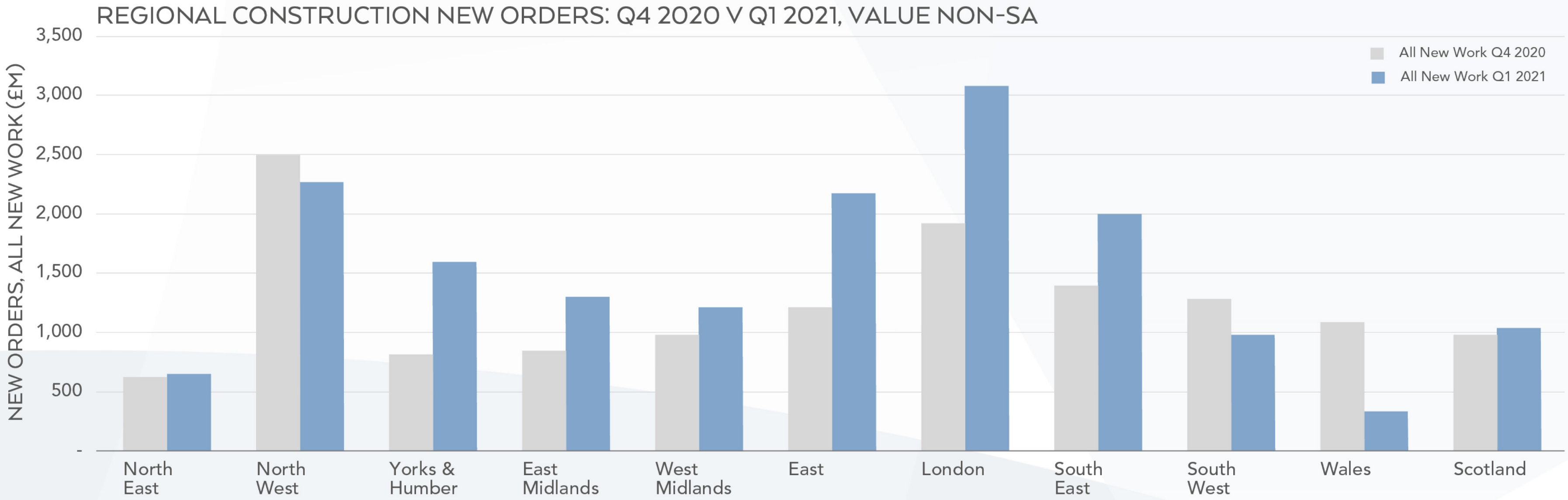
- Construction output ('All Work') rose by **5.8%** in March 2021 compared to the previous month and hit an 18-month high.
- Output has experienced a strong upward growth trend since April 2020 and output values in March 2021 were **2.4%** higher than they were just over a year ago in February 2020, prior to the first UK lockdown.
- The new public housing sector saw the strongest output growth rate in March 2021 (**16.7%**) followed by private housing (**9.4%**). However, all sectors other than private industrial (which contracted by **0.3%**) experienced month-on-month growth in March.
- Month-on-month output growth of **6.7%** in the private commercial sector was particularly reassuring, pointing to a resumption of work on delayed commercial projects as the economy gradually reopens.
- A boom in 'all repair and maintenance work' (up **4.4%** in March) also helped push overall construction activity beyond pre-COVID levels. Private housing repair and maintenance was a key driver with output reaching an all-time monthly high of £2.02bn.
- With output hitting the highest level of month-on-month growth since August 2020 and the sector outperforming the wider economy, there is optimism that construction will maintain its recovery.

Source: ONS



- After a record **33%** drop in Q2 2020, construction output has continued to recover strongly in the proceeding three quarters, rising a further **4.6%** in the first quarter of 2021. Output in Q1 2021 was only **1.2%** lower than it was in the same quarter one year ago.
- Output still has some way to go in order to make up the lost ground in 2020. 'All Work' output fell by **14%** in 2020 and with the CPA forecasting **12.9%** annual growth in output for 2021, it will be 2022 before the industry recovers the output lost in 2020 and returns to 2019 levels.
- Supply constraints for key imported products/materials, extended lead times, rising input costs and uncertainty over demand in certain sectors (eg private commercial, residential and retail and leisure) pose a risk to the recovery profile in 2021.
- Output, according to the monthly IHS Markit/CIPS PMI surveys, surged in the first four months of 2021. Surveyed construction companies signaled that output gained considerable momentum in March 2021, expanding at its sharpest pace since September 2014. This was supported by robust rises in house building, commercial and civil engineering work as the recovery broadened out. April also saw sustained increases on output.

Source: *ONS*



- Following a **7.8%** (£848m) fall in the final quarter of 2020, new orders went on to rise by **12.2%** (or £1.2bn) in Q1 2021. However, new orders in the first quarter of this year were still **13.3%** lower than they were one year ago indicating that recovery progress is still fragile.
- Once again, the housing and the private industrial sectors were key drivers of new order growth in Q1. The stamp duty holiday extension and the near doubling of internet sales over the last year has prompted a boom in both sectors. Commercial new work values also grew in Q1 (up **14.3%**) but remain nearly **16%** lower than they were in the same quarter one year ago.
- On a regional level the North West captured **13.7%** of the value of 'All New Work' but was outperformed by London, where new orders grew by nearly 60%. In the North West Private industrial (up **28%**) and commercial work (up **34%**) have been behind the strong new order performance, with the region benefitting from unprecedented demand for new warehousing and logistics space and some companies deciding to 'Northshore' all or part of their commercial operations.
- The majority of the regions (8 out of 11) saw new order values grow in Q1 and while most regions are below the levels seen during the 2020's brief, pre-pandemic Boris bounce, they indicate that developer confidence is returning and a good pipeline of work is starting to be built.
- Recent PMI surveys, along with detailed planning approvals and main contract awards data all point towards further improvements in official new order data in the coming months.

Source: ONS

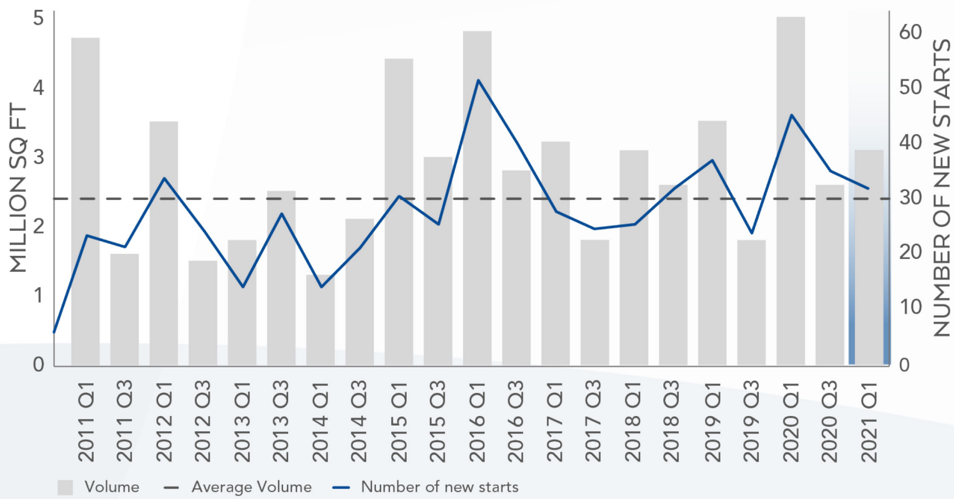
- London Residential new orders fell by **12%** in Q1 2021 to **£782m** – well shy of the five-year quarterly average of **£1.05bn**.
- While private housing new orders in London fell in Q1, London's public housing sector performed strongly with new order values growing by **408%** in the quarter.
- New construction starts in London dropped to an eight-year low in 2020 (**17,856**) according to data from Molior. There were also just **19,901** completions (on sites with more than 20 homes) - an annual fall of **10%** and the lowest number of completions since 2015.
- In 2020, new applications and permissions granted also fell (by **20%** and **17%** respectively) compared to 2019 as developers placed a higher priority on building out current schemes rather than starting new. Accordingly, the construction pipeline shrunk for the second consecutive year.
- Although there were fewer new starts in 2020, approximately 61,000 homes are currently under construction in London which could result in higher completion levels in the medium-term. However, the fall in new starts, permissions and applications will inevitably impact longer-term housing delivery and supply is expected to fall short of London Plan targets and housing need.
- With high demand for affordable homes and a strategic London Plan target to ensure that **50%** of all new homes in London are affordable, many local authorities have significant sub-market development pipelines which will help boost public housing new orders.
- Prime market starts (ie above £1,000/sq ft) fell by **42%** in 2020 amid a lack of international demand while starts in the mainstream market (ie below £1,000/sq ft) were flat.

Source: *ONS, Molior*

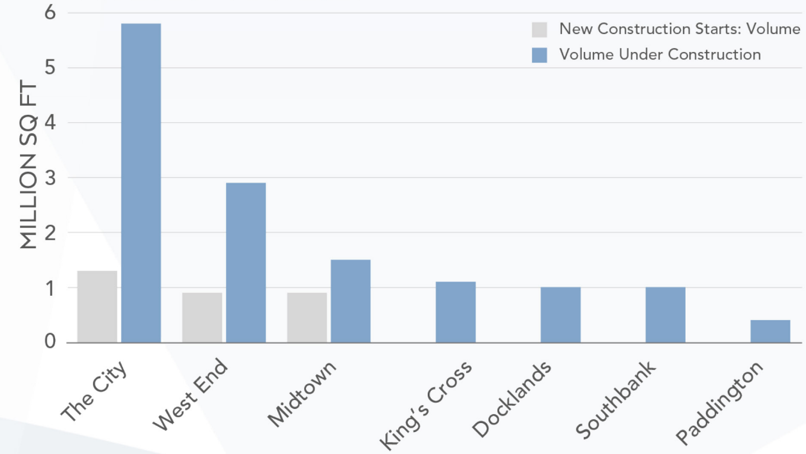
- London Commercial new orders rose by **106%** in Q1 2021 from **£704m** to **£1.45bn** - comfortably above the five-year quarterly average value of **£1.29bn**.
- The total amount of office space under construction remains close to its all-time high (15.1m sq ft across 117 schemes in Q3 2020). There is a strong central London office pipeline for 2021 but it has been boosted by a significant number of delayed schemes, shifting many completions to 2021 (Deloitte).
- The latest ONS new order figures point to growing confidence levels of developers and clients who have been delaying decisions on speculative developments, waiting for further clarity in the market and on future working practices before deciding on a long-term occupier office strategy.
- While a significant portion of the current commercial activity is being driven by the mobilisation of delayed schemes (in tandem with the reopening of the economy), the latest London Tall Buildings Survey by NLA/ Knight Frank found that there were still 587 tall buildings in the pipeline at the end of 2020 – up **7.9%** from 544 in 2019. However, some **11%** of the 72 planning permissions granted in 2020 were for commercial buildings, which is down slightly from **12%** the previous year.
- London commercial new order growth is on track to make a partial recovery in 2021 but equity is expected to target higher quality office products that offer strong sustainability credentials and health and wellbeing features. Such schemes will be more likely to go ahead in the 'flight to quality'.
- A marked increase in London office supply in 2020 due to low occupier leasing activity will invariably feed through into the investment market in the short-term, prompting some clients to defer projects until tenants/ occupiers implement their post-pandemic working models.

Source: *ONS*

CENTRAL LONDON:
VOLUME AND NUMBER OF NEW STARTS PER SURVEY



NEW CONSTRUCTION STARTS V
VOLUME UNDER CONSTRUCTION (LONDON)
OCT 2020 - MAR 2021

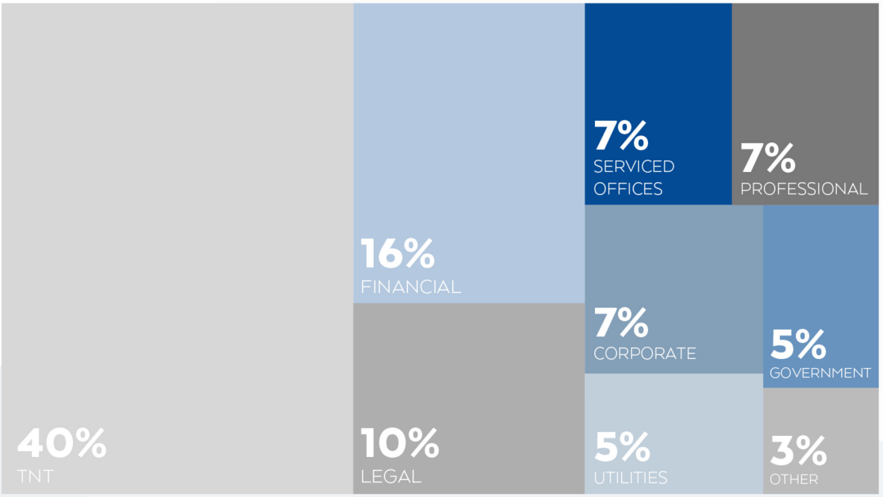


- **20%** increase in the volume of new construction starts (both new build and refurbishments) compared to the six months to March 2021.
- 3.1m sq ft of new London office projects started in the six months to March 2021 across central London.
- 32 separate new schemes commenced during the survey period – a higher figure than the long-term average of 25.
- The level of pre-letting in new construction starts dropped from **45%** to just **19%,** suggesting a higher proportion of speculative office developments.
- **56%** of new construction starts involved an extensive upgrade to existing office stock in as many as 21 schemes.

- In the six months to March 2021, new starts were concentrated in London's core City, West End and Midtown markets, with the West End and Midtown combining to account for 57% of all new office construction in central London.
- There were no new starts reported in Southbank, Docklands, Paddington or King's Cross.
- New office starts in the West End almost doubled from the previous survey, with 0.9m sq ft breaking ground across 14 new developments. The City saw the highest volume of new starts but only two schemes were new-build developments.

Source: *Deloitte Real Estate*

PERCENTAGE OF PRE-COMPLETION SPACE LET BY SECTOR



Homeworking expected to **reduce office demand** (sector-dependent)

Occupiers becoming more discerning about **net zero offices**

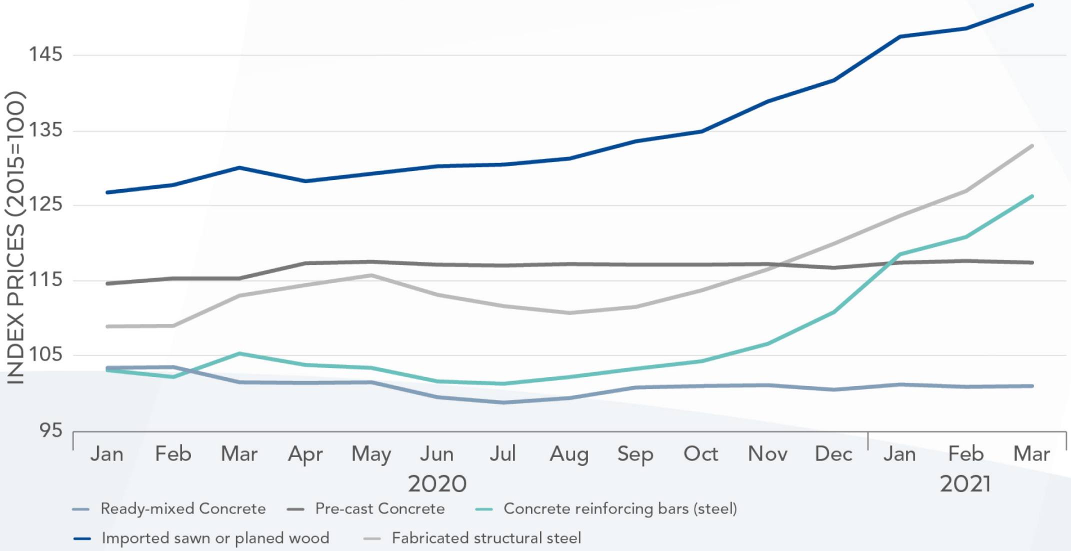
Majority of developers looking to **increase their pipelines**

Stonger focus on **'best-in-class'** office space

- Pre-letting activity weakened. **59%** of completions were pre-let, down from **70%** in the previous survey and below the five-year average of **65%**.
- In terms of office space under construction in central London, less than a third (**32%**) is committed to compared to **45%** in the previous survey.
- TMT sector continues to drive office demand taking up **40%** of all pre-let space under construction. The sector is not intending to scale back on space to the same degree as others due to its expectations of business growth.
- Financial Services accounted for a modest **16%** of the pre-let space under construction. This reflects the sector's shift towards scaling down on real estate by consolidating its office presence in central London, and with many back-office functions being moved to the regions.
- Appetite for flexible office space has diminished due to weaker tenant demand for short-term space as a result of the increase in homeworking. However, there is growing demand from tenants that are unable to agree terms to extend their lease with their current landlord and who need short-term space while they assess their accommodation needs.

Source: *Deloitte, Summer 2021 London Office Crane Survey*

KEY MATERIAL PRICES (2015=100)



CONSTRUCTION MATERIAL PRICE INDICES

	MONTH ON MONTH Feb 21 - Mar 21	YEAR ON YEAR Mar 20 - Mar 21
NEW HOUSING	1.0% ↑	8.1% ↑
OTHER NEW WORK	0.8% ↑	7.6% ↑
REPAIR & MAINTENANCE	1.5% ↑	9.0% ↑
ALL WORK	0.9% ↑	7.8% ↑

- The ONS ‘All Work’ material price index rose by **7.8%** in the year to March 2021 as construction products and material prices showed no signs of abating.
- Shortages and supply issues continue to push prices higher. While not unprecedented (a similar increase was seen in 2016 when sterling depreciated following the Brexit referendum) the underlying factors causing rising prices are somewhat unique. Current material availability issues are largely COVID-related, stemming from factory slowdowns and closures constraining production and reduced freight container capacity.
- Supply (both global and domestic) has struggled to keep pace with released pent-up demand as economies start to reopen. Whether material price inflation eases over the coming months will depend on the supply chains’ ability to meet growing demand.
- It has proven difficult for manufacturers and suppliers to build up stock levels for certain materials. This is particularly evident for a number of key materials. Fabricated structural steel prices have risen by **10.8%** in the three months to March 2021 alone while imported timber prices have increased by more than **7%** over the same period.
- Global steel demand is picking up significantly due to a recovery in the world economy. Tight steel supply and price hikes in raw materials, including coal, iron ore and shipping costs, have pushed global steel prices to historic highs. This uptrend is expected to continue into Q2 2021 and beyond.

Source: gov.uk

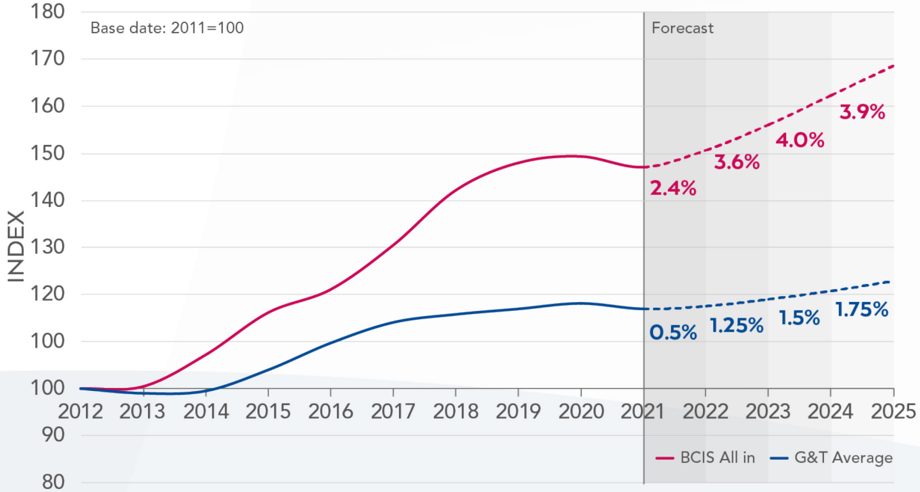
Key Trade Analysis Likely 12-month inflationary range for key trade packages based on our Q2 2021 TPI Survey results

Key Trade Packages	Summary	Likely Inflation Range (Next 12 months)
Demolition	Spare capacity has produced highly competitive pricing with contractors taking the view that plant should be active rather than an idle cost. Scrap value of metals recovered from demolition have spiked recently with steel scrap more than doubling in the year to May 2020. Accordingly, contractors have been willing to offer keener pricing. G&T sees a short-term buying window over the next few months as more schemes are committed to start towards the end of 2021.	**-10% to -5%**
Groundworks	Productivity levels remain strong but fewer new projects coming through will increase tendering competition on groundworks packages. Rising rebar prices are an ongoing concern but this could be offset by contractors looking to secure work.	**-5% to -3%**
Concrete	There has been little movement in ready-mixed concrete prices (-0.5% in the year to March 2021) with the material experiencing relatively low inflationary pressures. However, in the face of global shortages higher prices and extending lead times could hit projects within months if the situation does not improve. Some 97% of the respondents to the CPA's State of Trade Survey expect cost pressure for materials like concrete to remain high over the coming year as major infrastructure schemes get underway. However, contractors remain keen to secure workload (which is still down compared to pre-pandemic levels) which could result in competitive package pricing.	**-0.5% to 1.5%**
Steel	Global steel demand has risen significantly. Tight steel supply and price hikes in raw materials (eg coal and iron ore) along with higher shipping costs, have pushed global steel prices to historic highs. This uptrend is expected to continue into Q2 2021 and beyond. Supply lead times are moving out as British Steel (who announced a temporary closure of its new order books in May) hiked prices for the eighth time in less than a year. British Steel has increased prices by £410/tonne since July 2020 amid restricted supply. Standard structural steel sections are currently priced at around £900/ tonne. Despite the continued price escalation and supply constraints steelwork contractor Billington said that its hedging strategy (which covers most projects up to six months out) has reduced some of the immediate impact of the hikes but has warned that in the longer-term rises will have to be passed on to customers rather than absorbed.	**3% to 5%**
Facades	Supply pressure and increased cost of design, installation and materials creating uncertainty in the supply chain with bids being caveated. Speculation that some materials (eg aluminium) may increase by more than 10% in 2021. Brexit/tariffs not expected to be a major issue as glass, aluminium and fabrication generally comes from the EU and countries where trade deals are in place. Façade sub-contractor workloads are steady with 2021 pipeline largely secure. Lead times have lengthened due to reduced capacity of manufacturing facilities and suppliers increasing procurement periods. Contractors are still tendering competitively with low conversion rates and pricing is fairly tight.	**2% to 3%**
Brick	Brick production and deliveries (both lead indicators of residential construction volumes) edged higher in Q1 2021. Demand has recovered strongly (fuelled by a housebuilding boom) and manufacturers have said that trading is modestly ahead of expectations. Supply might not be able to keep up with the surge in demand. Although being ramped up, national manufacturing capability is limited and with the current challenges of importing from Europe, prices could be pushed higher.	**1% to 2%**

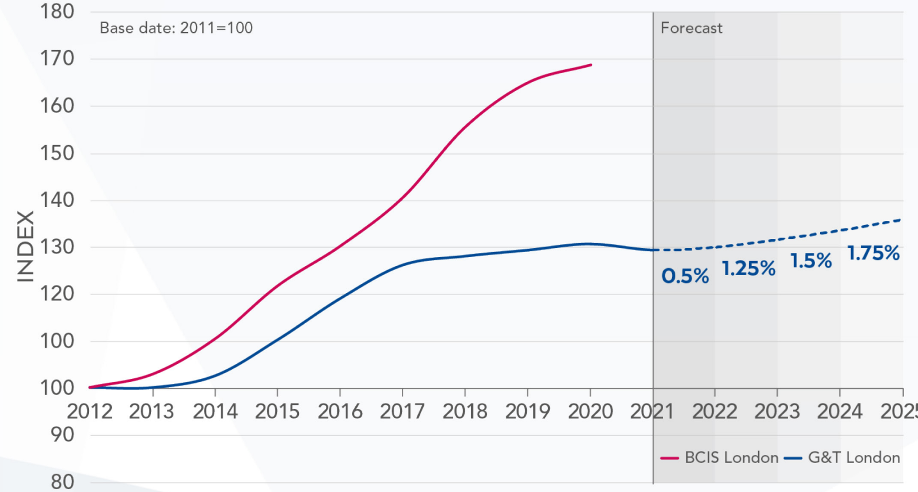
Key Trade Analysis Likely 12-month inflationary range for key trade packages based on our Q2 2021 TPI Survey results

Key Trade Packages	Summary	Likely Inflation Range (Next 12 months)
Dry lining	Shortages of skilled labour (more due to COVID-19 than Brexit) are supporting prices, particularly in residential. Costs are being pushed up by supplier stock shortages of plasterboard, plywood and insulation materials. Drylining lead times have been stretched with little-to-no manufacture of UK plasterboard but have since recovered. Rising steel prices are a concern for metal studs and lay in grids and this is influencing supply and cost.	**1% to 2%**
Carpentry	Demand for carpentry from the residential sector continues to stretch capacity. According to ONS data, imported sawn or planed wood prices rose by 16.6% in the year to March 2021 as timber mill closures created tighter supply globally. Since reopening, sawmills have struggled to catch up as pandemic-related restrictions held back production and global demand spiked as economies reopened. However, sawmill supply is improving and is expected to catch up with demand which may soften price inflation in H2 2021. Labour costs remain relatively stable.	**0.5% to 2%**
Joinery	Workload and enquiries remain strong which is putting strain on labour availability. Strong demand from the residential sector, global supply shortages and rising raw material prices are putting upward price pressure on the trade.	**0.5% to 2%**
Finishes	Finishing trades are being impacted by increasing costs for finishing materials such as paints, varnishes and tiles. Fit-out firms are reporting rising enquiries as well as growing order books as tenants and landlords revamp their existing workspaces.	**0.5% to 1.5%**
M&E	Steady increase in acute cost pressures (eg materials/key commodities, manufacturing and logistics and also labour) expected to continue throughout 2021. Copper, aluminium and steel prices continue to rise sharply while reduced stock availability for certain MEP products and components persists, increasing overall lead times. Upward cost pressure on steel ductwork and a global semiconductor chip shortage (which is affecting the production of electronic devices) have led to some contractors raising pre-tender quoted prices as cost increases cannot be fully absorbed. Number of opportunities has stabilised but an active pursuit of workload by MEP contractors is resulting in competitive tenders, particularly in the commercial fit-out market. Size/value of projects are generally lower, increasing the number of tenderers and competition.	**0% to 2%**
Roof	The National Federation of Roofing Contractors (**NFRC**) has reported significant growth in workloads in Q1 2021 but noted contractors were being hampered by recruitment difficulties, continued material shortages and price rises. Lead times for concrete tiles, for example, have tripled to three months as a result of shortages. Shortages, as well as rising prices for timber battens, insulation, clay roof tiles and steel beams have pushed overall material costs up by about 50%.	**0.5% to 1.5%**
Preliminaries	Main Contractor preliminary costs edged higher in 2020 (from an average of 13.5% in 2019 to an average of 15.3% in 2020) as contractors sought to recover some of the ongoing operational costs associated with imposing COVID-related measures and complying with CLC SOPs on site. Average preliminaries are forecast to remain unchanged (but above pre-COVID levels) in the short-term and will only abate once site restrictions, measures and protocols are either eased or removed.	**Unchanged**
OH&P	Overheads and profits from Main Contractor tender returns to G&T averaged around 6% in 2020 but the range of OH&P levels widened significantly – evidence of a sector based, two-tier tendering environment. OH&P will remain broadly unchanged over the next 12 months but contractors in some sectors will have greater headroom to raise OH&P.	**Unchanged**

TENDER PRICE TREND 'ALL UK TPI'

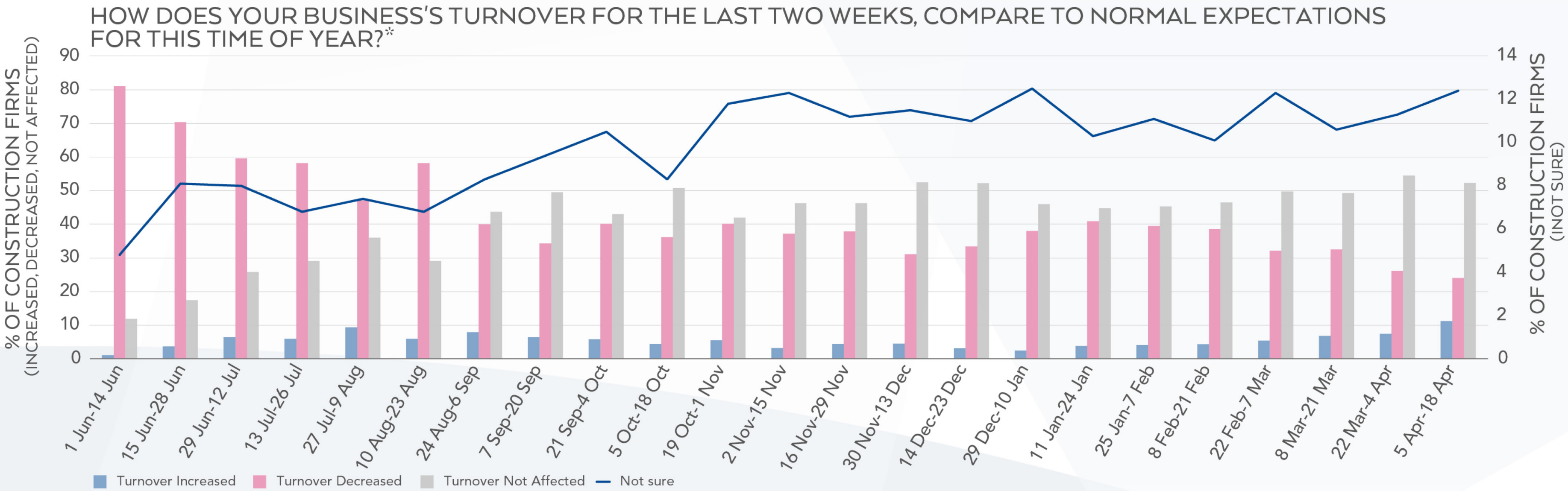


TENDER PRICE TREND 'LONDON TPI'



- Supply and demand shocks driven by policy rather than normal market forces have provided a breeding ground for a split sector-specific recovery in 2021 and beyond.
- Some significant changes since our previous (Q1 2021) TPI forecast have given rise to some upwardly revised inflationary predictions.
- Our weighted UK average TPI forecast for 2021 has risen from **-0.5%** to **0.5%** while our forecast for 2022 has been marginally revised upwards from **1%** to **1.25%**.
- From 2023 we anticipate that we'll continue to edge closer to our long term average rate and expect tender price inflation to grow by a further **1.5%** in the year. Although long-range forecasts need to be accompanied with a wide margin of sensitivity, we envision that TPI in 2024 will be circa **1.75%** - around half a percentage shy of our long-term average.
- Successful vaccination programme prompting greater confidence and investment activity as forecasts indicate a faster economic revival. Tendering opportunities expected to follow suit but non-tariff barriers and supply pressures will act to push up input costs.
- Government's levelling up agenda will help boost construction activity in most UK regions and will be supported by investment in transport, renewable energy, residential and commercial infrastructure projects.
- 2021 shaping up to be year of two halves. Greater market activity and rising workloads in H2 to prompt tender price inflation to creep up and deflationary pressures to abate.

Note: BCIS do not publish regional TPI forecasts



- According to the ONS' fortnightly Business Insights and Impact on the UK Economy dataset, the proportion of construction firms reporting that their turnover was lower compared to what was normally expected for the time of year hit a low point in the 5th April – 18th April period.

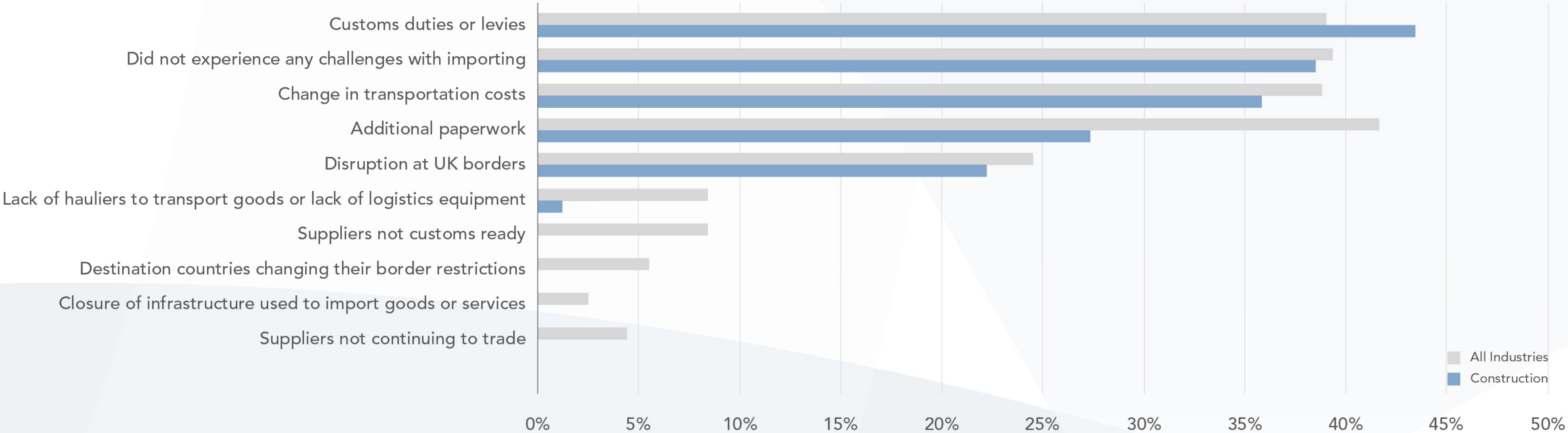
- Although a significant proportion of firms (**24%**) reported lower than normal turnover for the period, this metric has seen a general downward trend since summer 2020. Furthermore, the majority of firms (more than **52%**) reported that turnover was unaffected while a growing proportion (11.2%) believe that turnover has actually increased in the period compared to normal expectations.

- Despite improvements in turnover, nearly **18%** of construction firms believe there is still a severe or moderate risk of insolvency. Only **25%** of surveyed firms believe that there is no risk of insolvency. According to EY-Parthenon, around **44%** of listed construction and materials companies issued at least one profit warning in the 12 months to the end of March 2021. While construction profit warnings have been on a downward trend since Q2 2020 there appears to be two types of firms emerging – ones that are recovering well and ones that are facing significant challenges stemming from additional COVID-19 costs and delayed starts/approvals which has impacted profitability. Firms focusing on commercial and retail work are at greater risk.

** Percentage of construction businesses currently trading, broken down by industry and size band, weighted by turnover, UK, 1 June 2020 to 4 April 2021*

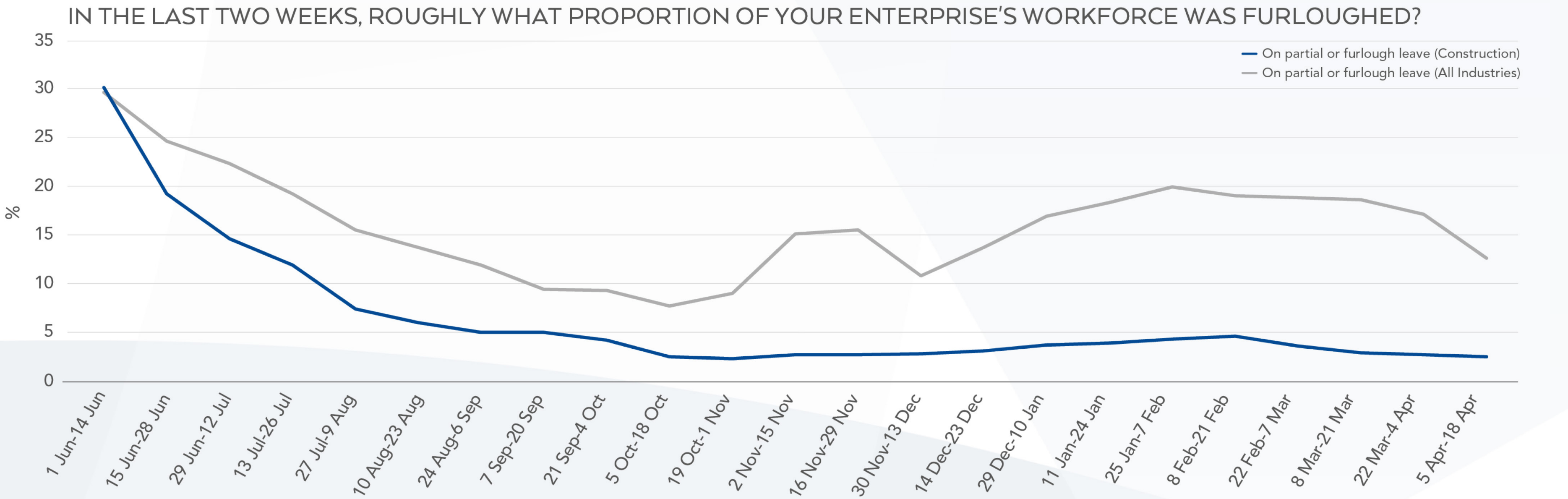
Source: ONS

HAVE YOU EXPERIENCED ANY OF THE FOLLOWING CHALLENGES WITH IMPORTING OVER THE LAST TWO WEEKS? (5TH APR - 18TH APR 2021)



- Between 5th – 18th April, a significant proportion of construction firms (**43%**) reported challenges with ‘customs duties or levies’ when importing.
- ‘Change in transportation costs’ (**39%**), ‘additional paperwork’ (**27%**) and ‘disruption at UK borders’ (**22%**) also presented some challenges for construction firms which, according to **87%** of respondents, were caused by a combination of both the COVID-19 pandemic and the end of the EU transition period.
- Although roughly 60% of all imported materials/products used in UK construction comes from the EU (under the new EU-UK Trade and Cooperation Agreement) a significant volume comes from countries with which the UK does not have a FTA in place and is subject to customs duties or levies.
- Ongoing issues with higher transportation costs have been caused by a spike in demand and disrupted container movement at ports resulting in logistical logjams. Increased paperwork is also an issue with new proof of origin forms to fill in. Goods are still being turned away at ports because of incomplete paperwork.

Source: ONS

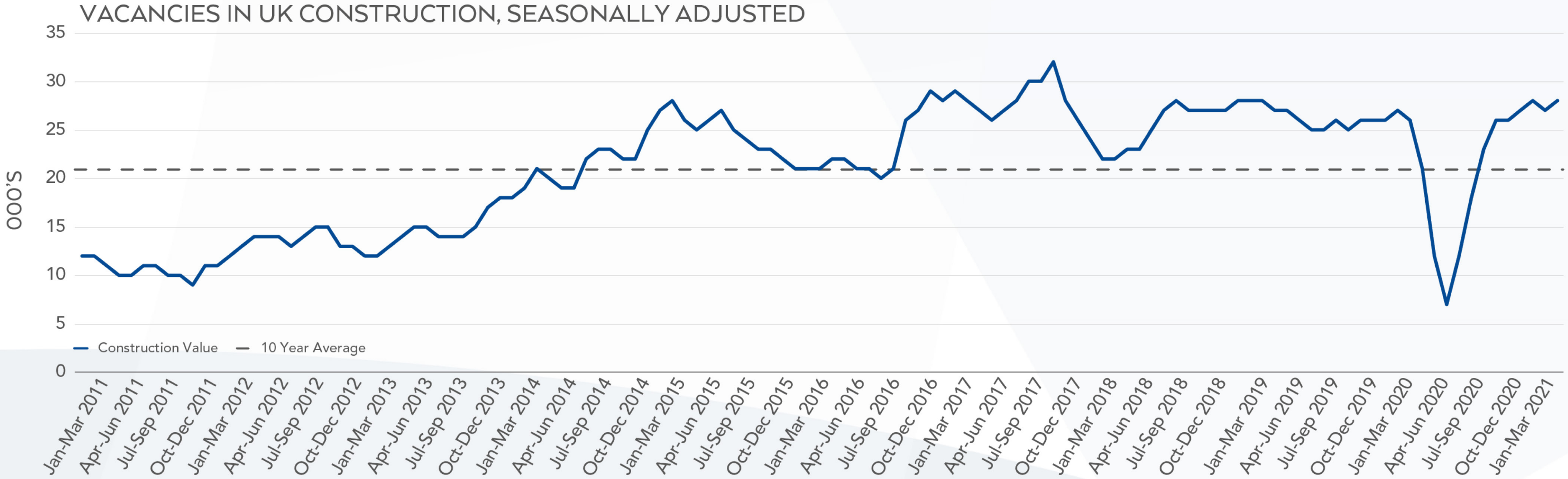


- According to the ONS, surveyed construction firms reported that, on average, the proportion of their workforce that were on furlough (or partial furlough) leave had fallen from **30.1%** during 1st - 14th June 2020 to just **2.5%** during 5th - 18th April 2021.

- The proportion of the furloughed workforce reported by construction firms edged slightly higher between October 2020 (when the three-tier system restrictions were introduced) and February 2021 (when the PM published the roadmap for lifting lockdown restrictions) but has gradually fallen since.

- In construction, furloughing peaked on 14th April 2020 with 723,600 employments furloughed according to HMRC. Provisional estimates show that at the end of March 2021 the number of absolute employments on furlough had decreased to 196,500 (indicating a take-up rate of **15%**).

Source: ONS



- Construction vacancies in the three-month period between January-March 2021 were 28,000 - **4%** higher than the number of vacancies in the December-February 2021 period.

- Construction vacancies are now well above the 10-year average of 21,000 and April's IHS Markit/CIPS UK Construction employment index signalled the fastest rate of job creation since December 2015. Supported by a strong expansion in new work, the index grew for a third consecutive month in April 2021.

- Hiring activity has been strong in sectors that have prospered (on a relative basis) during the pandemic (eg construction and logistics). After a number of layoffs made in 2020, many construction firms have gone on hiring sprees to rebuild their workforce - a sign that many in the industry are confident of an economic recovery and their ability to secure new work.

Source: ONS

Market Update
May
2021

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