

MARKET UPDATE

*Stabilising Market:
Identify Your Advantage*

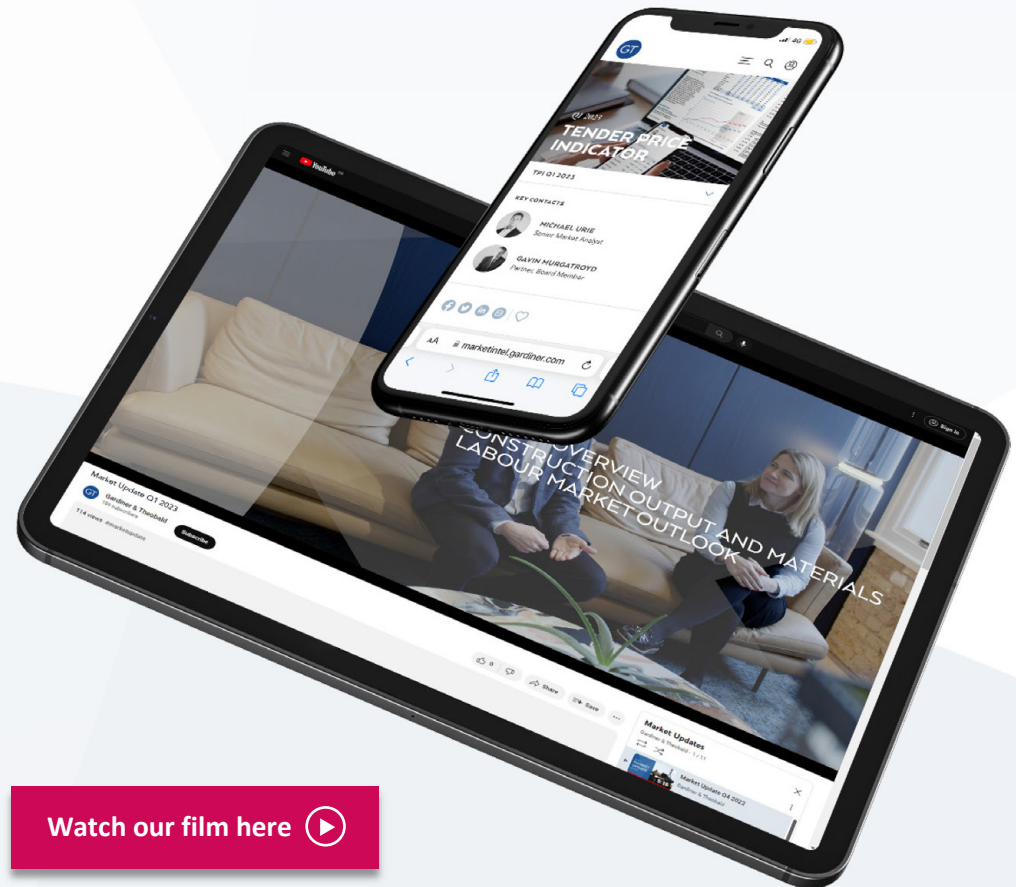
February 2023



In G&T's first market update of the year we explore how construction is navigating its way through macroeconomic headwinds and mixed market conditions, and look at the **positive signals for longer-term growth prospects**

Key topics in this report...

- UK Economic Overview
- UK Construction Overview
- An Update on Energy, Trades and Transport
- Market, Insolvency and Procurement Trends
- TPI & Key Recommendations



Watch our film here 



01 / MACRO ECONOMICS & CONSTRUCTION OUTPUT

Despite a challenging start to the year, **positive signals for longer-term prospects remain...**

UK Avoided Recession but Growth Stagnates

Challenging outlook suggests GDP will soften but will the UK avoid a falling into a technical recession in 2023?

CPI 10.1% (Jan 2022)

UK inflation slowed by more than expected in January, falling to a five-month low

UK Construction PMI (Jan 2022)

Construction activity fell to lowest levels since 2020 but there were positive signals for longer-term prospects

Rate Hiking Cycle Coming to an End?

With inflation now on a downward trend, the Monetary Policy Committee may press pause on its rate hiking cycle soon

3.7% Unemployment Rate (Sep – Nov 22)

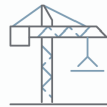
UK jobs market remains resilient despite incoming recession



UK Construction PMI slips to near three-year low, but **firms more confident about 2023 outlook...**



Rising borrowing costs accompanied by **decline in momentum**



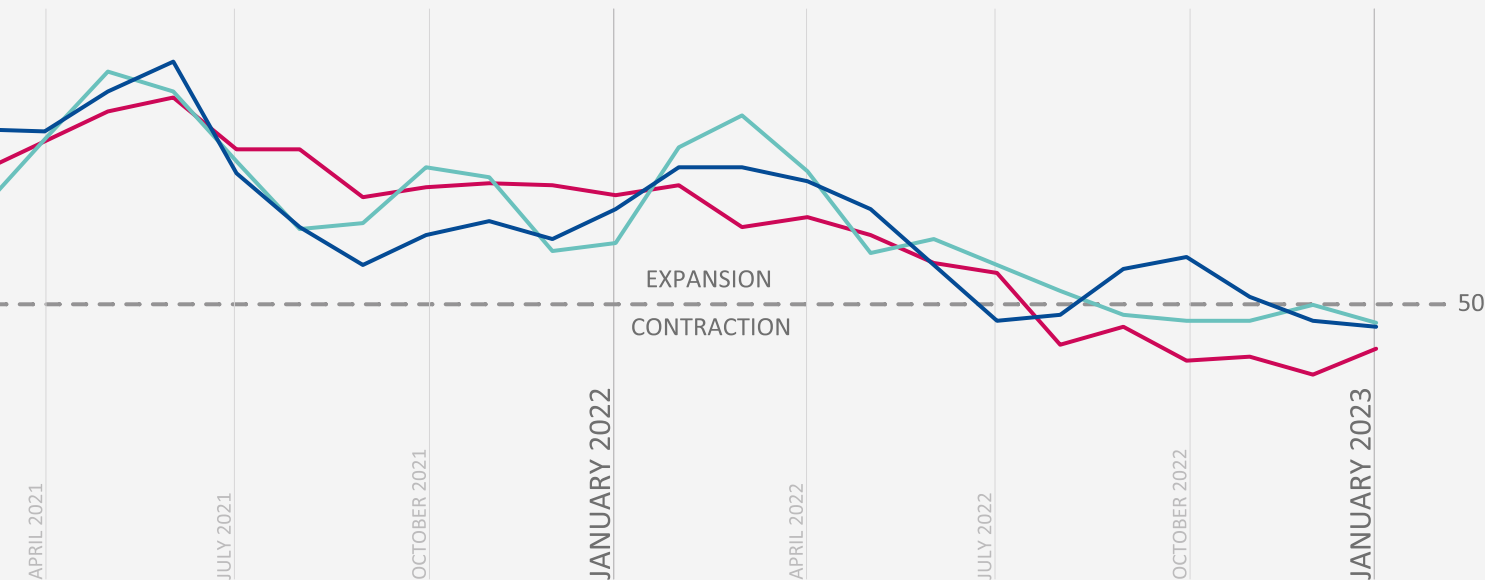
Softer client demand and **fewer project starts**



Input cost inflation weakest since December 2020



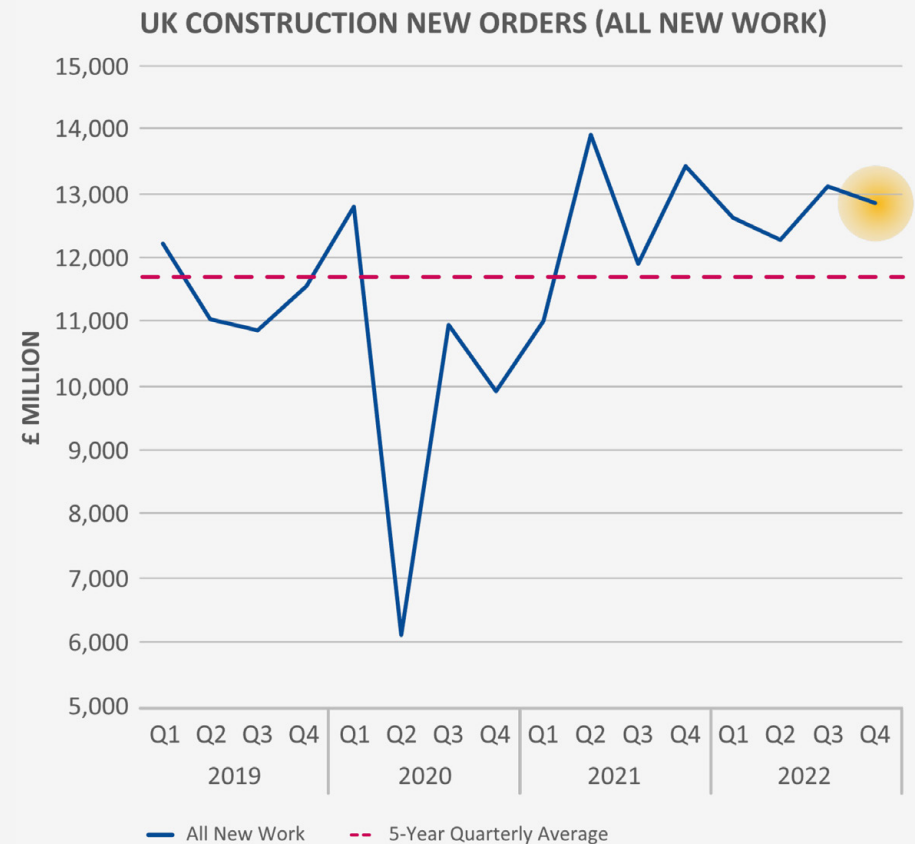
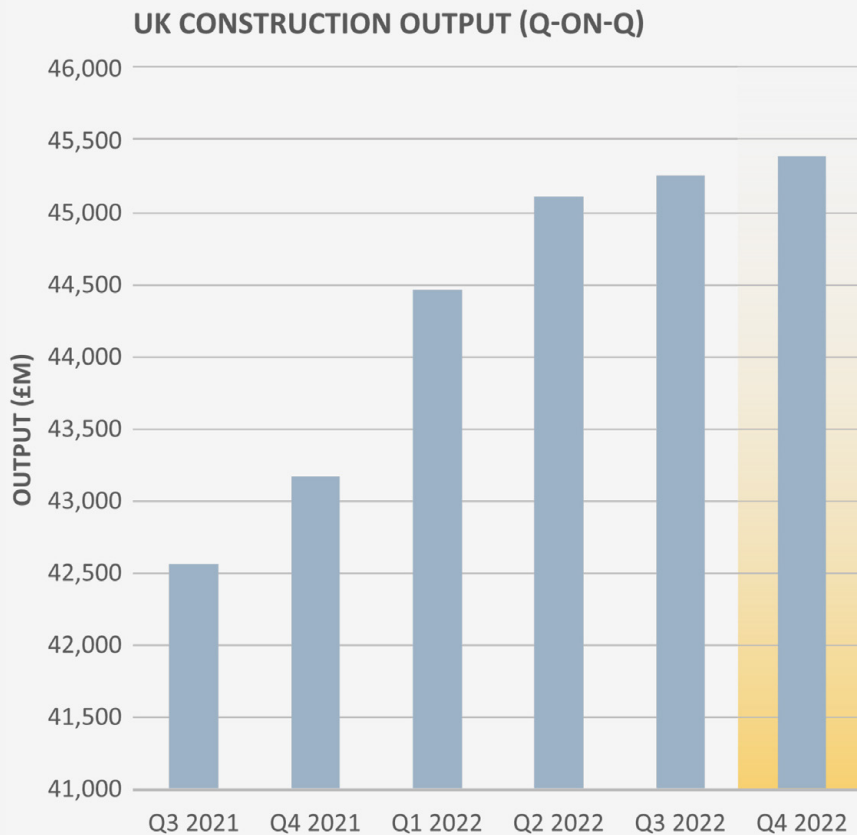
Business expectations gauge bounces back sharply



Services **48.7**
 Construction **48.4**
 Manufacturing **47.0**

UK construction output growth rose by 0.3% in Q4 2022, hitting a new record quarterly figure of £45,371 million

UK construction new orders fell 1.8% in Q4 2022 but values remained above the five-year quarterly average



New orders in Q4 were £4.5bn – 24.5% above the ten-year average of £3.6bn



New orders recovered well after initial supply chain shocks of Ukraine war

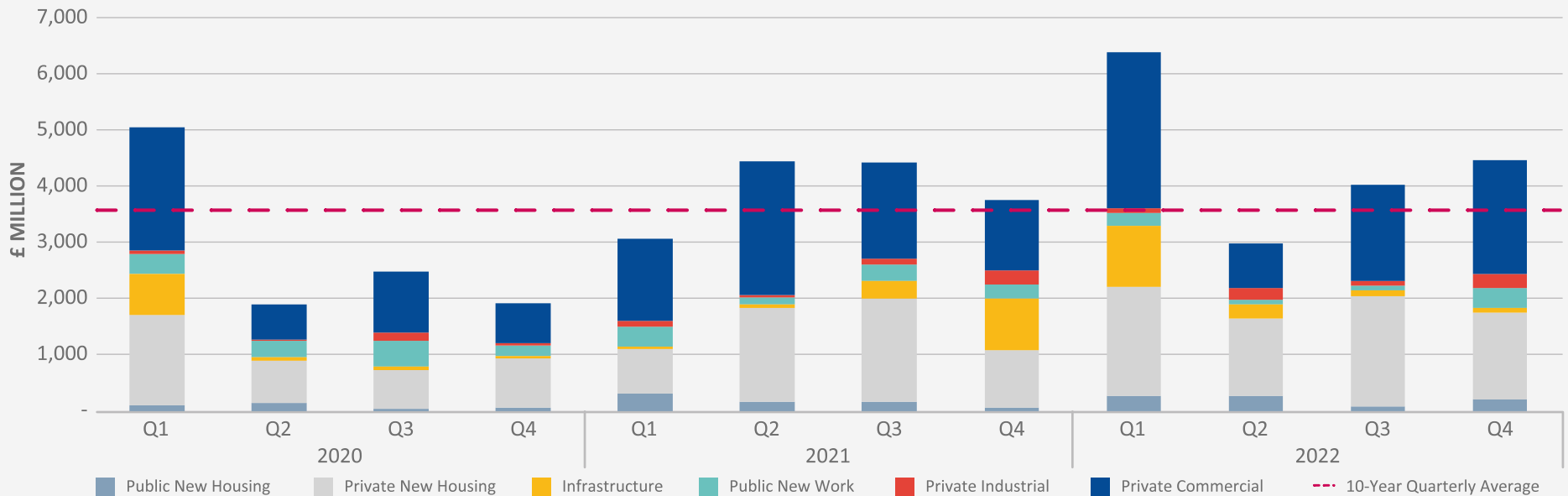


Private housing (-21%) and infrastructure (-17%) were the only sectors to contract in Q4



Public new work (+301%), private industrial (+205%) and public new housing (+120%) performed strongly

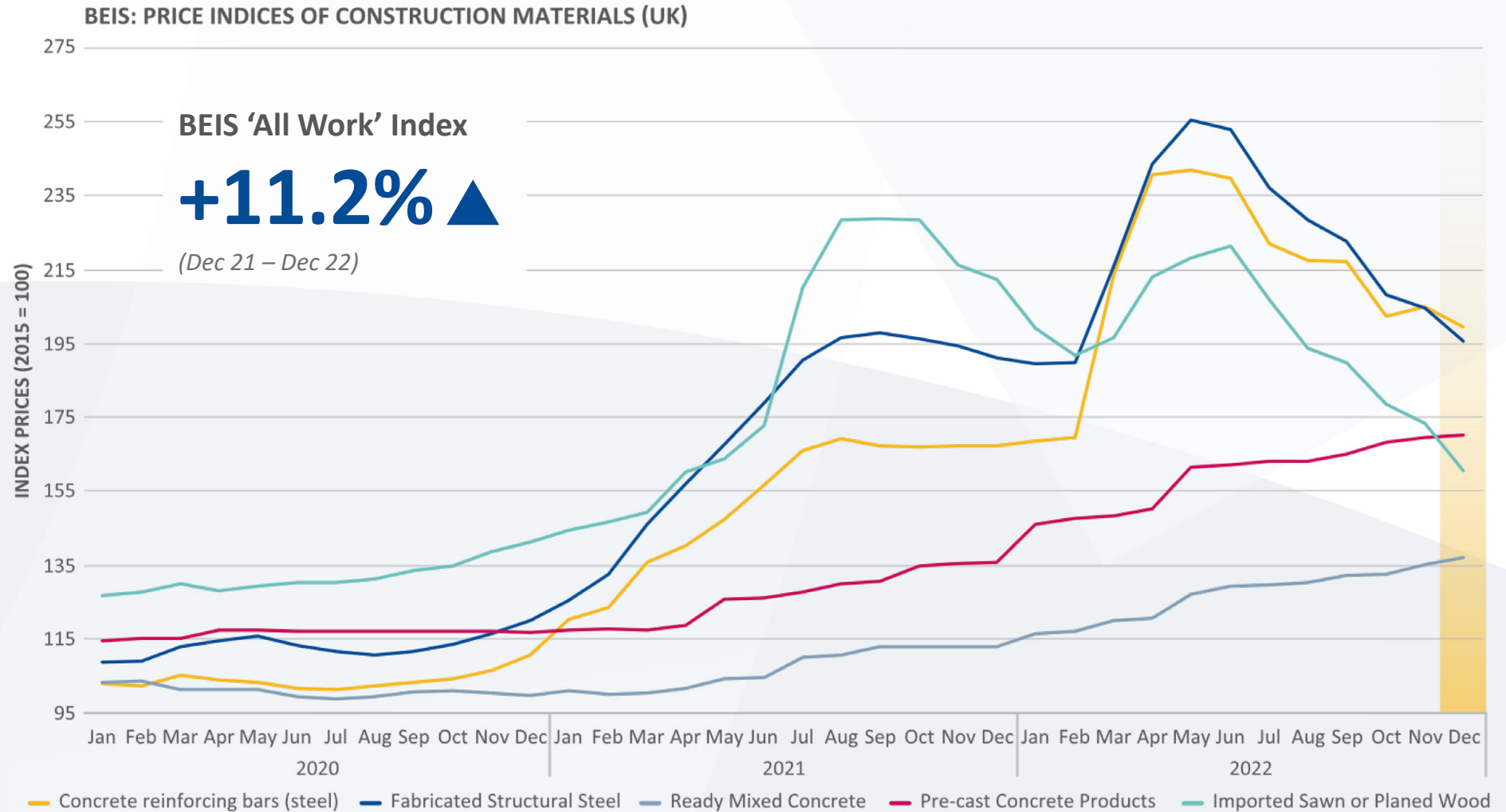
LONDON CONSTRUCTION NEW ORDERS (Q-ON-Q) SECTOR



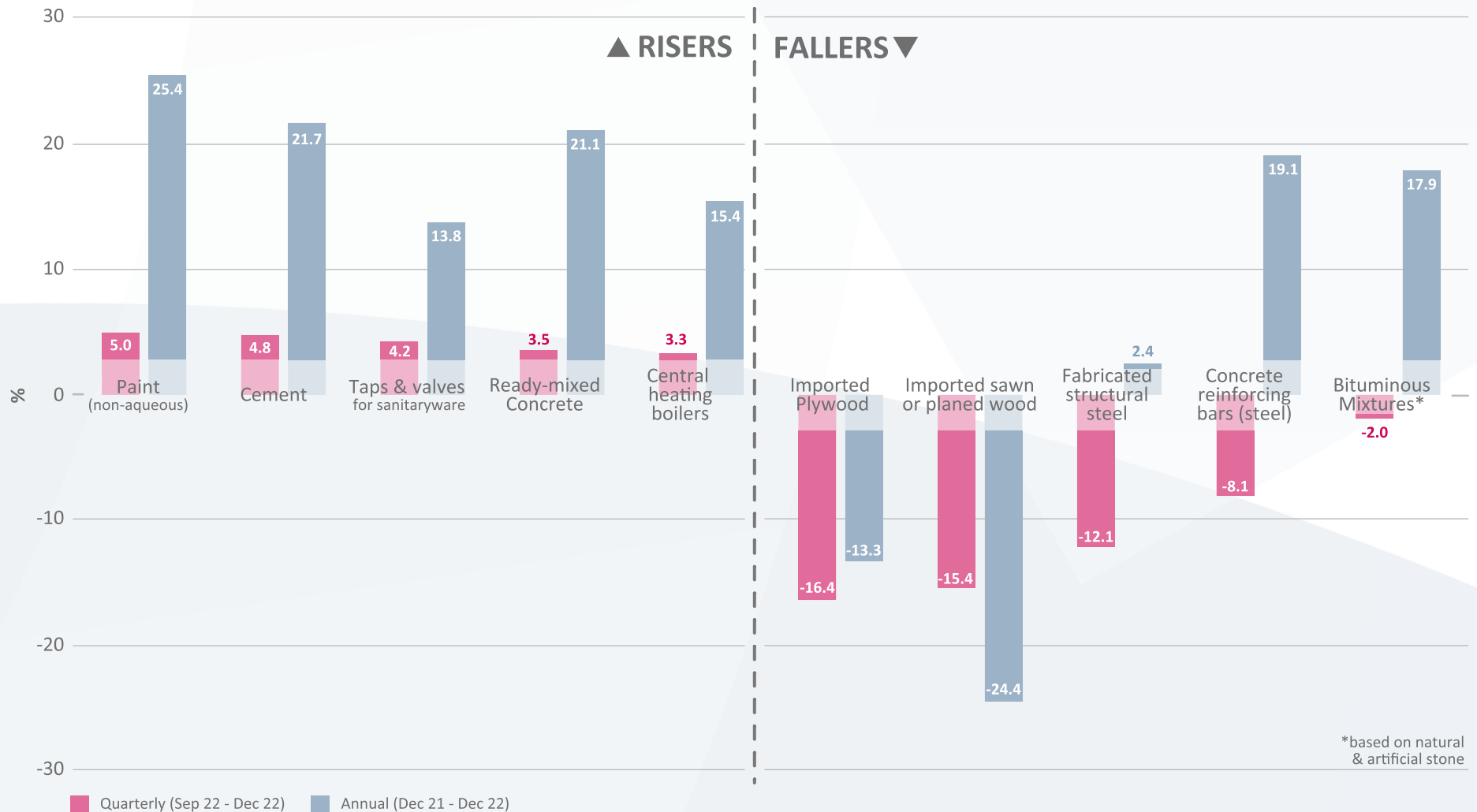


02 / CONSTRUCTION MARKET TRENDS – MATERIALS & LABOUR

Construction material prices stabilising and beginning to fall...



BEIS MATERIALS RISERS AND FALLERS: QUARTERLY V ANNUALLY



*based on natural & artificial stone

Steel prices falling faster than raw materials/input costs

Lower global steel demand amid economic growth concerns

Oversupply led to suppliers destocking, reducing average selling prices

Some steelmaking plants idling production to reduce high inventories and stem losses

Reopening of China may help stabilise demand and pricing

UK Rebar Supply Cost*

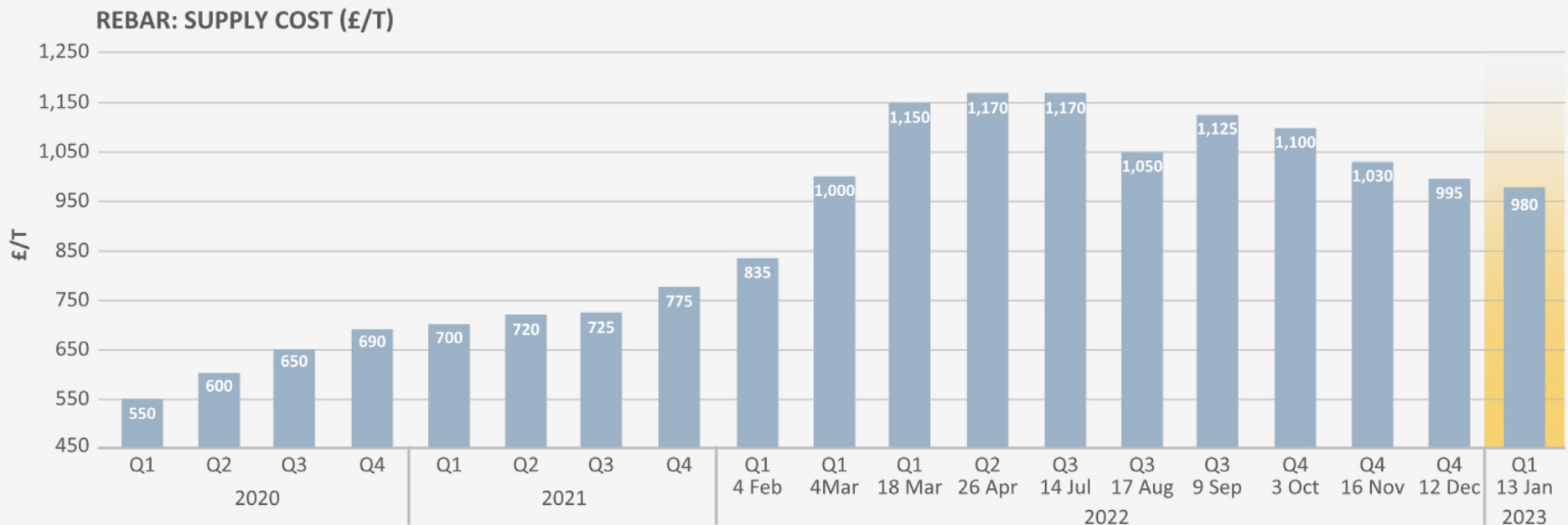
▼ 16%

To £980/t (in Jan 2023) compared to 2022 high of c.£1,170/t

UK Structural Steel Cost

▼ 31%

To £1,000/t (in Jan 2023) compared to 2022 high of c.£1,450/t



*Rebar rates up to Q4 2022 are supplied by Hy-ten and are averages of cut & bent and straight bar prices for various tonnage ranges between 1-10 tonnes. Q1 2023 data is an avg. across three suppliers (Hy-ten, Rainham, and Thames Reinforcement) for various tonnage ranges of 1-1,000 tonnes.

The S&P GSCI Commodity Price Index has fallen c.25% since peaking in June 2022...



Softer global demand, but supply-side constraints set to support elevated prices



Higher interest rates have reduced demand for commodities



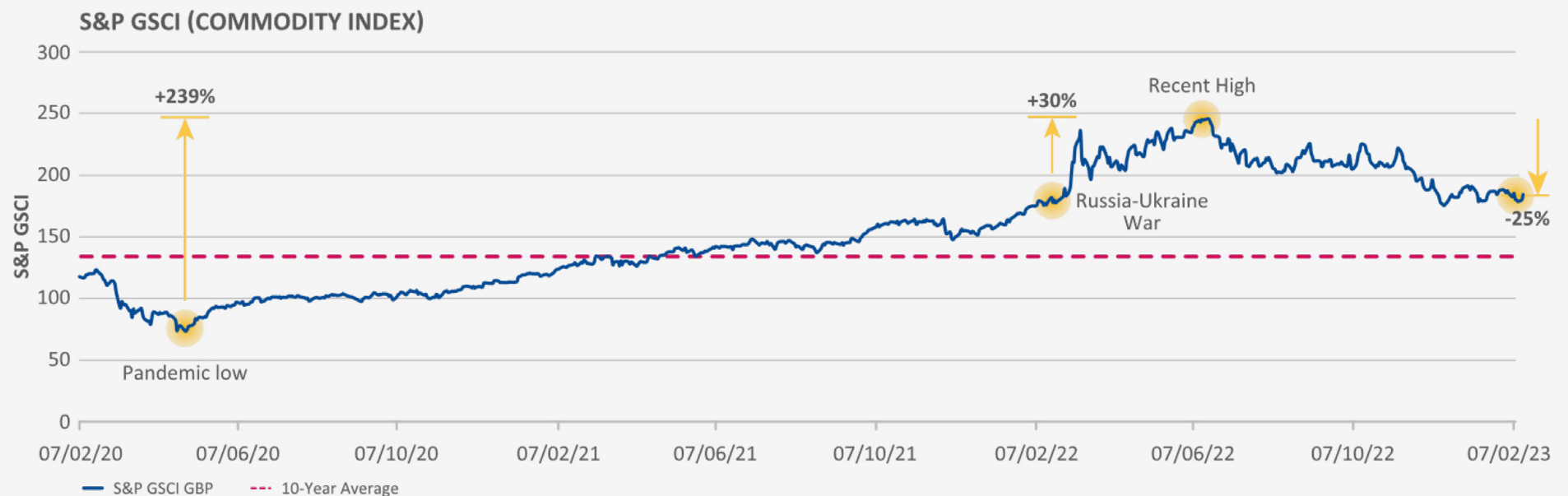
Reopening of China to boost demand for industrial metals



Sanctions and ongoing Russian supply restrictions to impact key markets

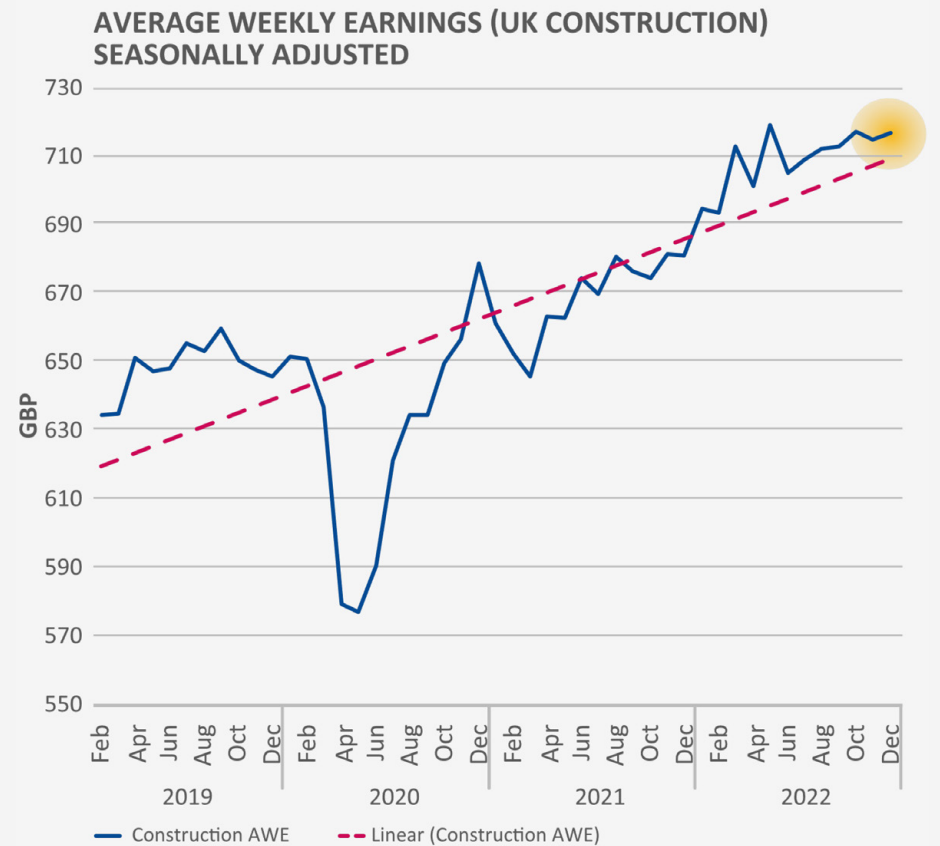
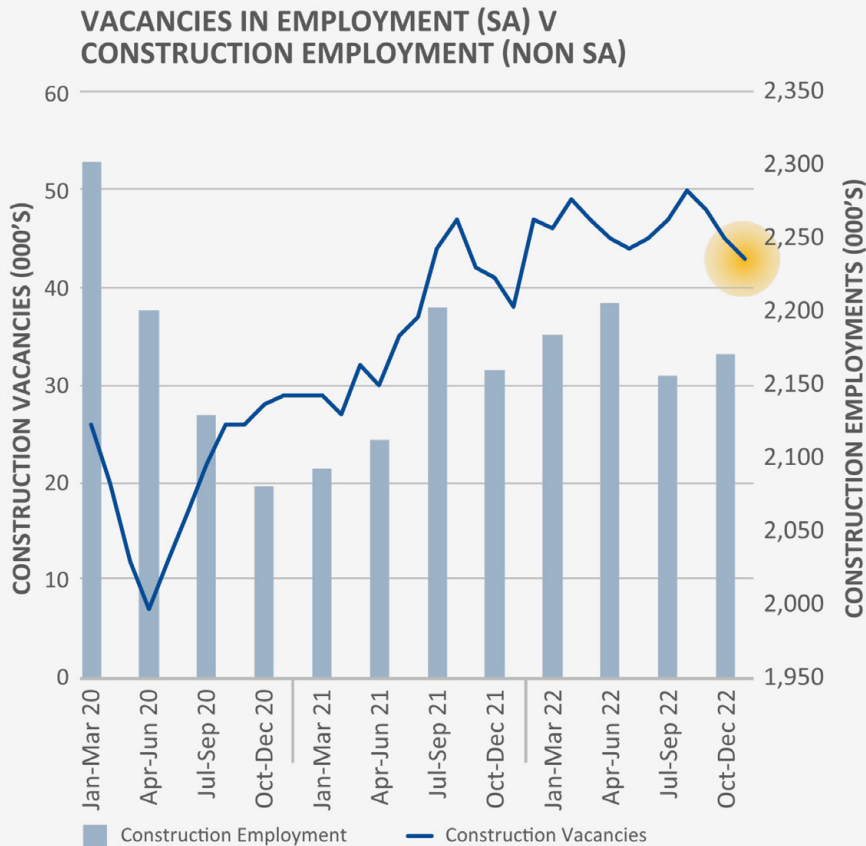


Prolonged period of underinvestment in supply to support prices in the long-term



Construction vacancies easing from record-high.

Average Weekly Earnings in December 2022 rose by **5.5% (Y-on-Y)** due to **tight skills supply**





03 / TRENDS IN ENERGY, TRADES AND TRANSPORT

Gas and oil prices fall on back of warm weather and economic worries...

Supply-demand balance **pushing energy prices lower**

Worst of Europe's gas crisis and the peak in oil prices **likely over for now**

However, reduced oil/gas inventories to **increase upside price risk**

Resurgent Chinese demand may drive energy prices higher

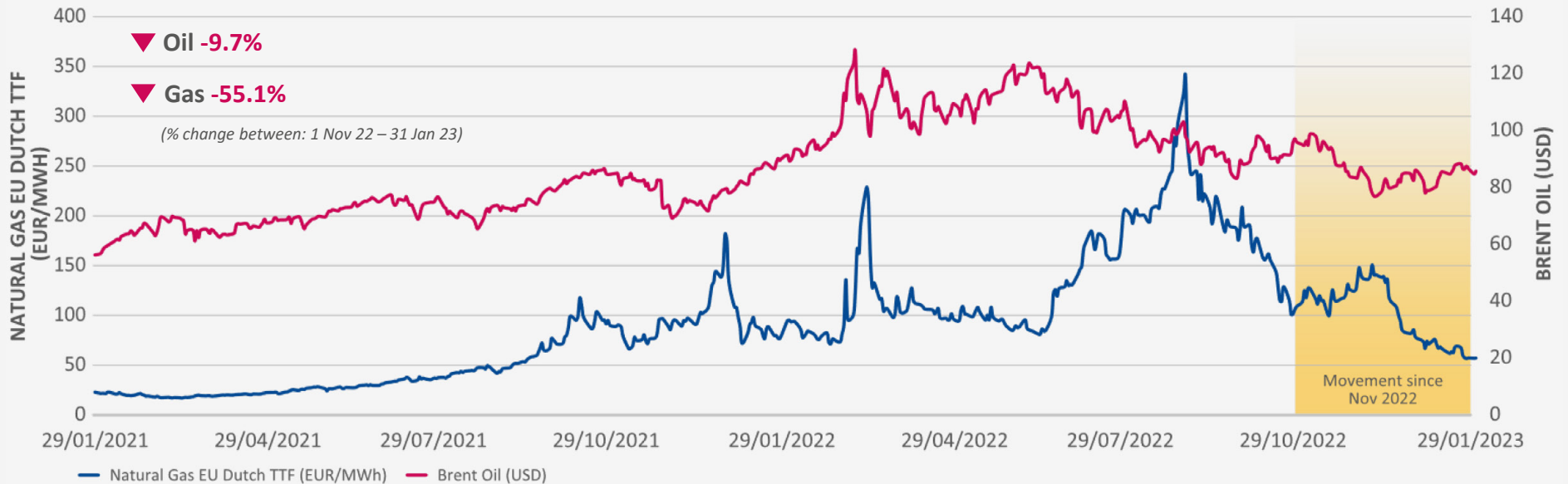
Why have wholesale gas prices **fallen** recently?

Subdued gas demand due to mild weather

Mandatory gas storage and consumption reduction targets helped Europe fill storage facilities

Strong LNG imports

NATURAL GAS EU DUTCH TTF V. BRENT OIL: FEB 2021 - FEB 2023

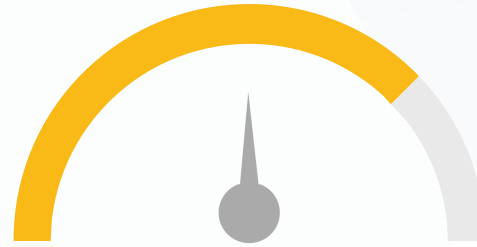


Key Trade Analysis



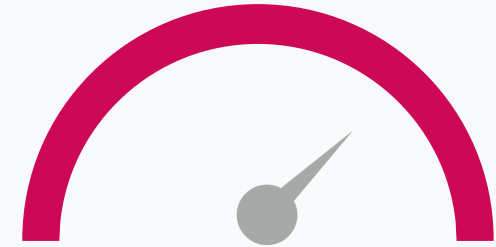
Competitive

- Demolition/Enabling Works
- Earthworks
- OH&P



Under pressure

- Substructure
- Frame
- Joinery
- Finishes
- Preliminaries



Higher inflation to come

- Façades
- Drylining
- Concrete
- M&E

TEG Road Transport Price Index experiences seasonal January downturn, but prices remain higher than a year ago...

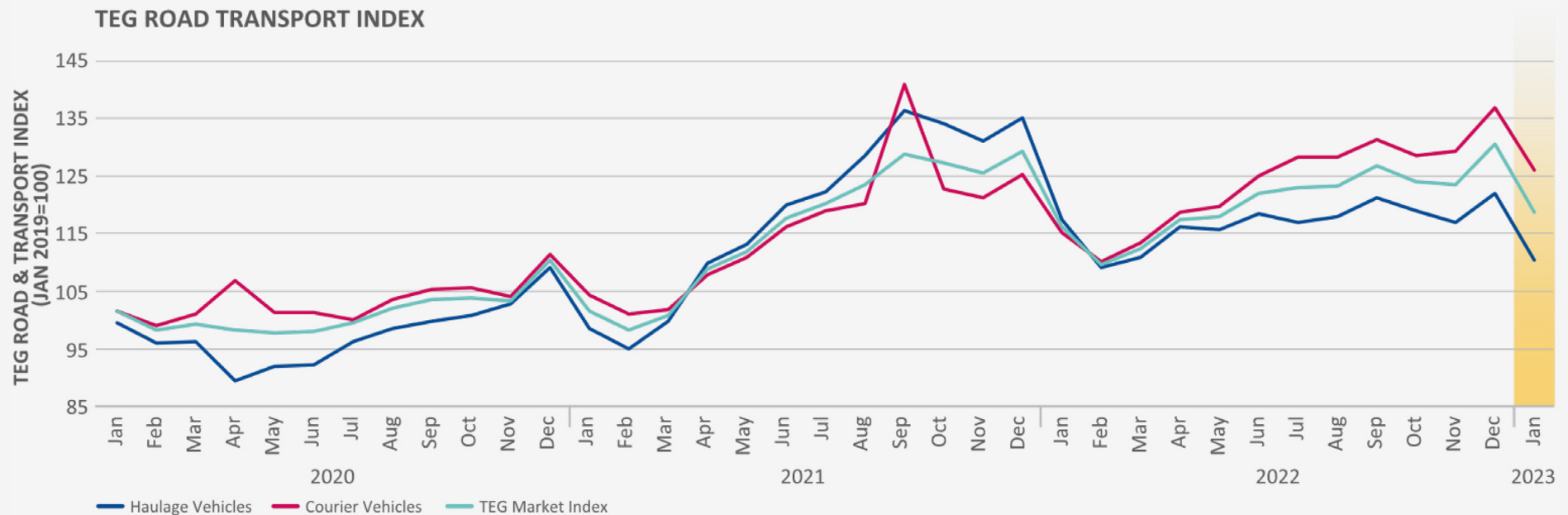
Price-per-mile cost fell 10% in January following Christmas peak

Operators forced to pass on rising costs in 2022 even as fuel prices fell

Reopening of China to increase demand for fuel, pushing road transport costs higher

Fuel, wage, and operating costs all set to increase further in 2023

What does this mean for your project?



TEG Road Transport Price Index charts the price per mile (ppm) for UK haulage and courier vehicles each month against a base of January 2019. Source: [Transport Exchange Group](#)

BDI has fallen c.88% from its peak in October 2021 and remains below the five-year index average...



Strong reversal of post-pandemic shipping pressures and freight charges



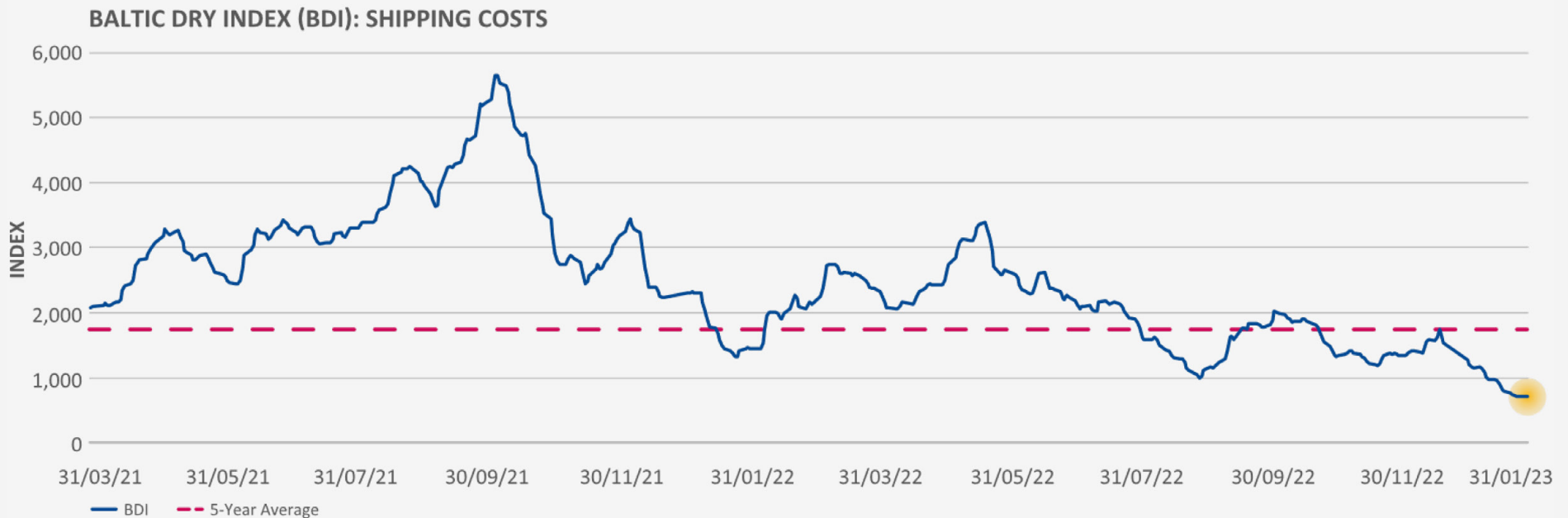
Disruption has abated as supply chain shocks and bottlenecks eased



Greater availability of empty containers due to lower demand for goods



Subdued trade may prompt a **price war on container prices**





04 / MARKET CONDITIONS, CONSTRUCTION INSOLVENCIES & PROCUREMENT TRENDS

In our latest TPI, we noted the following market conditions in the **UK construction sector**:

Market is **busy** with contractors lacking tendering/estimating resource to bid work

Contractors **still being selective** while workloads are high

Unfavourable tendering conditions for clients in Q1/Q2 2023

But **lower levels of construction market activity and fewer bidding opportunities** anticipated later in 2023

More competitive tendering conditions likely if the strong pipeline of work is squeezed

Rate of **input cost inflation easing** but yet to be seen in supply chain pricing

Macro pressures to reduce demand and impact some investment plans



Note: see [G&T's Q1 2023 TPI report](#) for a more detailed analysis and insights into how market conditions are driving tender price inflation.

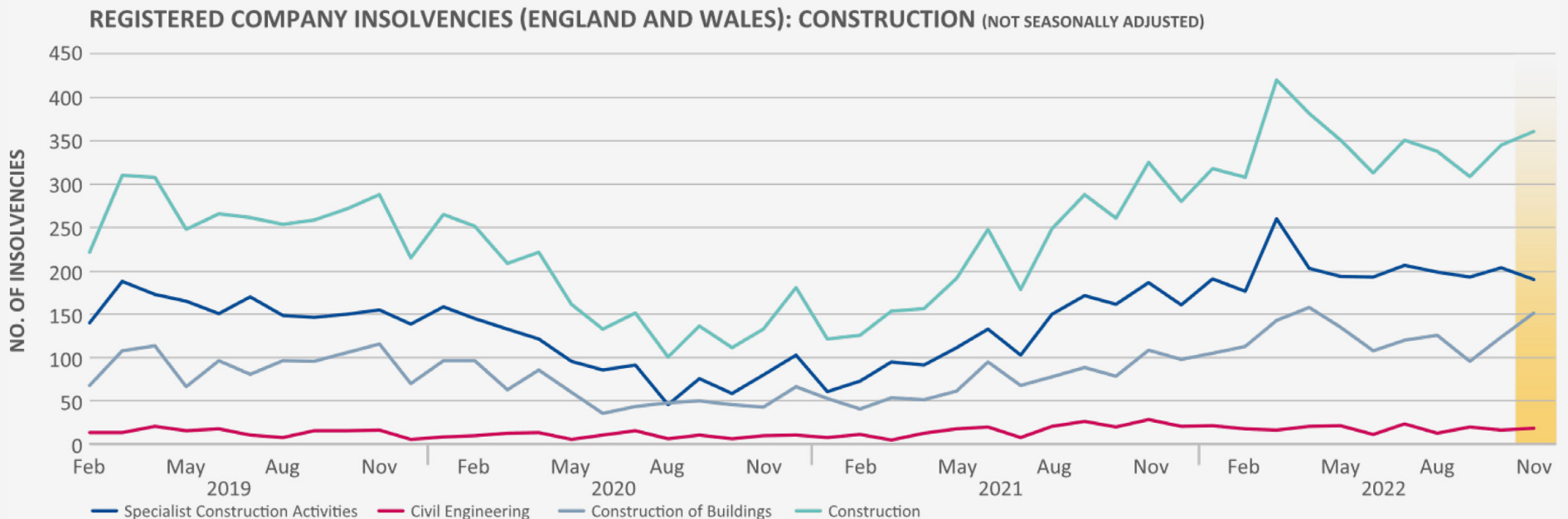
361 construction firms in the UK went out of business in Nov 2022 – 11.1% higher than a year ago

4,076 construction insolvencies in the UK in year to Nov 2022 – the highest since the financial crisis

58% were specialist contractors, often smaller firms on fixed price contracts signed 12+ months ago

Contractors hit by **rising cost of labour**, IR35, reverse charge VAT and **rising Personal Indemnity insurance costs**

Civils firms less affected as infrastructure activity is strong due to major projects and frameworks



Note: G&T is able to provide detailed supply chain analysis and supplier/contractor insolvency risk scores on your project. Please contact us for further information.
 Source: [ONS](#)

Contractors resistant to single stage tendering due to high workloads

Contractors **reluctant to shift away from Two-Stage tendering**

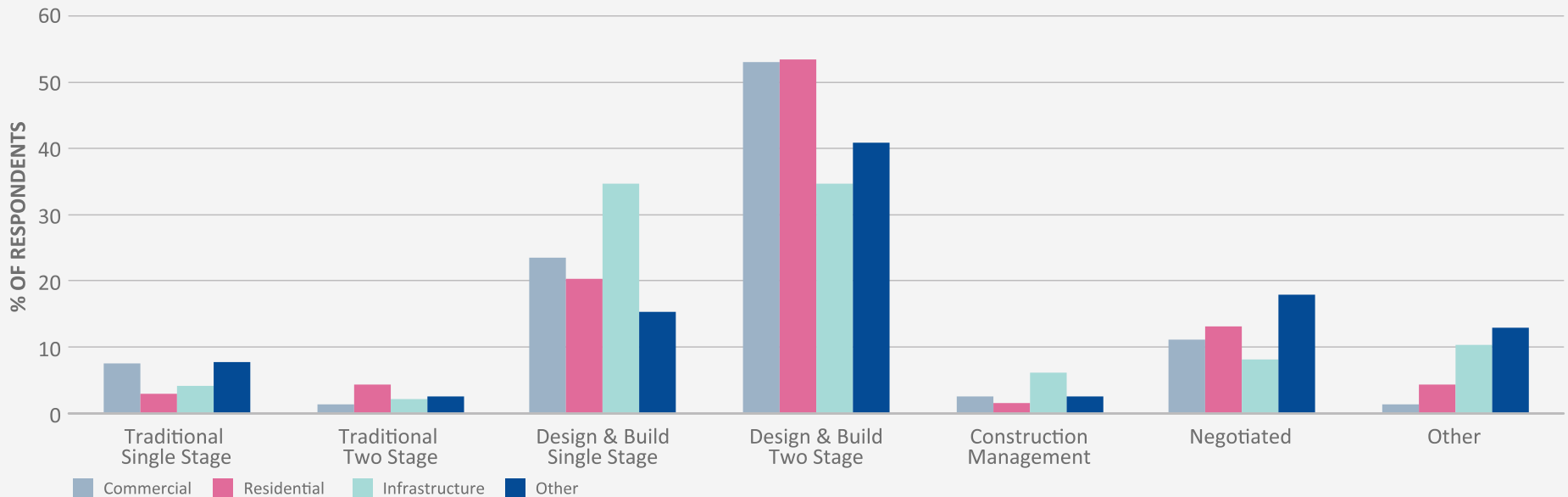
Many **contractors currently lack bidding capacity/resource** for Single Stage

Cooling market may see clients push for **Single Stage to ensure competitive pricing**

Contractors **wary of further price spikes**. May see more 'provisional rates' at the point of contract

Mature clients/suppliers to **engage in more collaborative procurement models**

WHICH PROCUREMENT ROUTE HAS BEEN MOST FAVOURED ON YOUR PROJECTS? PAST 3 MONTHS





05 / TPI Q1 2023 & KEY RECOMMENDATIONS

With a shallow recession looming, some key sources of construction cost inflation are set to ease or fall back in the coming months

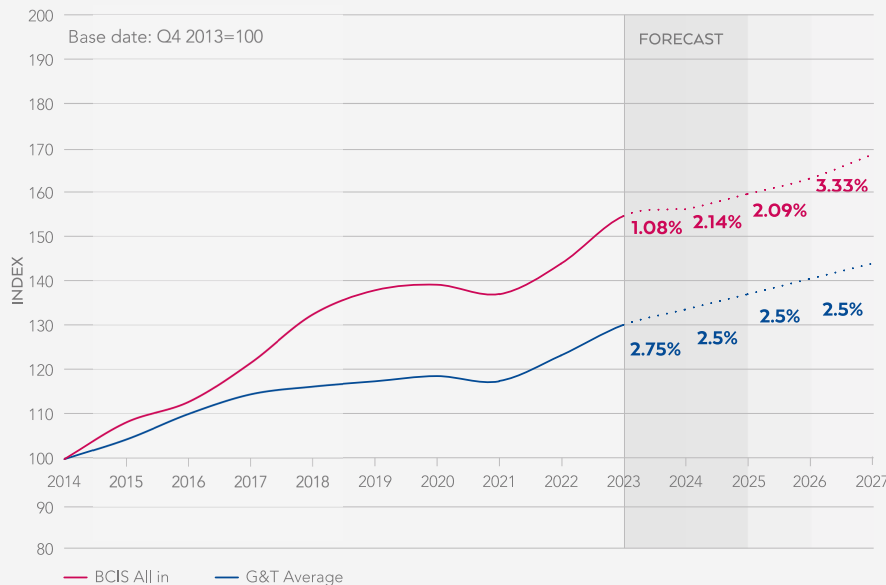
Economic headwinds and anticipated reductions in workloads may partly offset some prevailing inflationary pressures, as we forecast a reduced rate of inflationary increase

With certain sectors and project types more exposed to recessionary conditions than others, a two-speed inflationary picture may emerge in 2023

UK Average	London
Tender Price	Tender Price
Forecast	Forecast
(2023)...	(2023)...

2.75% **2.75%**

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE ANNUAL PERCENTAGE CHANGE Q1 2023

%	2023		2024		2025		2026	
	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Regional forecasts								
Greater London	2.75	3.00	2.25	2.50	2.50	2.50	2.50	N/A
South East	2.75	3.00	2.25	2.50	2.50	2.50	2.50	N/A
South West	3.75	4.00	3.50	3.50	3.00	2.50	2.50	N/A
East	2.75	3.00	2.50	2.50	2.50	2.50	2.50	N/A
Midlands	3.00	2.50	2.50	2.50	3.00	2.50	2.50	N/A
Wales	2.50	2.00	2.50	2.50	2.00	2.00	2.50	N/A
Yorks & Humber	3.00	4.00	2.50	3.00	2.50	2.50	2.50	N/A
North West	2.00	2.50	2.00	2.00	2.00	2.00	2.00	N/A
North East	2.50	3.00	2.00	2.00	2.50	2.00	2.00	N/A
Scotland	2.25	2.50	2.00	2.00	2.00	2.00	2.00	N/A
Northern Ireland	3.00	3.00	2.50	2.50	2.00	2.00	2.50	N/A
UK Average	2.75	3.00	2.50	2.50	2.50	2.25	2.50	N/A

Last* 4Q22

Please note: G&T's TPI forecasts take account of all sectors and project sizes as a statistical average, indicating an overall trend in pricing levels. Individual projects may experience tender pricing above/below the published average rate, reflecting the project specific components and conditions.



SUPPLY CHAIN

Early engagement with the supply chain



STRATEGIES

Flexible procurement strategies



PROCUREMENT

Provide detailed information for tenders



DATA-DRIVEN DECISIONS

Leverage project data and expert knowledge



RISK RESPONSE

Set up “bespoke” project risk response plans



CONTRACTORS

Utilise strong contractor and trade relationships



CAPACITY

Match your projects to the right contractor and capacity



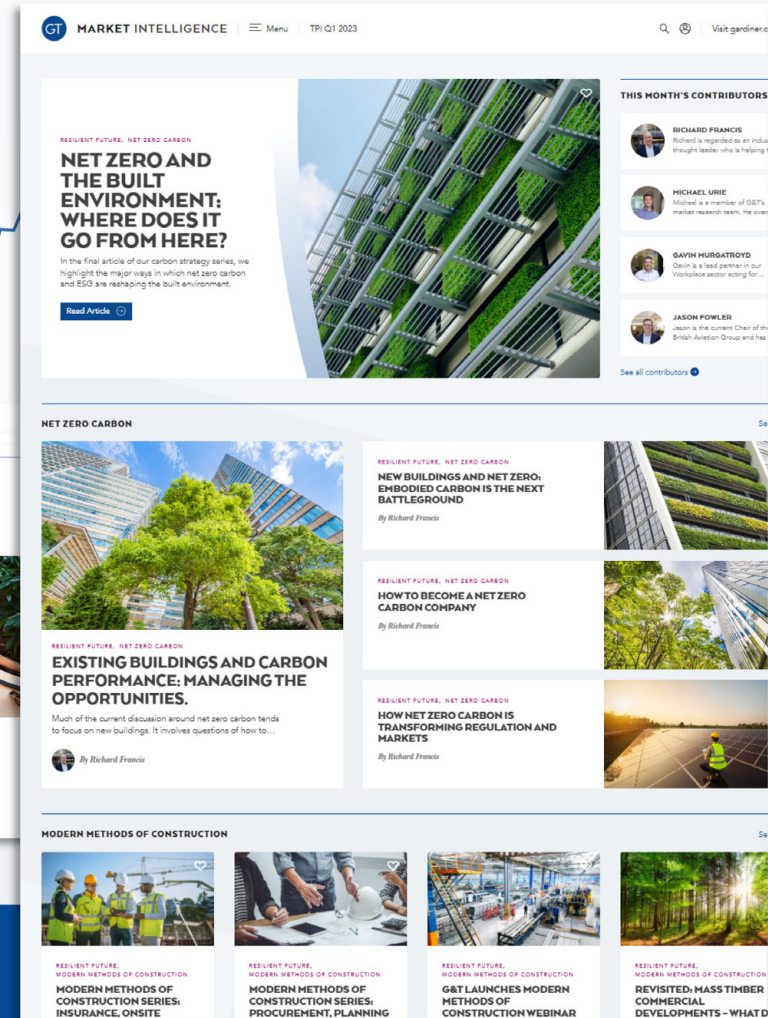
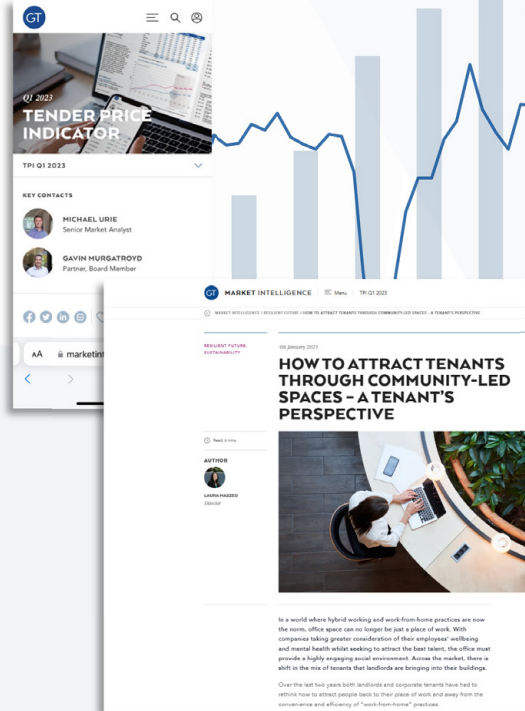
BUYING WINDOWS

Identify buying windows to capitalise on market conditions

Entering 2023 with a strong pipeline of work

Easing input cost inflation to create a window of opportunity for competitive tendering

Greater contractor capacity (Tier 2/3) later in 2023 to encourage more competitive pricing



FIND OUT HOW WE CAN HELP...

<https://marketintel.gardiner.com/>





Find out how we can help

