

MARKET UPDATE

Stabilising Market: Identify Your Advantage

February 2023





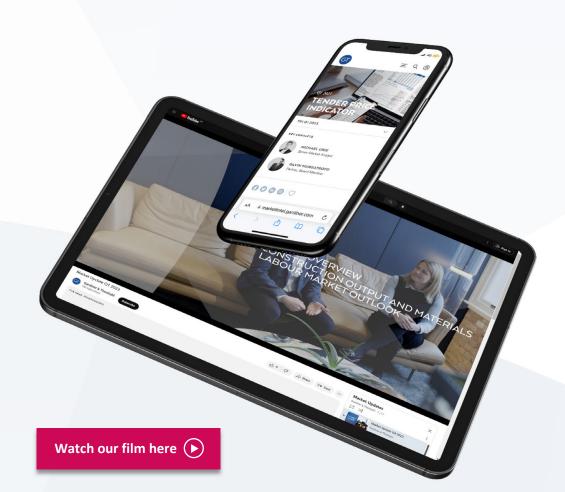
INTRODUCTION

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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





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 fivemonth 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...



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

Softer client demand and fewer project starts



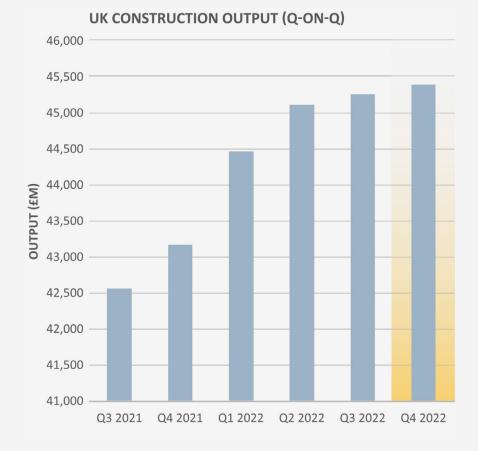
Input cost inflation weakest since December 2020

Business expectations gauge bounces back sharply



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





UK CONSTRUCTION NEW ORDERS (ALL NEW WORK)

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



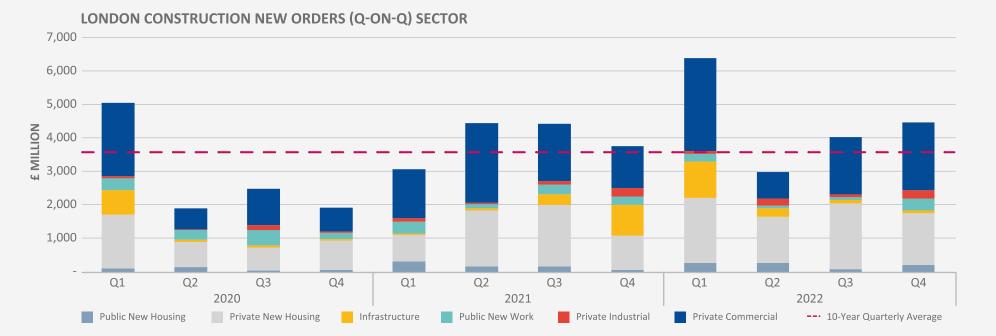
New orders recovered well after initial supply chain shocks of Ukraine war



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



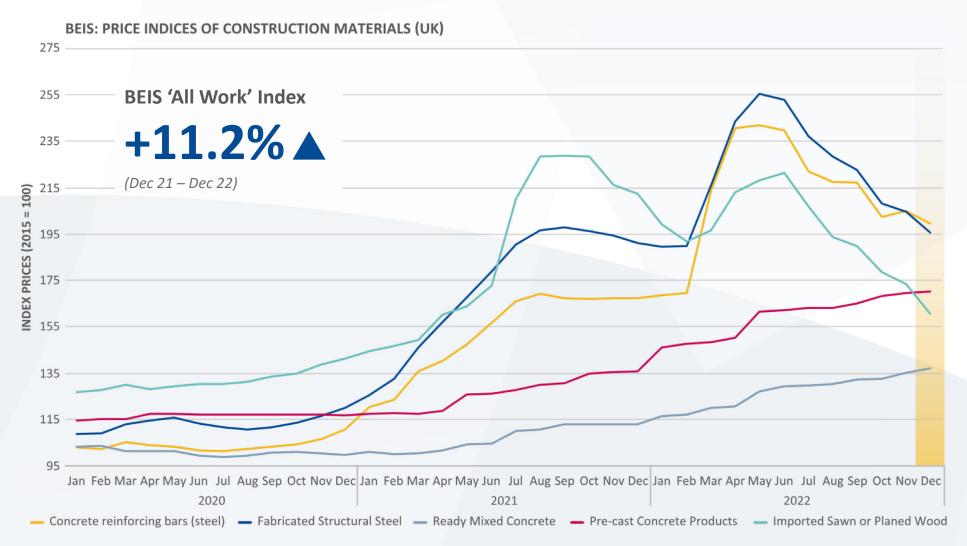
Public new work (+301%), private industrial (+205%) and public new housing (+120%) performed strongly





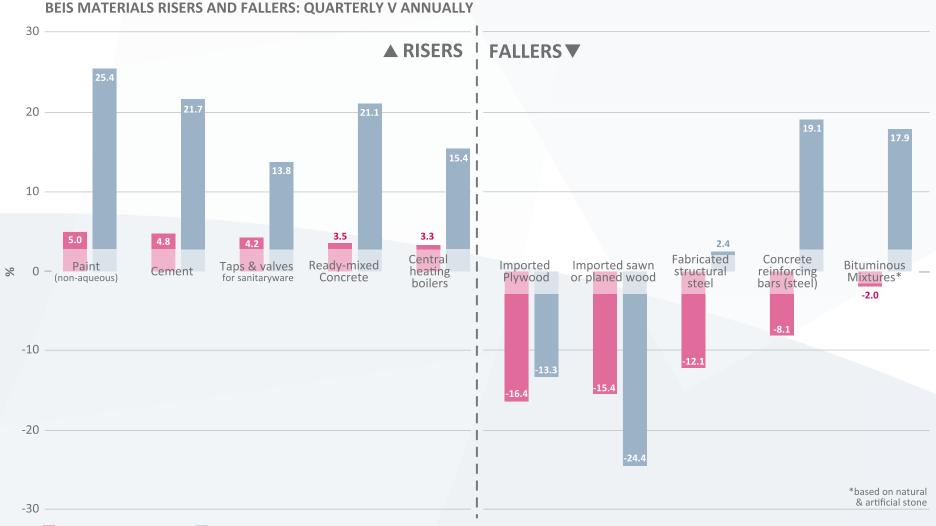
02 / CONSTRUCTION MARKET TRENDS – MATERIALS & LABOUR

Construction material prices stabilising and beginning to fall...





MATERIALS: RISERS & FALLERS



Quarterly (Sep 22 - Dec 22) Annual (Dec 21 - Dec 22)



STEEL PRICE TRENDS

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

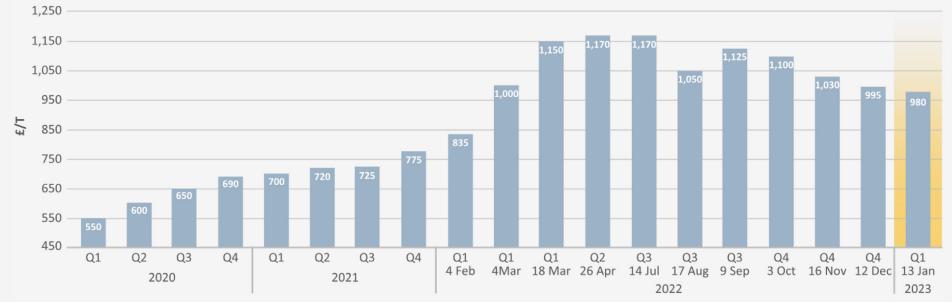
Reopening of **China may help stabilise demand** and pricing UK Rebar Supply Cost*

UK Structural Steel Cost

▼ 16% ▼ 31%

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

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

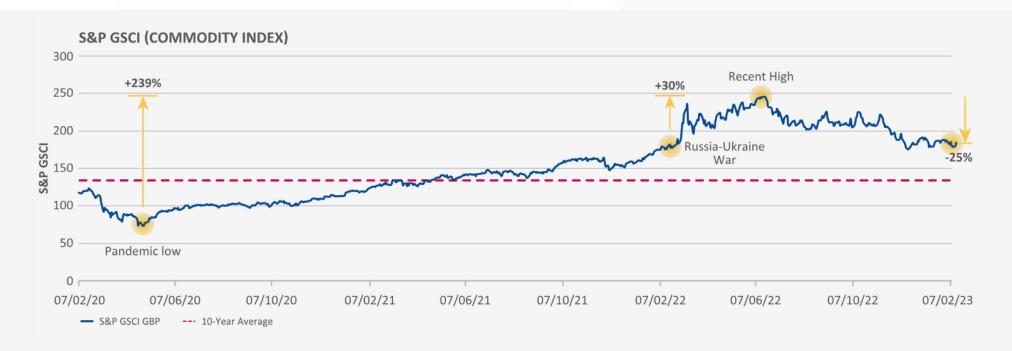




Softer global demand, but supply-side constraints set to support elevated prices Higher interest rates have reduced demand for commodities **Reopening of China to boost demand** for industrial metals



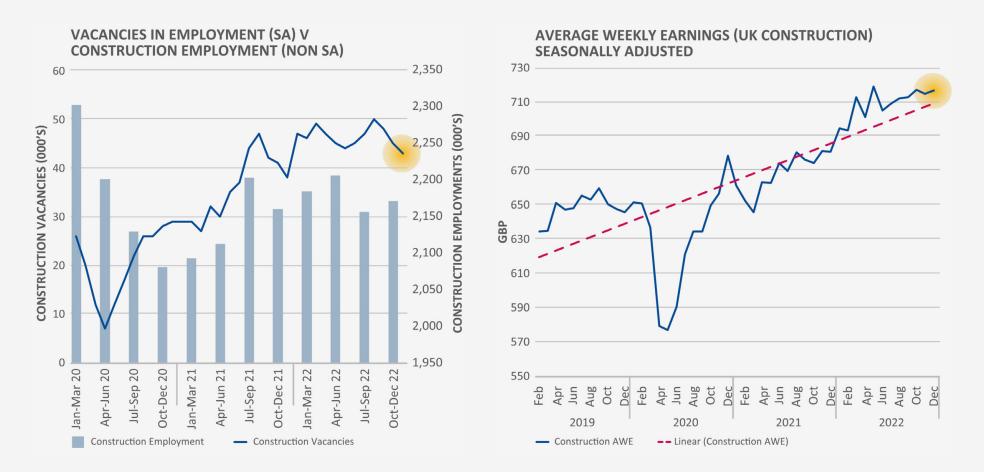
Sanctions and ongoing Russian supply restrictions to impact key markets **Prolonged period of underinvestment in supply** to support prices in the long-term



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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

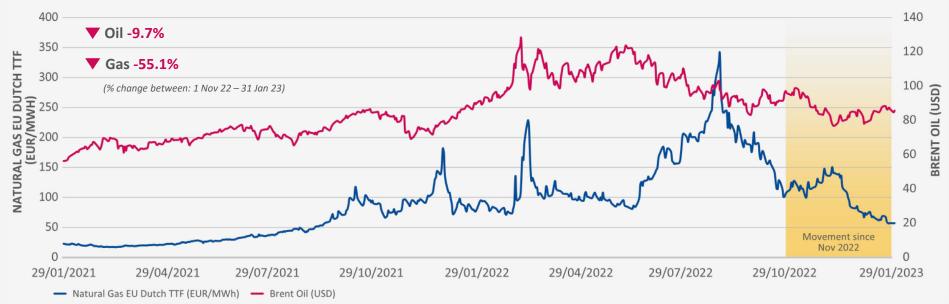
Why have wholesale gas prices <u>fallen</u> recently?

Subdued gas demand due to mild weather

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

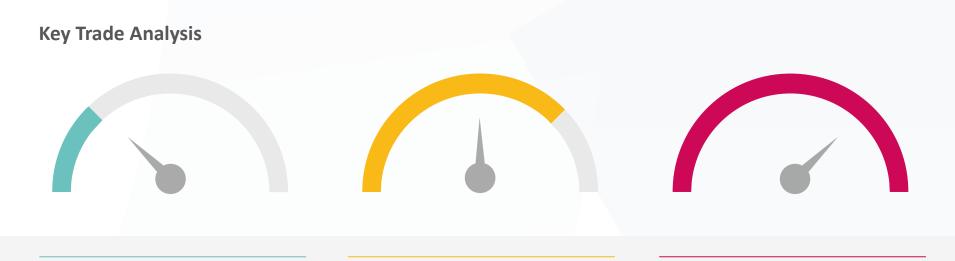
Strong LNG imports

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





KEY TRADE ANALYSIS – OVERVIEW



Competitive

- Demolition/Enabling Works
- Earthworks
- OH&P

Under pressure

- Substructure
- Frame
- Joinery
- Finishes
- Preliminaries

Higher inflation to come

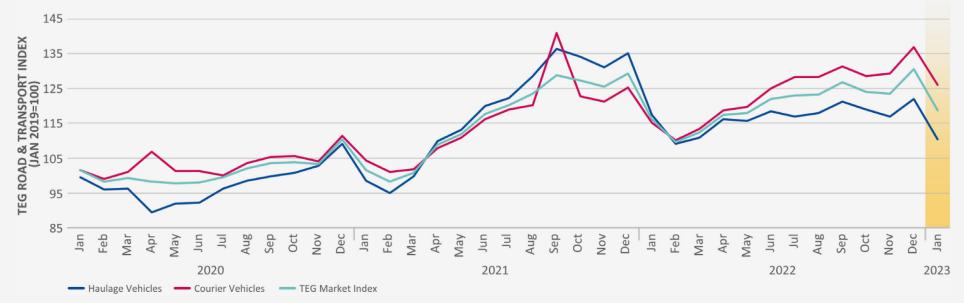
- Façades
- Drylining
- Concrete
- M&E



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 INDEX



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:** <u>Transport Exchange Group</u>



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



Strong reversal of postpandemic 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

TEN IDED DDICE TENDER PRICE ANNUAL PERCENTAGE CHANGE Q12023								HOW DO WE REACH OUR TENDER PRICE FORECAST?				
TENDER PRICE	%	2	2023	2	024		2025		2026	We cone	luct a	detailed industry survey and
FORECAST	Regional forecast				Last*			Now 2.50	Last*	consider	facto	rs including
for 1' Quarter 2023 is	Greater London	2.75	3.00	2.25	2.50	2.50	2.50	2.50	N/A	INPUT	cos	rs
	South East South West	2.75	3.00	3.50	3.50	3.00	2.50	2.50	N/A	▲ 4.8%		BCIS Labour Cost Index Nov 2021 - Nov 2022
2.75%	East	2.75	3.00	2.50	2.50	2.50	2.50	2.50	N/A N/A	▲ 33.2%		BCIS Plant Cost Index
	Midlands Wales	3.00	2.50	2.50	2.50	3.00	2.50	2.50	N/A			Nov 2021 - Nov 2022
Annual UK Average	Yorks & Humber	3.00	4.00	2.50	3.00	2.50	2.50	2.50	N/A	▲ 5.9%	•	BCIS M&E Cost Index Nov 2021 - Nov 2022
compand to 5.5% Annual UK Aug. in Qil 2022	North West North Fast	2.00	2.50	2.00	2.00	2.00	2.00	2.00	N/A	▲ 6.1%	٠	Fabricated Structural Steel Oct 2021 – Oct 2022
	- Scotland	2.50	2.50	2.00	2.00	2.50	2.00	2.00	N/A N/A	▲ 21.1%		Concrete Reinforcing Bars (Steel)
2022 provided the industry with a	Northern Ireland	3.00	3.00	2.50	2.50	2.00	2.00	2.50	N/A			Oct 2021 - Oct 2022
solid pipeline of workload and a good foundation to buffer against an economic	UK Average	2.75	3.00	2.50	2.50	2.50	2.25	2.50	N/A	▼ -19.9%		Imported Sawn or Planed Wood Oct 2021 - Oct 2022
shudown. As we are likely to enter recession, some key sources of construction.	Our jaroard forcasts show are not	tender price inglists	in (lander)				Ľ	Last*	4022	A 18.5%	•	Ready Mixed Concrete Oct 2021 – Oct 2022
cost inflation are set to ease or fall	TENDER PRICE 1	REND 'A	LLUK	TPI'						▼ -3.7%		Oil Prices Brent Crude
back in the coming months. Economic headwinds and anticipated veductions in	200											Jan 2022 - Jan 2023
workloads may act to barth affect come	Base date: O4 2013+100 FORECAST KEY											
prevailing inflationary perssures, as we forecast a reduced sate of inflationary	180							Input to lender price successent of a typical project has a range of contributory impacts from: Figh Cost Driver Ordenam Cost Driver Cost Driver				
increase. With certain sectors and project ypes being more exposed to recessionary	120											
	160									- Cost Driver Ost Driver		
oflationary picture may evolve as we new through the year.	150 Ŭ 140						2.14%		3.33%			
a juan	2 140 130			_	/	1.08				MACRO EC	ONC	MICS ed, figures show percentage change over
EYCONTACTS	130	/		-					2.5%			
A REAL PROPERTY AND A REAL	110				/	2.75%	2.5%	4.5%		▲ 2.4% L	K GD	P Annual Growth Rate 1 - Q3 2022
Concertain and Concer	100			_						▲ 10.7% C	PINo	v 2022
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the present publication wa	of he bound on a grade only, being that it is based on a				_	BOSAN				▲ 3.7% UK	Lines	
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						the second she	raph our labout	market marca	A.	Ave	rrage	e Growth Weekly Earnings (Total Pay) ree-month average to Oct 2022



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





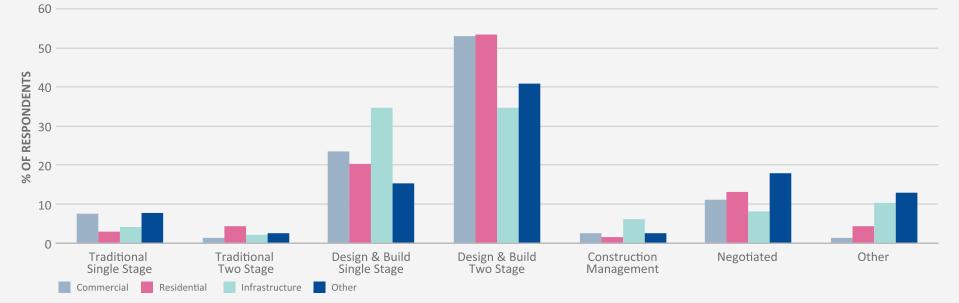
Note: G&T is able to provide detailed supply chain analysis and supplier/contractor insolvency risk scores on your project. Please contact us for further information. **Source:** <u>ONS</u>



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

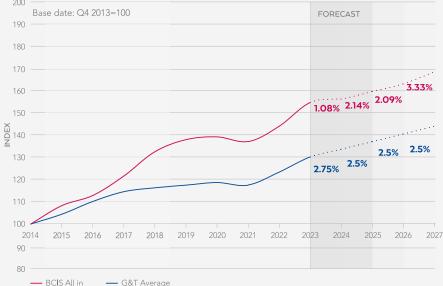
UK Average	
Tender Price	
Forecast	
(2023)	

London **Tender Price** Forecast (2023)...

2.75% 2.75%

TENDER PRICE TREND 'ALL UK TPI'

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TENDER PRICE ANNUAL PERCENTAGE CHANGE Q1 2023

%	2023		20	24	20	25	2026	
Regional forecasts	Now	Last*	Now	Last*	Now	Last*	Now	Last*
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*	4022

- G&T Average

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.

HOW CAN WE HELP MANAGE YOUR CONSTRUCTION RISKS?





SUPPLY CHAIN Early engagement with the supply chain

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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

KEY TAKEAWAYS

Q (2) Visit gardiner.c

THIS MONTH'S CONTRIBUTORS

an all contributors

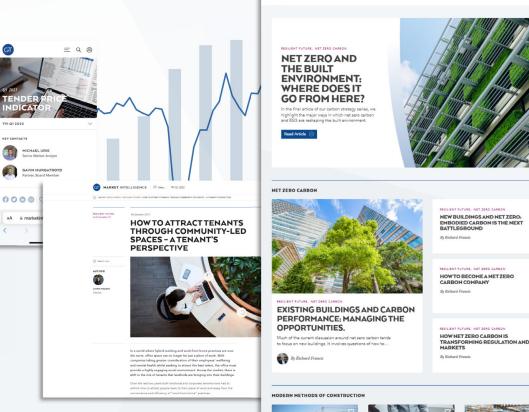
Entering 2023 with a strong pipeline of work

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

TPI Q1 2023

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





MODERN METHODS OF

CONSTRUCTION SERIES:

SURANCE, ONSITE

GT MARKET INTELLIGENCE = Menu TPI Q1 2023



METHODS OF

MODERN METHODS OF

CONSTRUCTION SERIES.

PROCUREMENT, PLANNIN



COMMERCIAL

REVISITED: MASS TIMBER

DEVELOPMENTS - WHAT D

FIND OUT HOW WE CAN HELP...

https://marketintel.gardiner.com/

G&T LAUNCHES MODERN

CONSTRUCTION WEBINAR



Find out how we can help



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.