

MARKET UPDATE

*Construction shows resilience
with sustained workloads*

May 2023

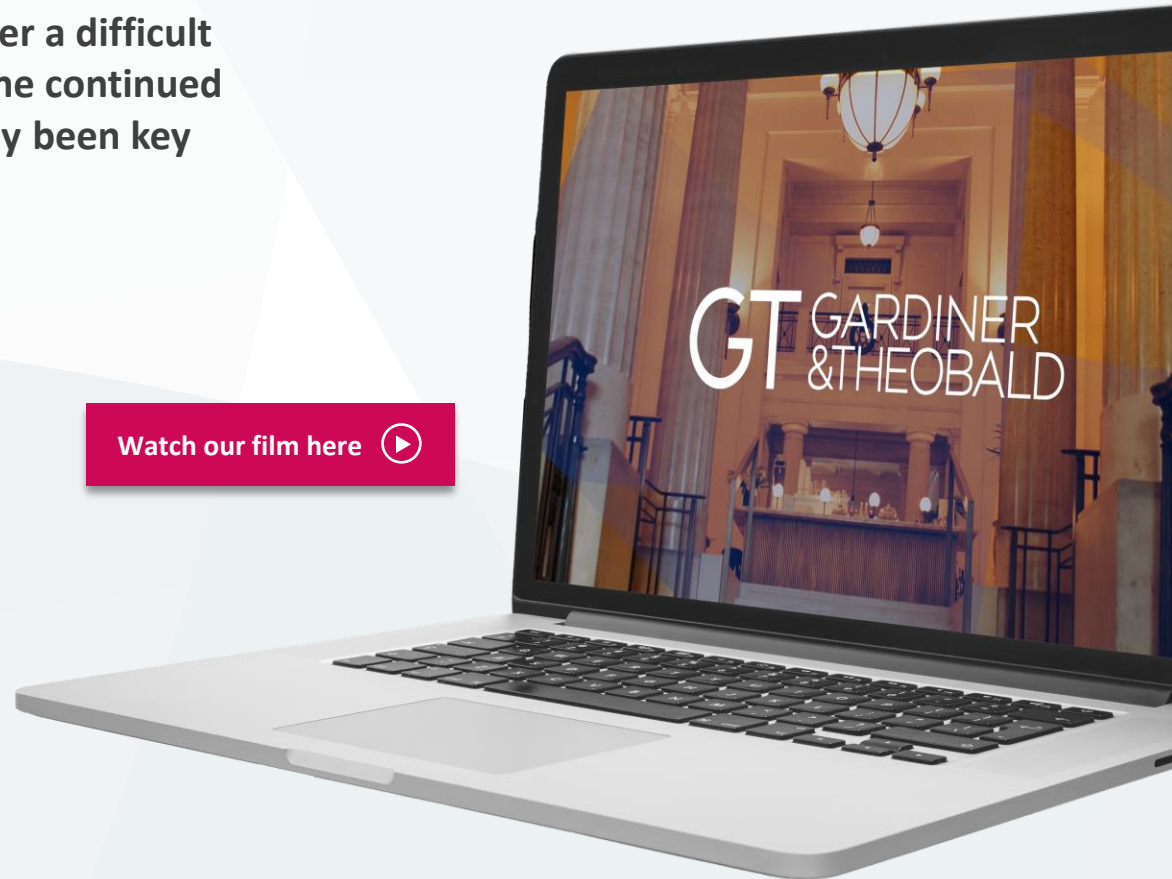


In G&T's latest market update we explore how the UK construction sector is showing resilience after a difficult start to the year. Avoiding a recession and the continued easing of supply pressures have undoubtedly been key drivers in boosting activity.

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 to Avoid Recession

Economic headwinds remain but sentiment has improved

CPI 8.7% (Apr 2023)

Headline inflation remains stubbornly high but is still on course to halve by end of 2023

UK Construction PMI (Apr 2022)

Construction activity continues to see growth

Will sticky inflation complicate rate rises?

The latest inflation data means the rise in rates may not be over just yet

3.9% Unemployment Rate (Jan – Mar 23)

Unemployment rises but UK jobs market remains resilient despite slowing economy



UK Construction PMI edges higher in April, showing sustained growth...



Third consecutive rise in construction activity



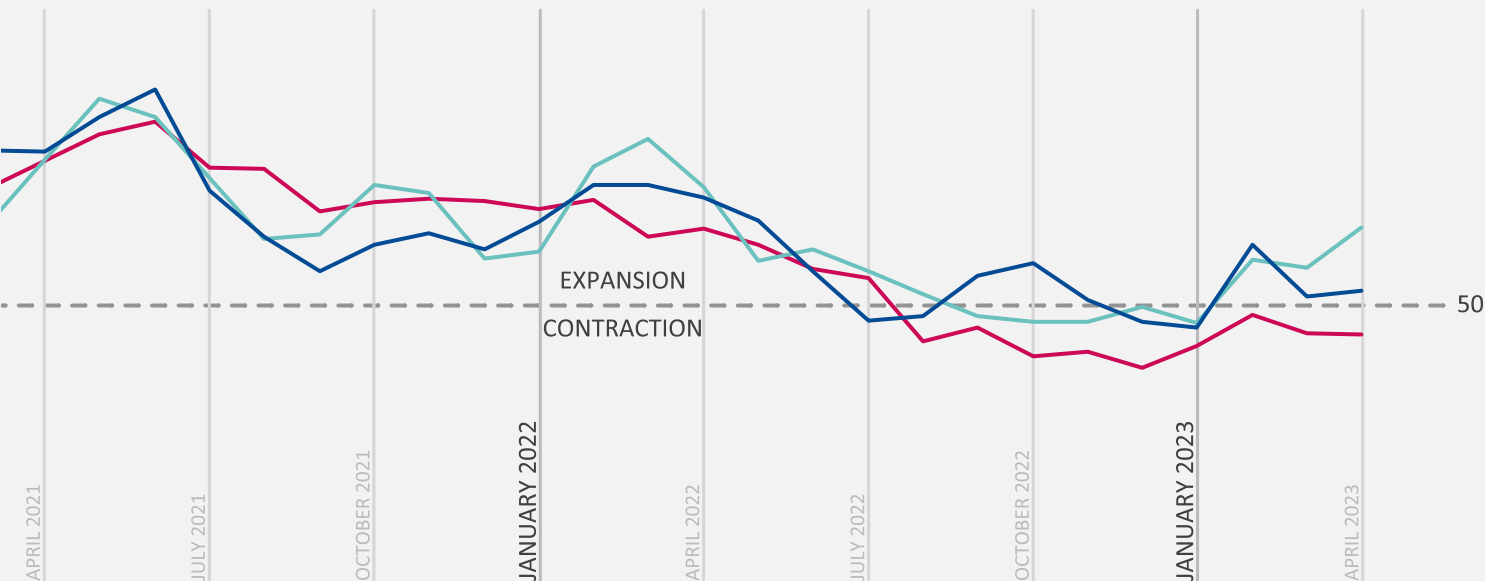
Improved supply conditions reflecting **increase in materials availability**



Average **cost burdens increase** sharply but **rate of input cost inflation eases** to 2.5 year low

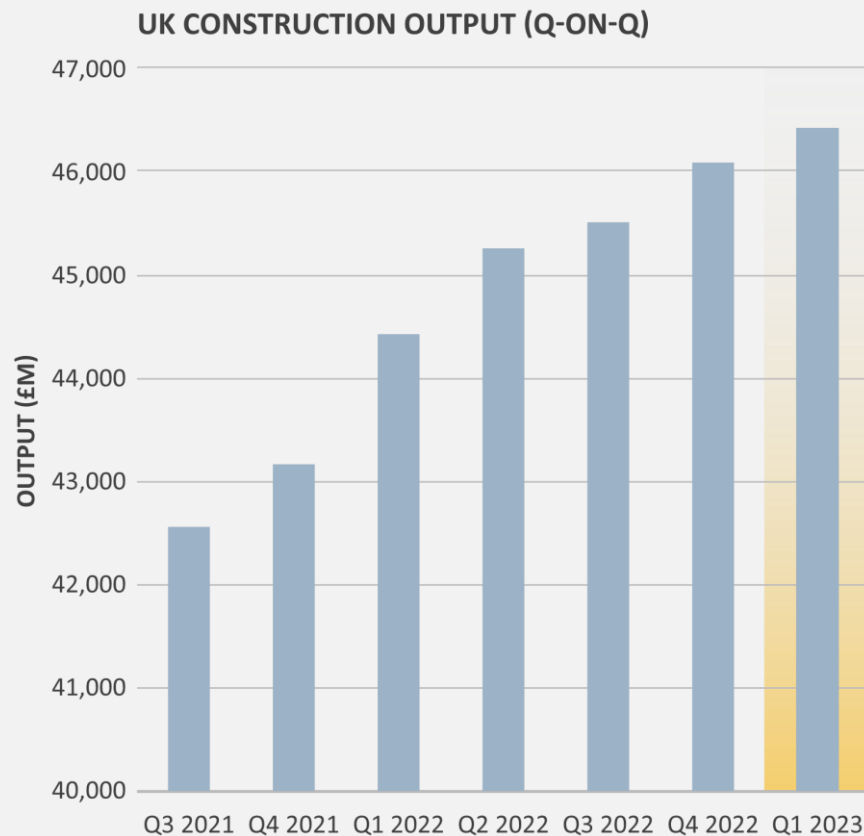


Construction companies anticipate **increase in business activity** during the year ahead

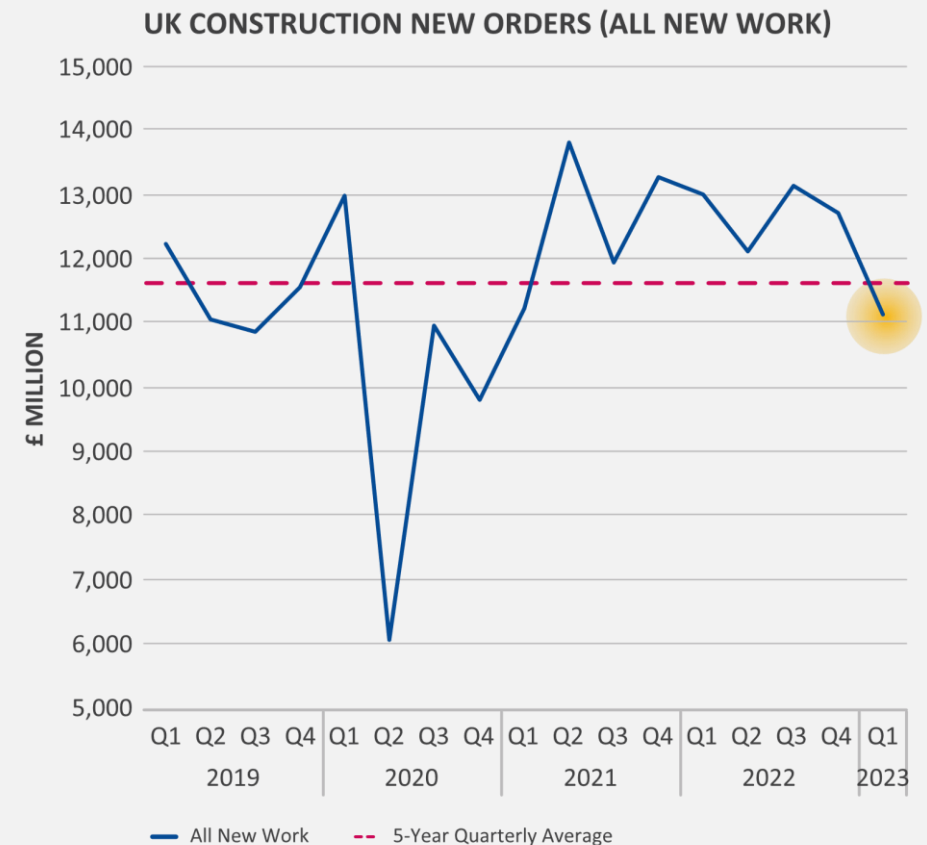


Services **55.9**
Construction **51.1**
Manufacturing **47.8**

UK construction output grew by 0.7% in Q1 2023, hitting a new record quarterly figure of £46,409 million



UK construction new orders fell 12.4% in Q1 2023, dropping below the five-year quarterly average



New orders fell 7% in Q1 to £4.1bn but remained above the 10-year average of £3.6bn



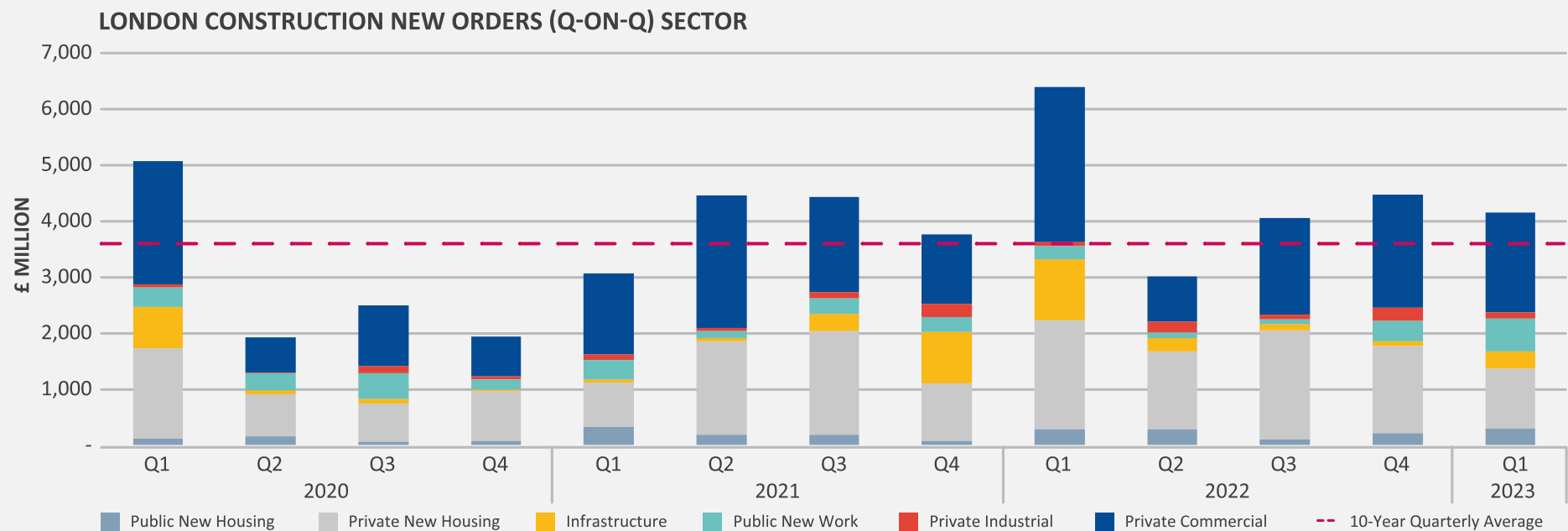
Stabilising cost pressures and materials shortages helped stem the fall in new orders



Strong contractions for private industrial (-54%) and private new housing (-30%)



Infrastructure (+250%) and public new work (+63%) performed strongly



The 6.4% fall in construction output growth forecast for 2023 **may help improve contractor capacity issues...**

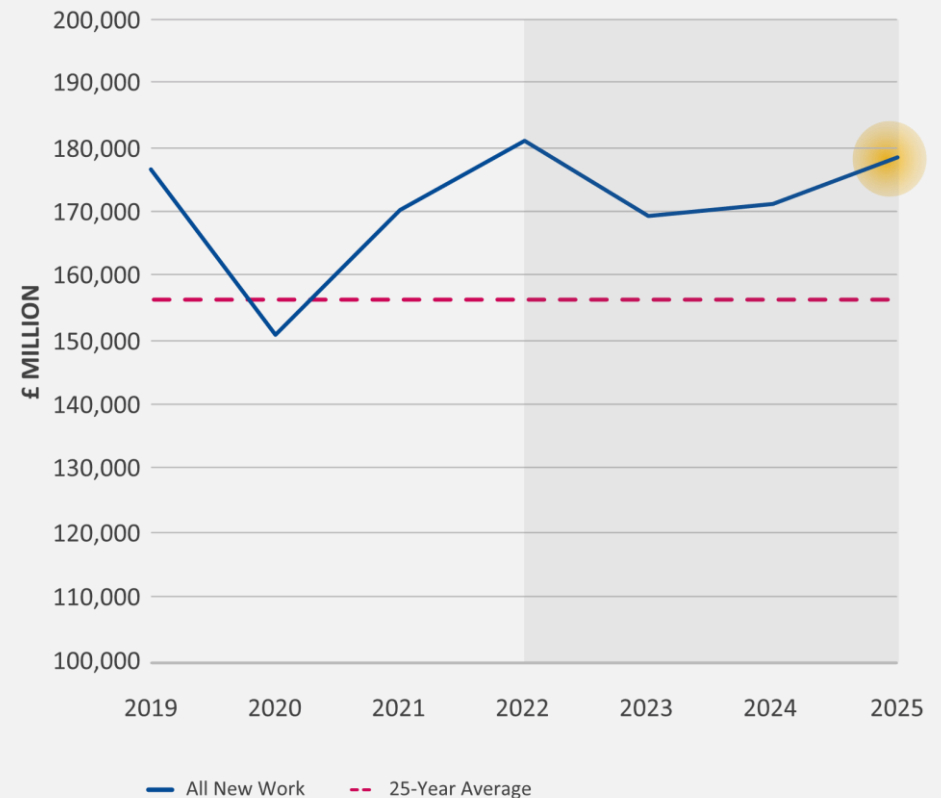
Output volume growth forecasts revised down due to:

- Delays to major infrastructure projects
- Higher **borrowing** costs
- Construction **cost** inflation
- Constrained budgets
- Inflation hitting household spending

CONSTRUCTION OUTPUT FOR 2023 BY SUB-SECTOR:
CPA MAIN FORECAST

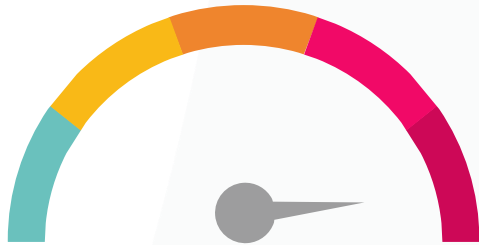


UK CONSTRUCTION OUTPUT AND CPA FORECAST





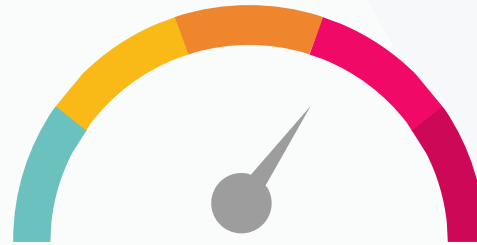
02 / CONSTRUCTION MARKET TRENDS – MATERIALS & LABOUR



LABOUR

Key cost driver

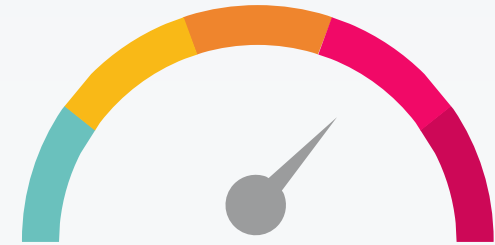
- Pressure on rates due to shrinking labour pool and cost of living crisis
- An ageing workforce, reduced access to migrant labour and higher economic inactivity levels causing a tight labour market



MATERIALS

Higher inflation to come

- Less volatility, but further price hikes still possible
- Some key materials on a downward price trend while others are still rising

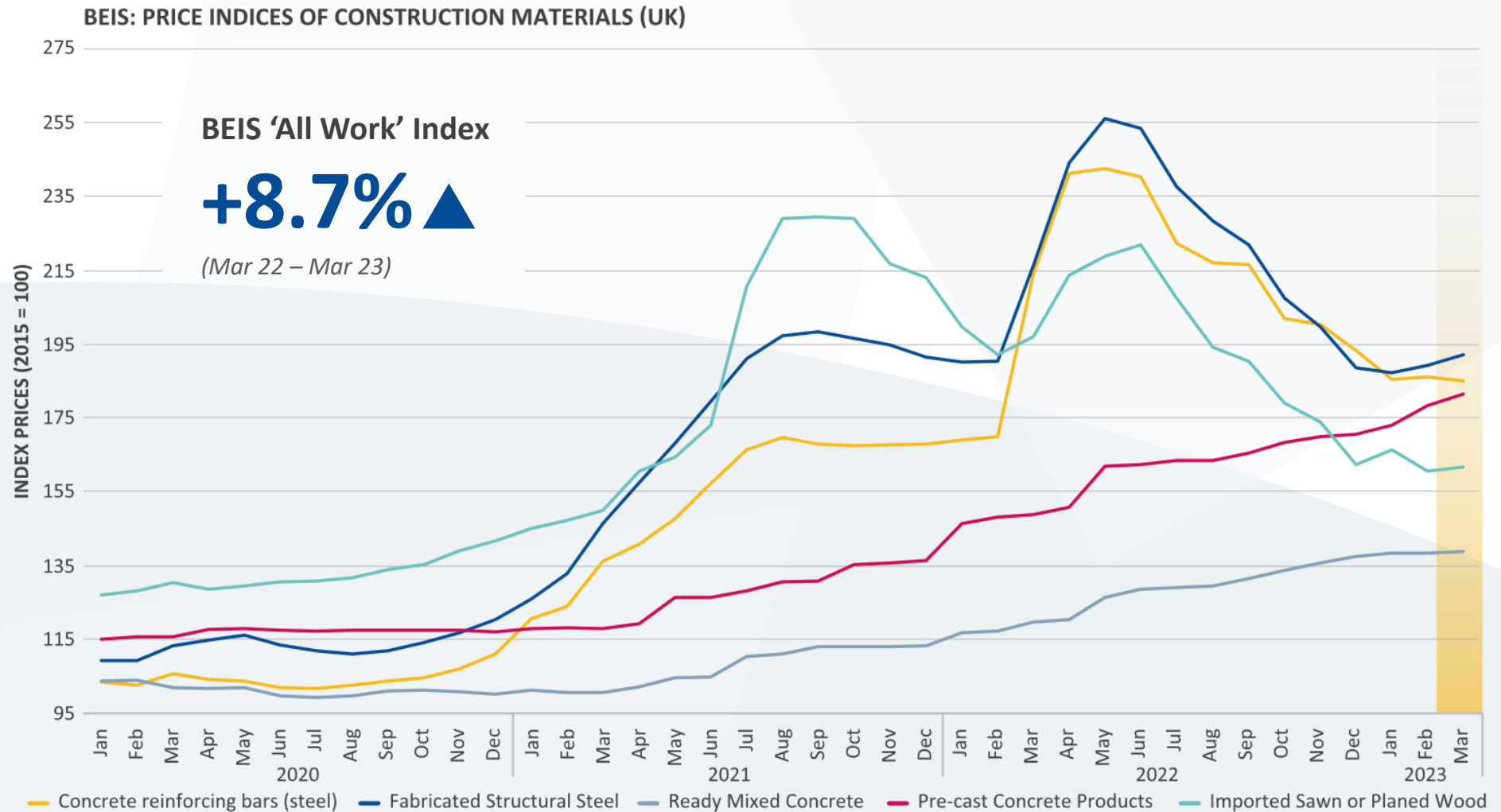


CONTRACTOR CAPACITY

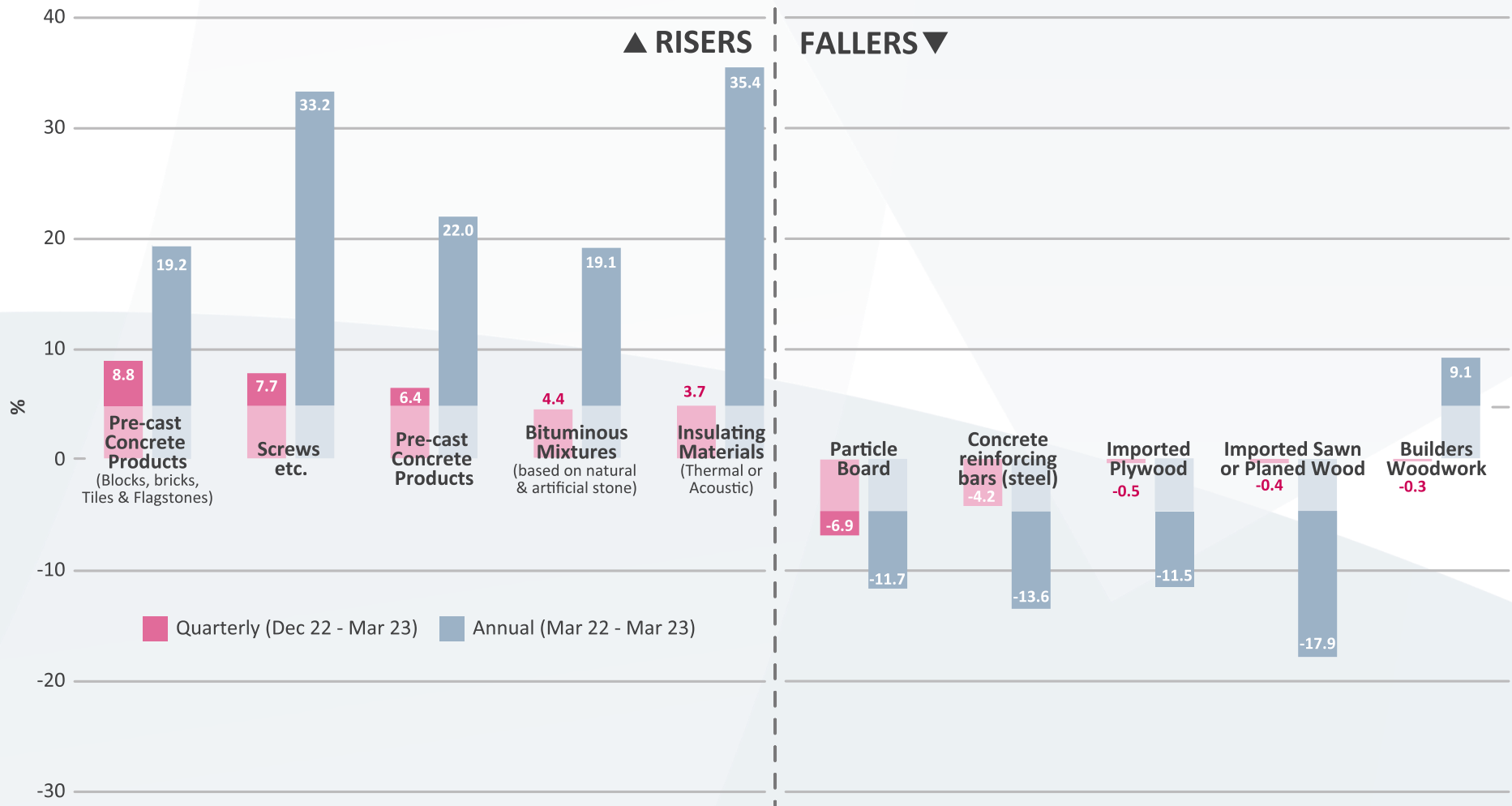
Contractor capacity to improve

- Current lack of overall capacity due to full short-term order books
- Capacity expected to improve in H2 as workloads ease

Upturn in materials availability eases rate of cost inflation for many key materials...



BEIS MATERIALS RISERS AND FALLERS: QUARTERLY V ANNUALLY



Steel prices are falling due to slowing demand and reduced production costs

Reduced demand and **suppliers destocking** drove price falls

Potential upward pressure from **recovering commodities demand** & **restocking activity**

Reopening of **China** may also help stabilise **demand** and pricing

However, **persistent headline inflation** and **high interest rates** to **limit recovery** in 2023

UK Rebar Supply Cost*

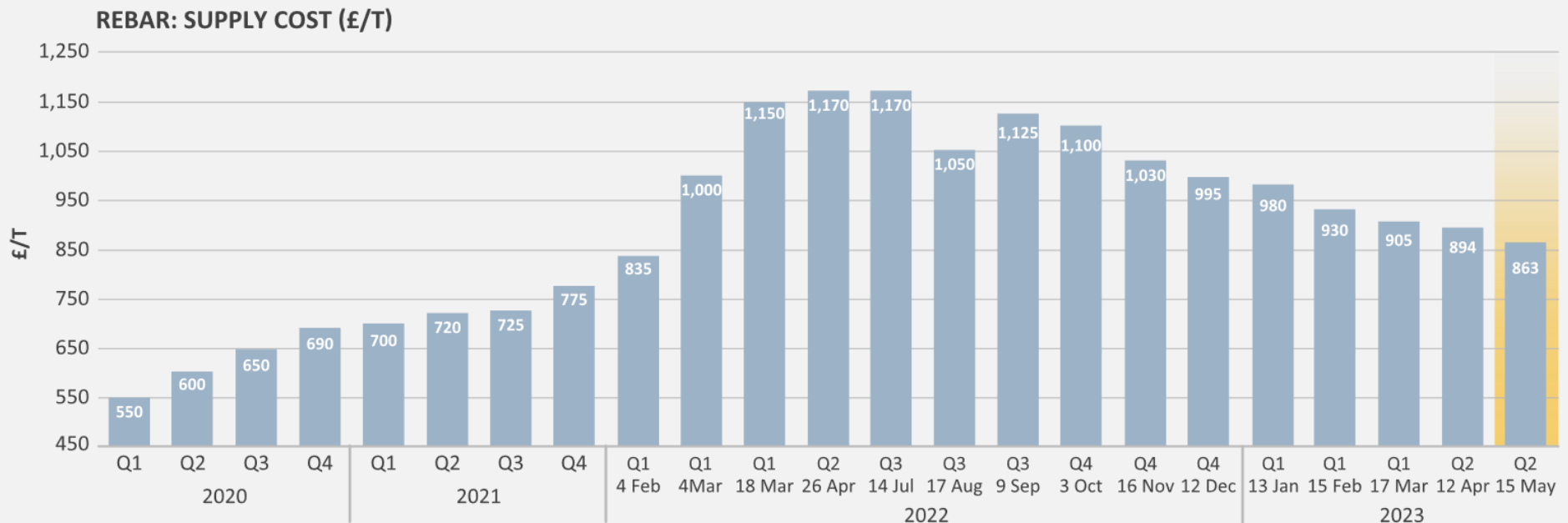
▼ **26%**

To **£863/t** (in May 2023) compared to 2022 high of c.£1,170/t

UK Structural Steel Cost

▼ **35%**

To **£940/t** (in May 2023) compared to 2022 high of c.£1,450/t



*Rebar supply costs up to Q4 2022 were provided by a single supplier for cut & bent rebar. From Q1 2023, data is an avg. across three different suppliers for a tonnage range (1-1,000 tonnes).

The S&P GSCI Commodity Price Index has fallen c.32% since peaking in June 2022...



Decline in commodity prices to **reduce global headline inflation**



High interest rates and **stronger US Dollar** impacting demand



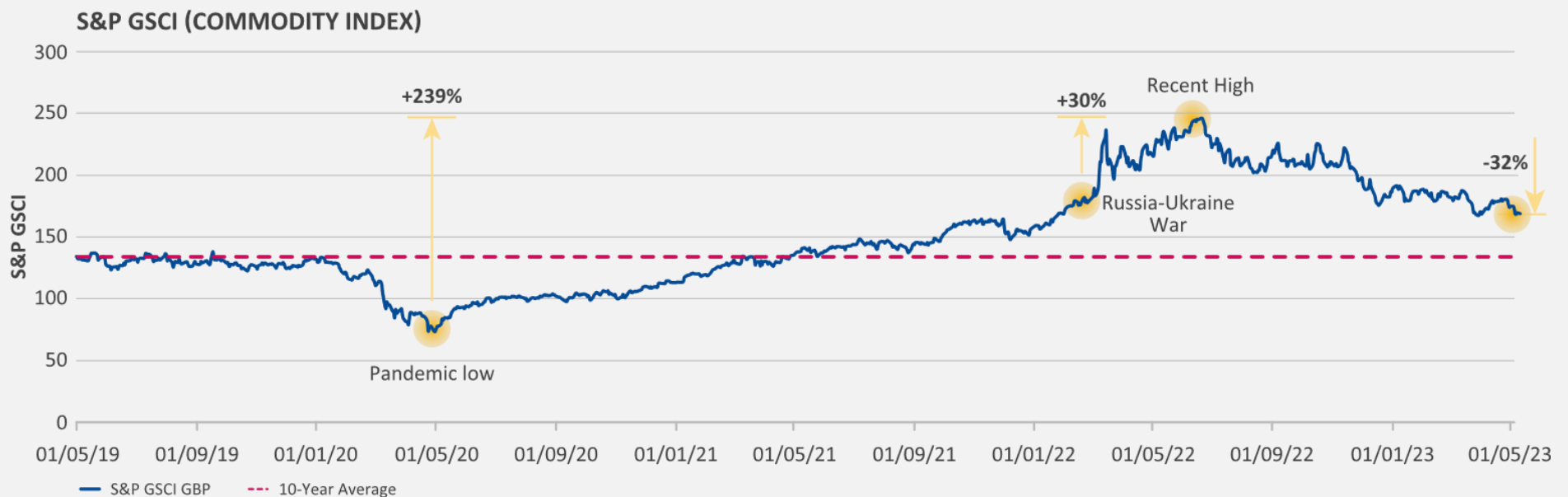
Risk of a **commodity-intensive recovery in China**



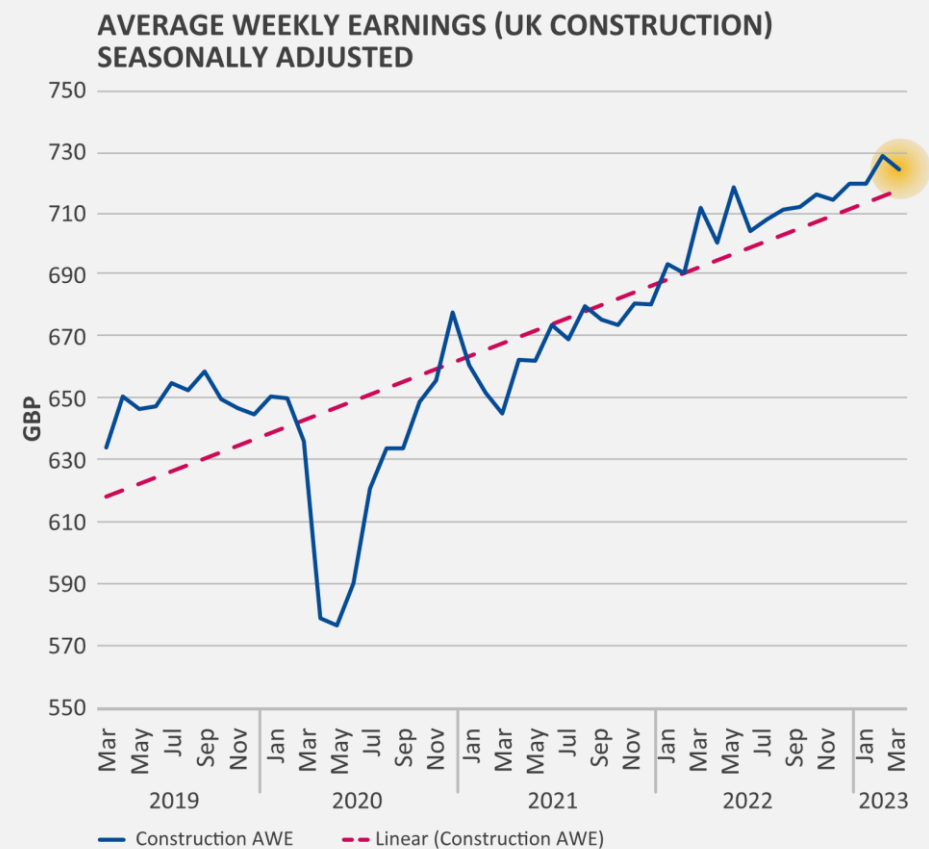
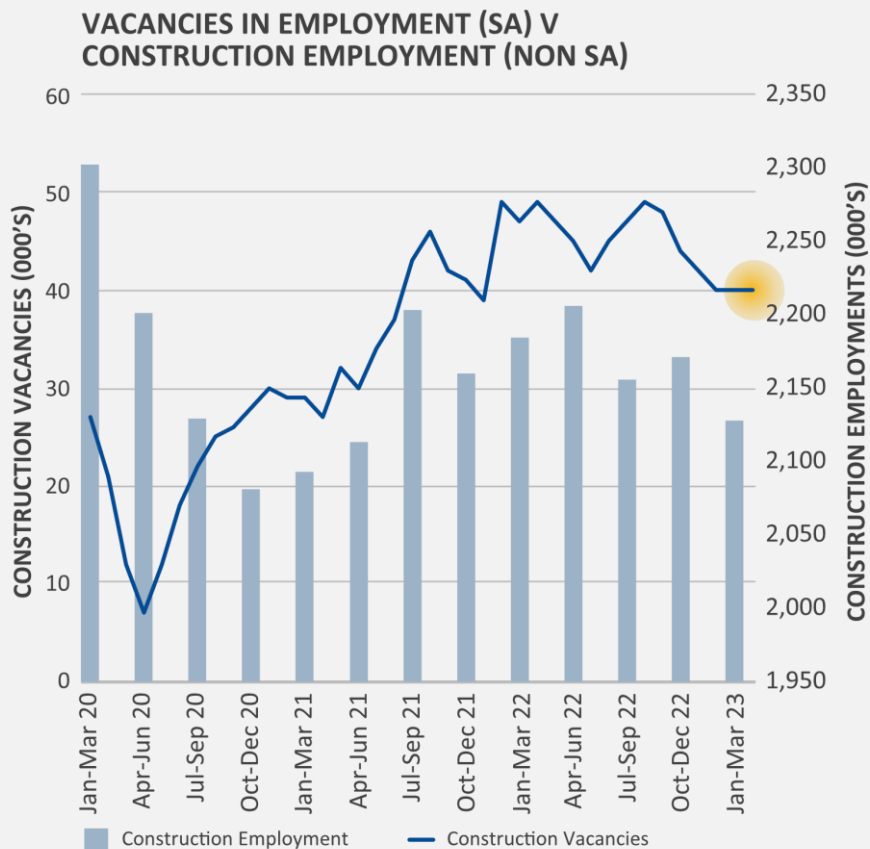
Sanctions/Russian supply restrictions continue to impact markets



Prices to remain elevated given current **supply-demand risks**



Construction vacancies *stable* after falling
Average Weekly Earnings *dipped* in March despite *tight skills supply*



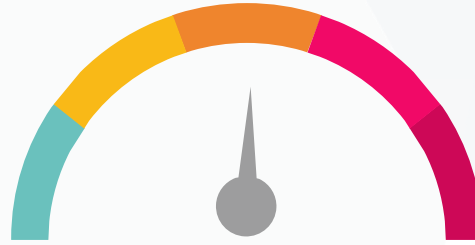
03 / TRENDS IN ENERGY, TRANSPORT AND KEY TRADES



ENERGY

Easing

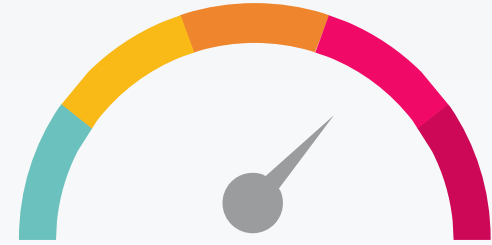
- European wholesale gas prices slide on subdued demand
- Future oil prices a concern due to recent supply cuts



TRANSPORT

Stabilising

- Shipping and haulage costs edge higher, following typical seasonal patterns
- Transport costs still lower on an annual basis, helped by easing fuel prices



TRADES

Certain trades under pressure

- Less inflationary pressure on early works trades than later/finishing trades
- Labour-intensive trades likely to see the greatest inflationary rises in 2023

Recent falls in wholesale energy prices bodes well for construction...

Supply-demand balance pushing energy prices lower

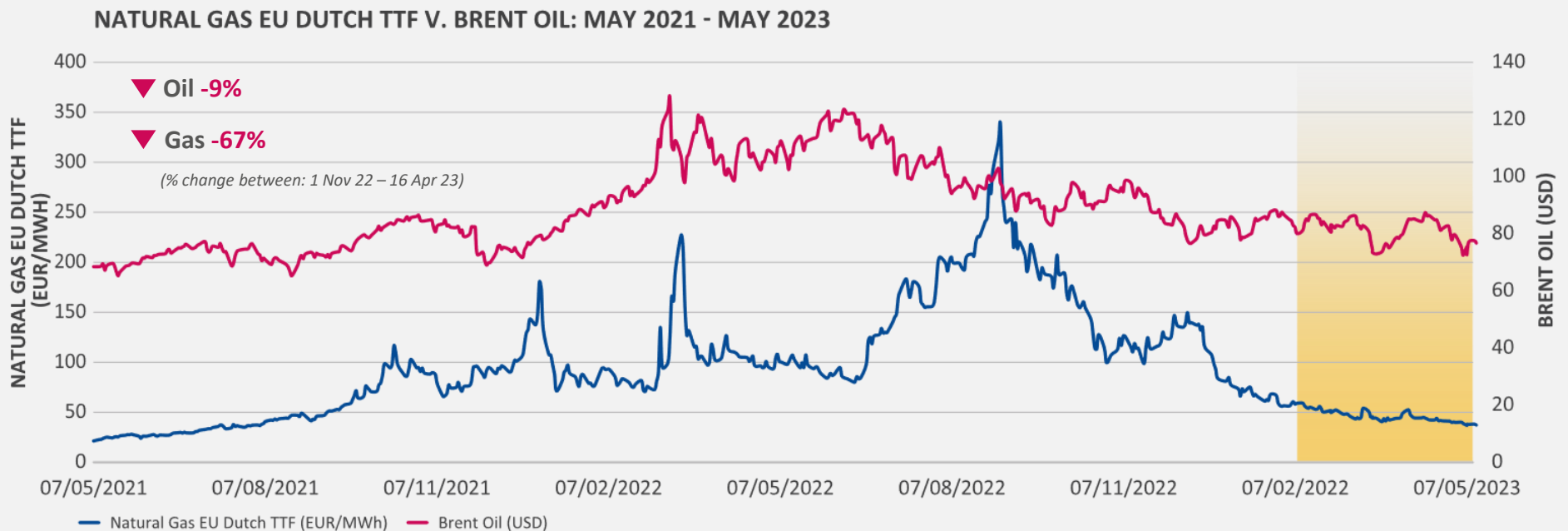
Worst of Europe's gas crisis and peak oil prices over for now

Risks remain for next winter and **energy costs could surge**

Cuts to oil supply may push prices higher in the medium term

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

- Weaker-than-expected demand/consumption
- European LNG storage well above seasonal levels
- Rapid expansion of Europe's LNG infrastructure



TEG Road Transport Price Index shows Haulage prices picking up pace...

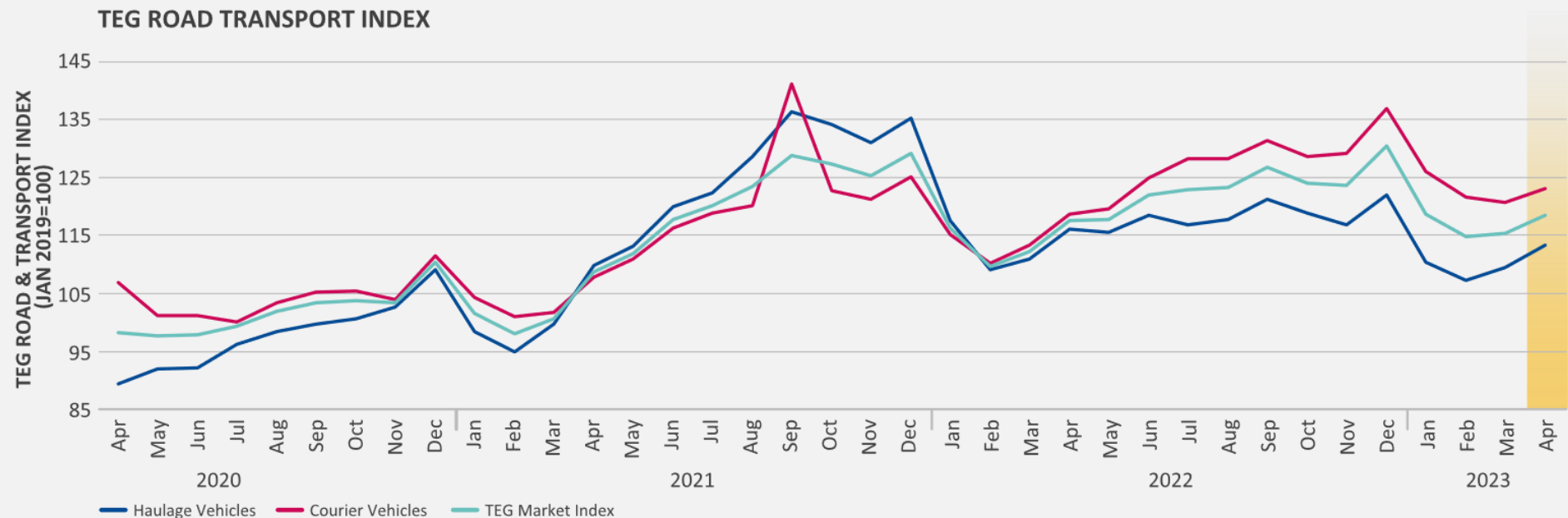
Haulage prices up 3.6% on March

Price per mile hits April record

Transport firms contending with **higher tax, inflation and driver shortages**

Brexit-related **supply chain disruptions**

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](#)

Shipping costs remain below the five-year index average...



Strong reversal of post-pandemic shipping pressures and freight charges



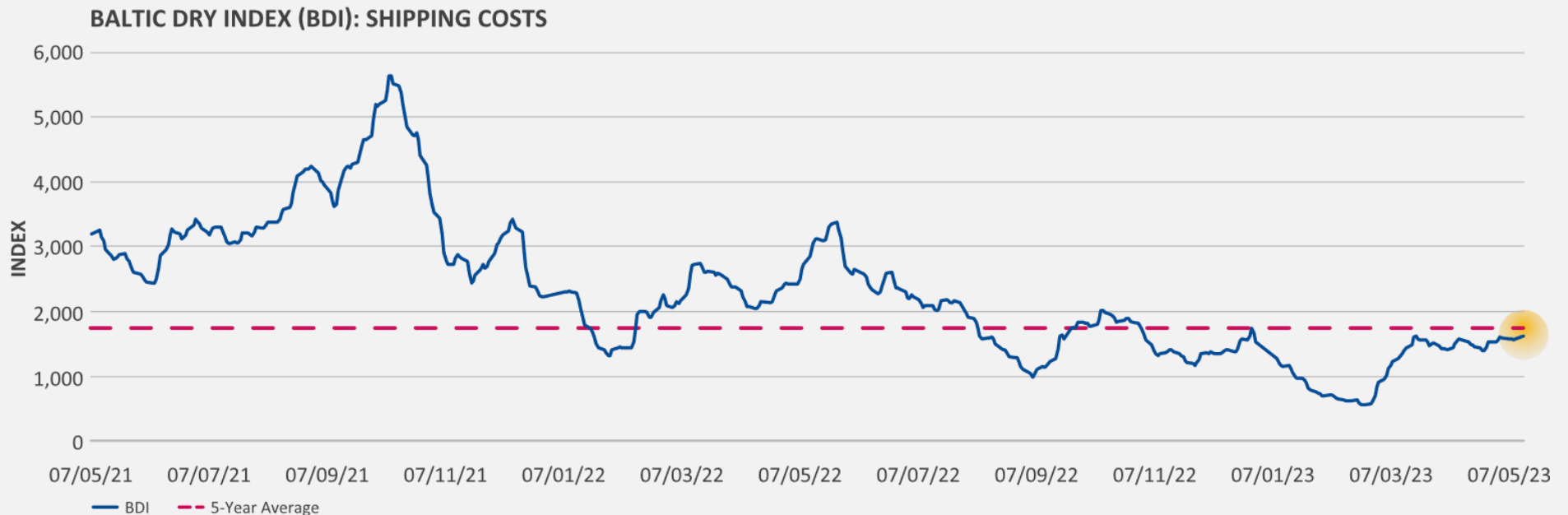
Disruption has abated as supply chain shocks and bottlenecks eased



Greater availability of containers due to tepid demand for goods



Freight costs set to **remain muted** and possibly fall in the short-term

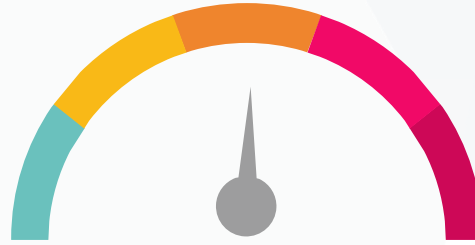


Key Trade Analysis



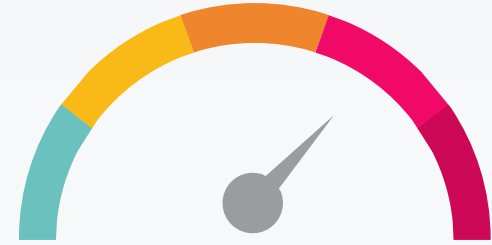
COMPETITIVE

- Demolition/Enabling Works
- Earthworks
- OH&P



UNDER PRESSURE

- Substructure
- Frame
- Joinery
- Finishes
- Preliminaries



HIGHER INFLATION TO COME

- Façades
- Drylining
- Concrete
- M&E



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** due to sustained demand

Contractor **pipelines look stable** and enquiries are still being made

Contractors appear **keener to tender on more projects** due to concerns over longer-term order books

Contractors continue to be **selective with tendering** given the strong levels of pre-contract activity in the market

Early works trades have **greater capacity**

Softer input cost inflation

Rising insolvencies are a growing concern

Higher **borrowing costs** weighing heavily on investment plans

GT GARDINER & THEOBALD

TENDER PRICE FORECAST

for 2nd Quarter 2023 is...

2.75%
Annual UK Average

◀ compared to 2.75% Annual UK Avg. in Q1 2023

Prospects for the UK economy have improved in recent months, albeit the possibility of a slowdown in 2023 still looms. Construction pipelines remain resilient, but the record-high levels of output and demand are unlikely to be sustained as we forecast weaker activity in 2024 with the industry moving from growth to stabilisation. More competitive tendering in the second half of 2023 and evidence of easing input cost inflation could lead to procurement opportunities.

KEY CONTACTS

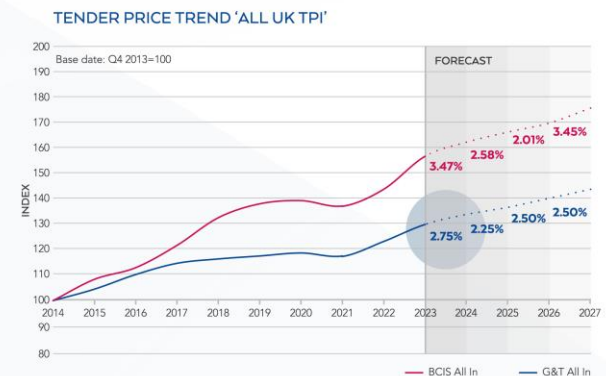
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TENDER PRICE ANNUAL PERCENTAGE CHANGE Q2 2023

%	2023		2024		2025		2026	
Regional forecasts	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Greater London	2.75	2.75	2.00	2.25	2.50	2.50	2.50	2.50
South East	2.75	2.75	2.00	2.25	2.50	2.50	2.50	2.50
South West	3.25	3.75	3.25	3.50	3.00	3.00	2.50	2.50
East	2.75	2.75	2.50	2.50	2.50	2.50	2.50	2.50
Midlands	3.00	3.00	2.50	2.50	2.00	3.00	2.50	2.50
Wales	2.50	2.50	2.50	2.50	2.50	2.00	2.50	2.50
Yorks & Humber	2.50	3.00	2.50	2.50	2.50	2.50	2.50	2.50
North West	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.00
North East	2.50	2.50	2.00	2.50	2.50	2.50	2.00	2.00
Scotland	2.75	2.25	2.50	2.00	2.25	2.00	2.25	2.00
Northern Ireland	3.00	3.00	2.25	2.50	2.00	2.00	2.50	2.50
UK Average	2.75	2.75	2.25	2.50	2.50	2.25	2.50	2.50

Last* 1Q23

Our forecast forecasts show annual tender price inflation (Jan-Dec)



Read our latest report

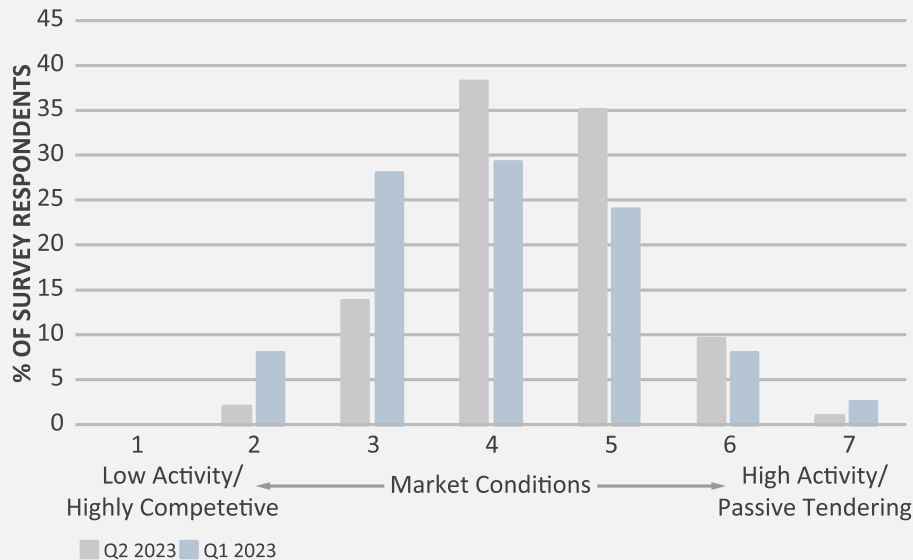
Slight **improvement in market conditions** compared to Q1 as **construction activity rises**

Activity helped by **stabilising domestic economic conditions** and **rebound in business confidence**

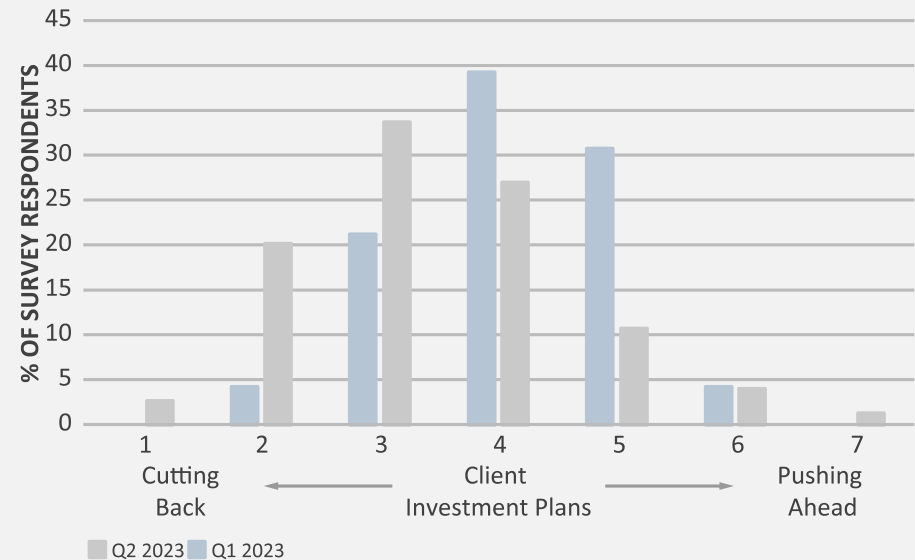
Renewed optimism with **clients pushing ahead** with investment plans

Supply chain improvements and **easing input price pressures** boosting client's willingness to spend

PERCEPTION OF **MARKET CONDITIONS** OVER THE NEXT SIX MONTHS, LONDON



PERCEPTION OF **CLIENT INVESTMENT PLANS** OVER THE NEXT SIX MONTHS, LONDON



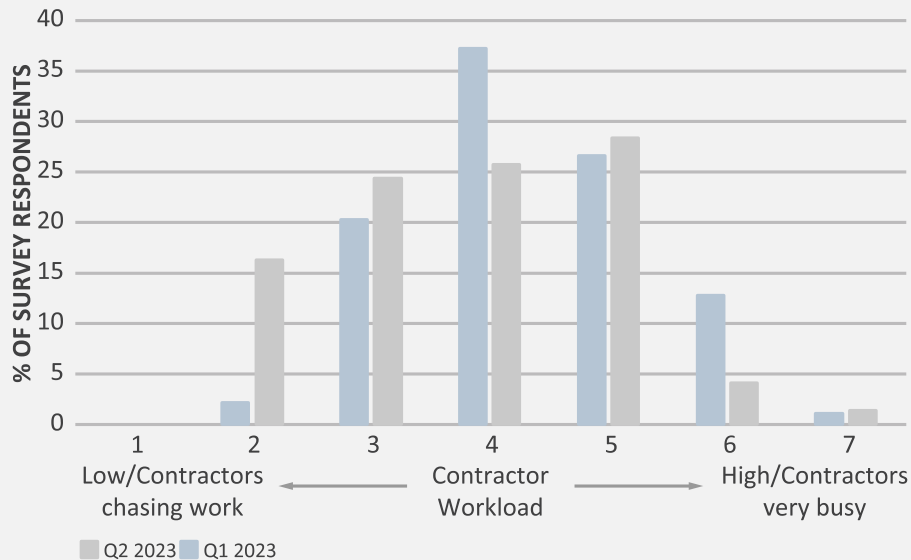
Contractors' **workloads not expected to ease significantly** over next six months

Strong workloads and short-term order books **easing immediate pressure to win new work** by reducing controllable costs

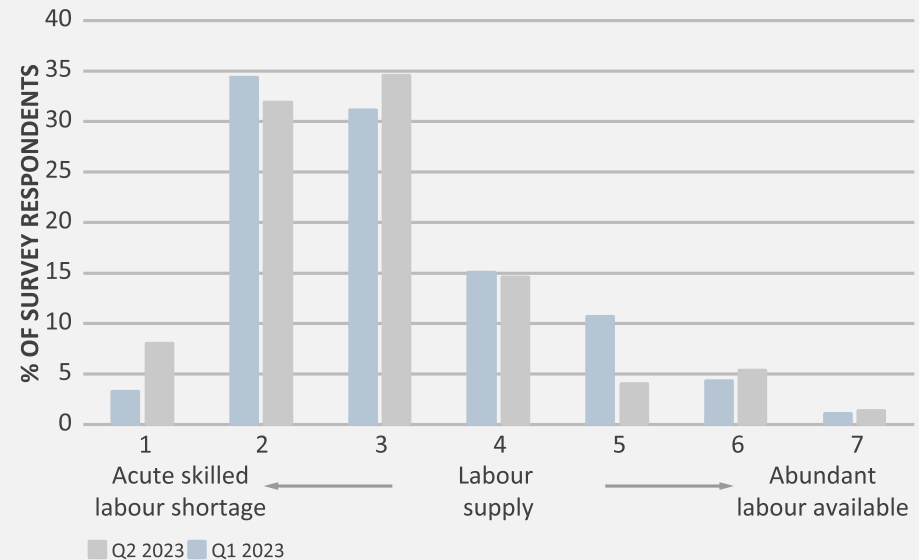
Little improvement expected in supply of construction labour, putting **pressure on rates**

Shortages exacerbated by **strong workloads, supply of labour post-Brexit** and **high economic inactivity rates**

PERCEPTION OF **CONTRACTORS' WORKLOAD** OVER THE NEXT SIX MONTHS, LONDON



PERCEPTION OF **SKILLED LABOUR SUPPLY** OVER THE NEXT SIX MONTHS, LONDON



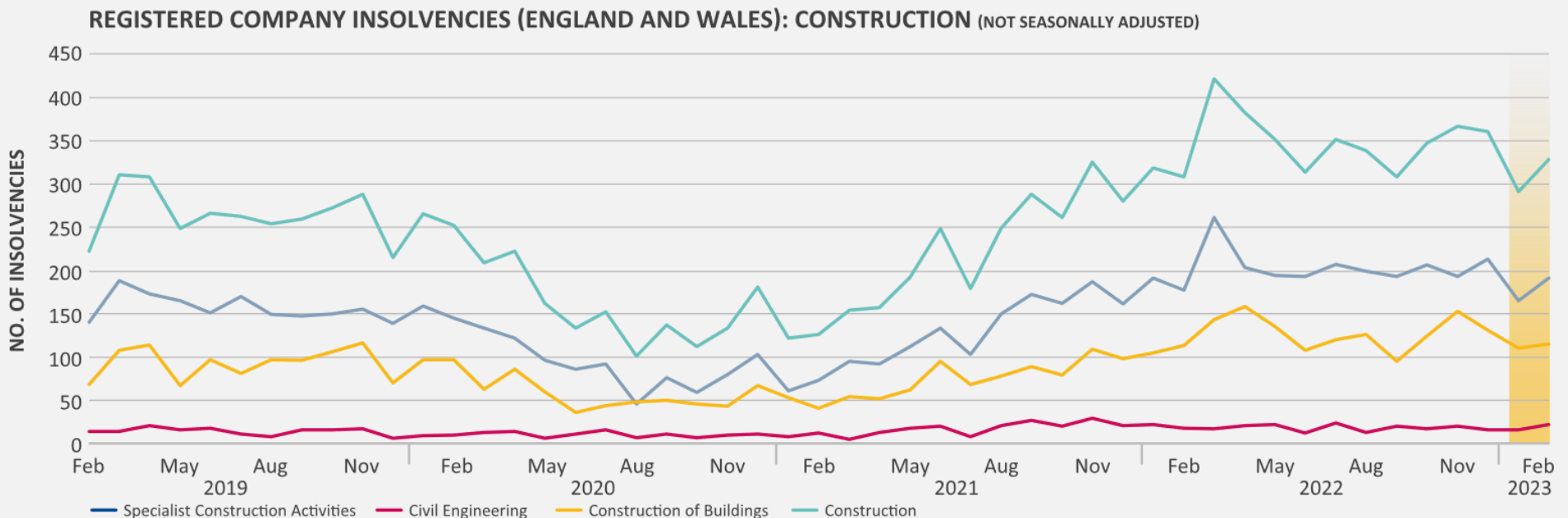
328 construction firms in the UK went out of business in Feb 2023 – 6.5% higher than a year ago

4,464 construction insolvencies in the UK in year to February 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



Increased willingness from contractors to entertain single stage tendering...

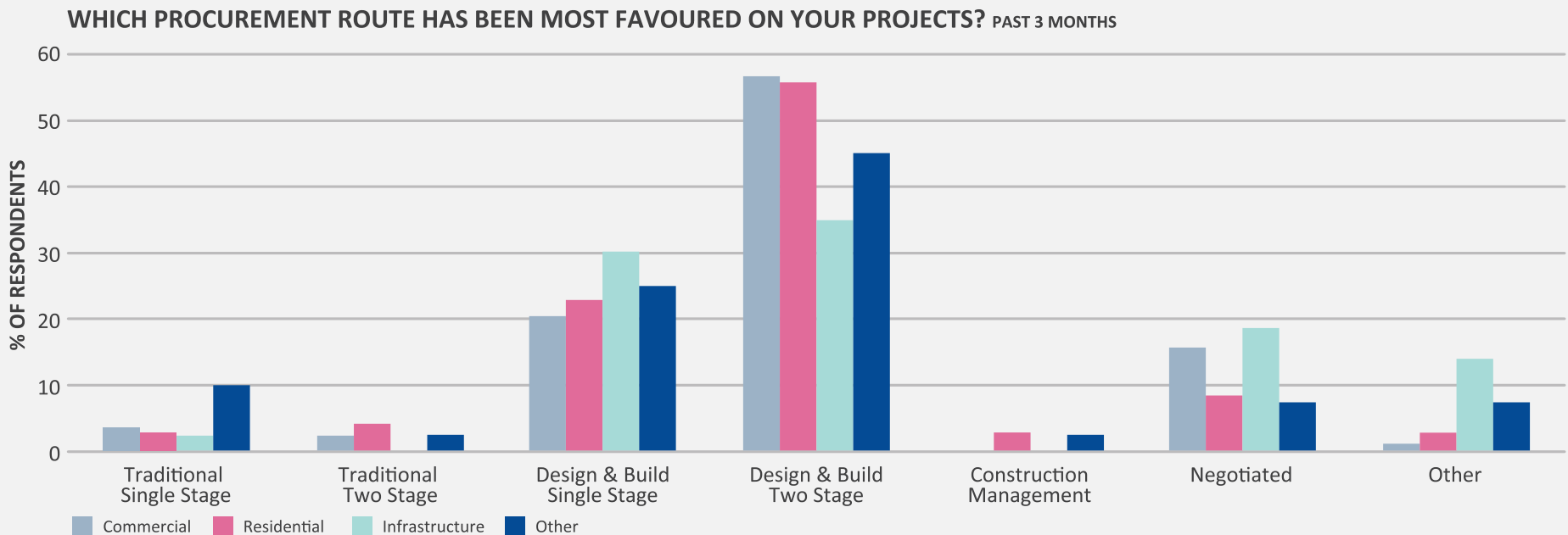
Two Stage tendering still **preferred** given **attitudes towards risk**

Increased willingness to entertain single stage to secure turnover in an uncertain market

Investors/developers biding time to **take advantage of preferential procurement arrangements**

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

Mature clients/suppliers opting for **collaborative approach**, with **early engagement** and **progressive fixity**





05 / KEY TAKEAWAYS

Prospects for the UK economy have improved in recent months, but the possibility of a slowdown in 2023 still looms

Construction pipelines remain resilient, but the record-high levels of output and demand are unlikely to be sustained as we forecast weaker activity in 2024 with the industry moving from growth to stabilisation.

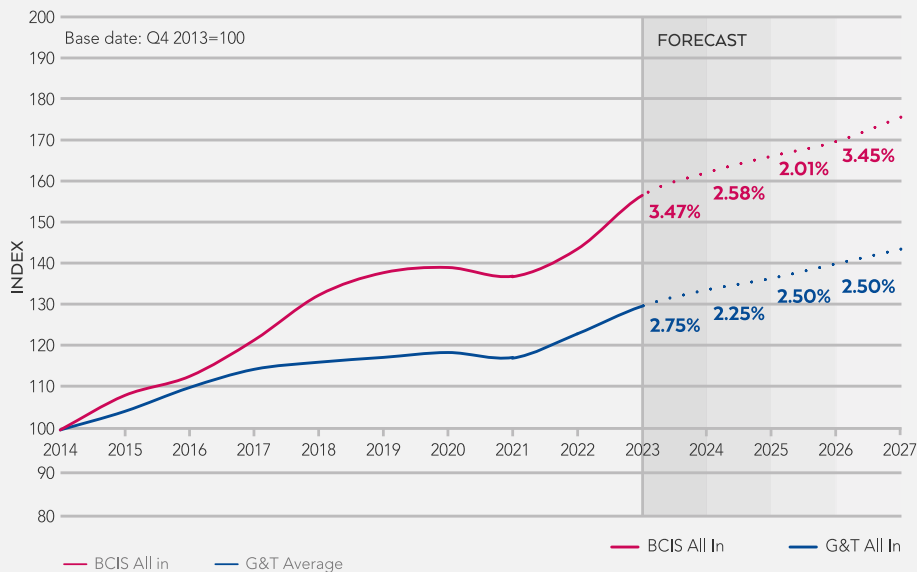
More competitive tendering anticipated in the second half of 2023 and evidence of easing input cost inflation could lead to procurement opportunities.

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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Scotland	2.75	2.25	2.50	2.00	2.25	2.00	2.25	2.00
Northern Ireland	3.00	3.00	2.25	2.50	2.00	2.00	2.50	2.50
UK Average (weighted)	2.75	2.75	2.25	2.50	2.50	2.25	2.50	2.50

Last* 1Q23

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.

Ongoing demand sustains market activity

Stabilising input pricing

Anticipated improvements in contractor capacity towards year end

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