

# MARKET UPDATE

*Encouragement as  
inflation turns a corner*

*August 2023*



In G&T's latest update for 2023, there is some **encouragement as inflation turns a corner** and the economy proves more resilient than first thought at the start of the year.

#### Key topics in this report...

- UK Economic Overview
- UK Construction Overview
- An Update on Trades, Energy and Transport
- Market, Insolvency and Procurement Trends
- Insights from Deloitte's Crane Survey
- TPI & Key Recommendations



Watch our film here 



# 01 / MACRO ECONOMICS & CONSTRUCTION OUTPUT

## Economy proves much more resilient than feared at the start of the year...

### Receding risk of recession but...

A squeeze on economic activity from high inflation means the UK faces the prospect of near-stagnant growth

### CPI 6.8% (July 2023)

Headline inflation falls but core inflation remains stubbornly high

### UK Construction PMI (July 2022)

UK construction activity bounces back to growth, beating market expectations

### Are interest rates peaking?

Bank of England continues with its monetary policy tightening agenda but further rises likely to be a matter of fine tuning

### 4.2% Unemployment Rate (Apr – Jun 23)

Unexpected rise in unemployment but UK jobs market remains relatively resilient



## Sentiment-based UK Construction PMI **beats market expectations** to bounce back following June contraction...



Although indicative of modest growth, July saw **strongest reading in five months**



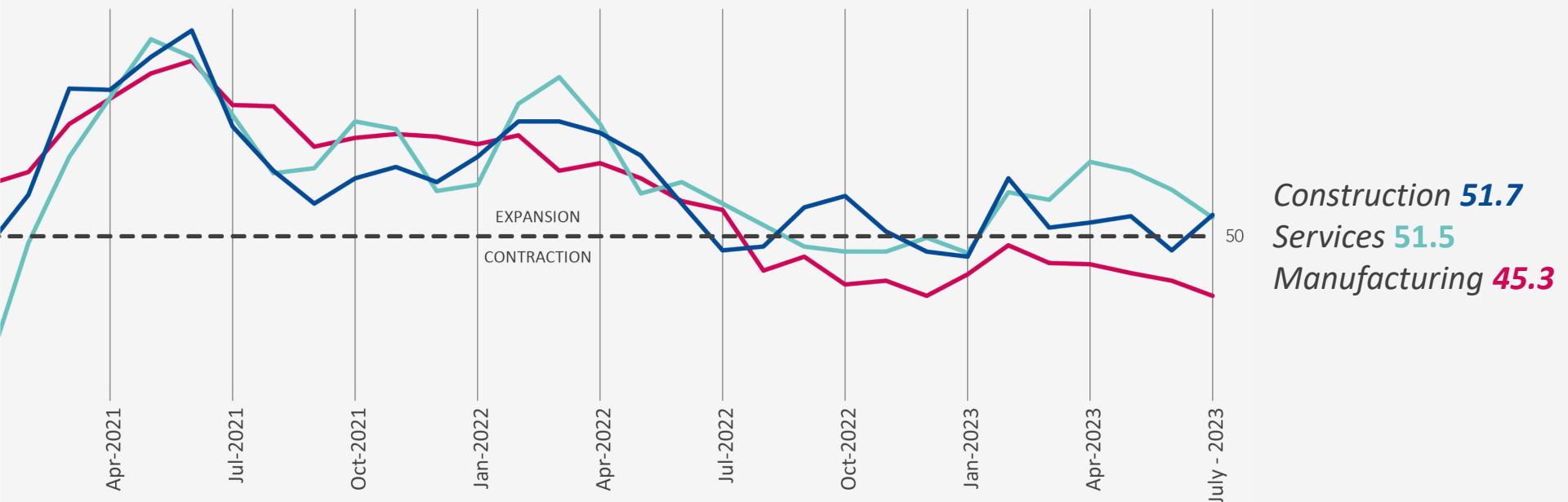
**Robust increases** from commercial and civil engineering activity



**New orders constrained** by rising borrowing costs, but **employment activity was a relative bright spot**



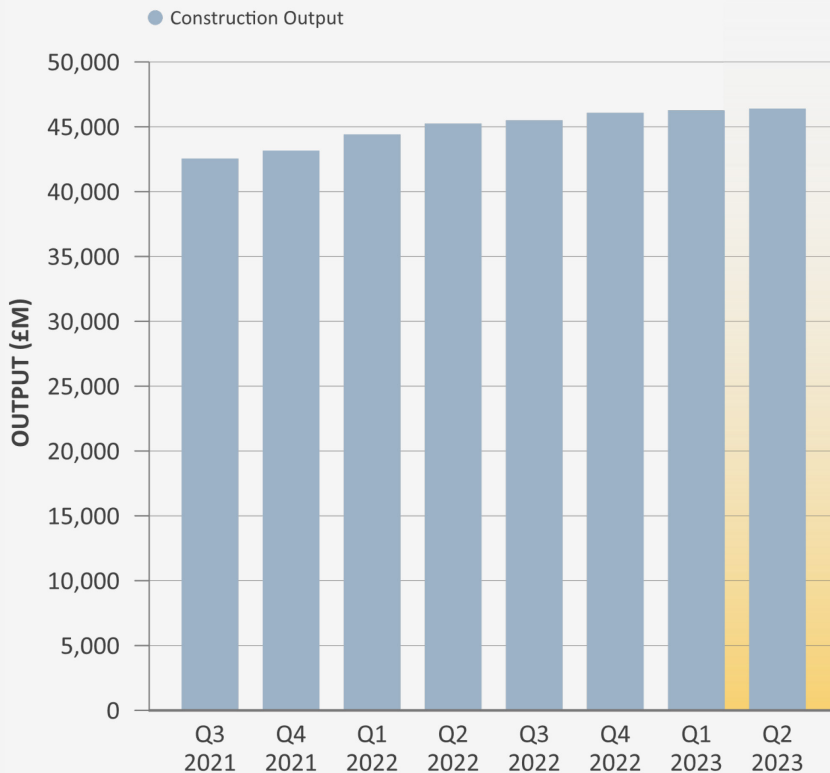
**Input prices rose**, but at a much softer pace



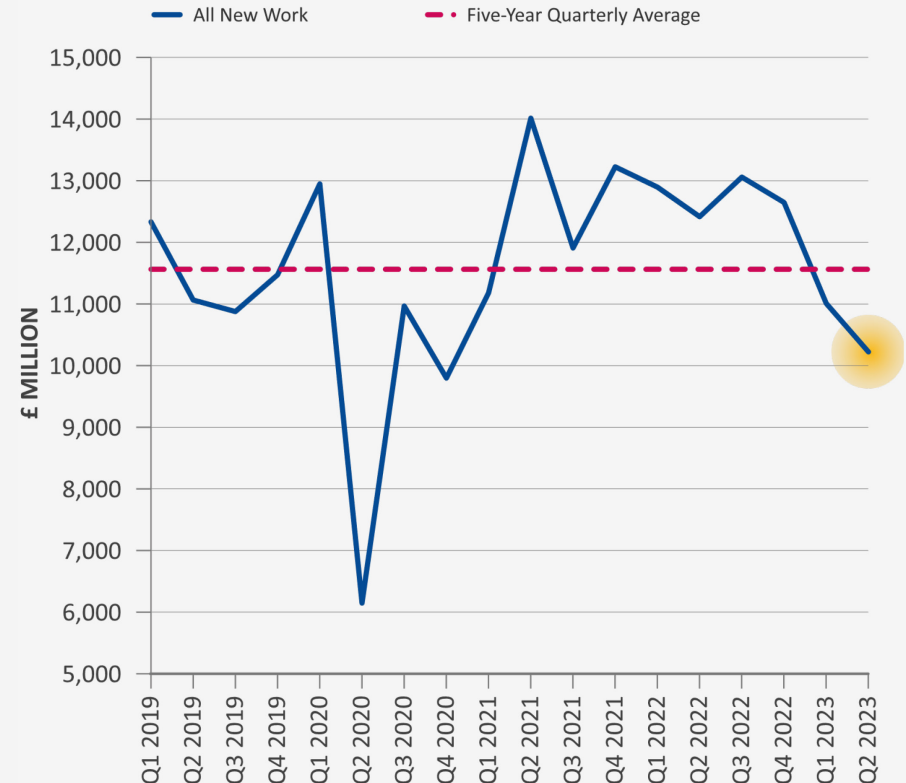
**UK construction output grew by 0.3% in Q2 2023, hitting yet another quarterly record of £46.4 billion**

**UK construction new orders have now fallen for three consecutive quarters, dropping 7% in Q2 2023**

UK CONSTRUCTION OUTPUT (Q-ON-Q)



UK CONSTRUCTION NEW ORDERS (ALL NEW WORK)



## New orders fell 12% in Q2 to £3.6bn, on par with the 10-year average figure



**Tougher borrowing conditions** and **access to credit** preventing some from committing to new projects

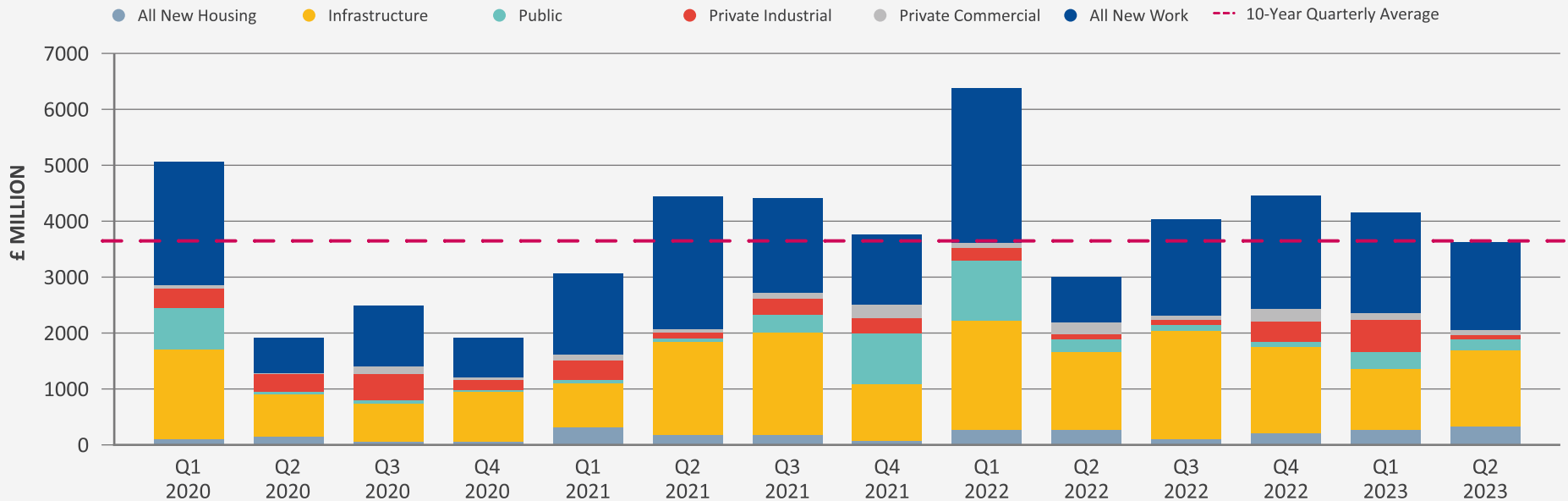


**Commercial new orders** fall but greater emphasis is being placed on **maximising the value of existing assets**



Infrastructure and public new work hit by **viability-related delays** and **cancelled/reduced programme scopes**

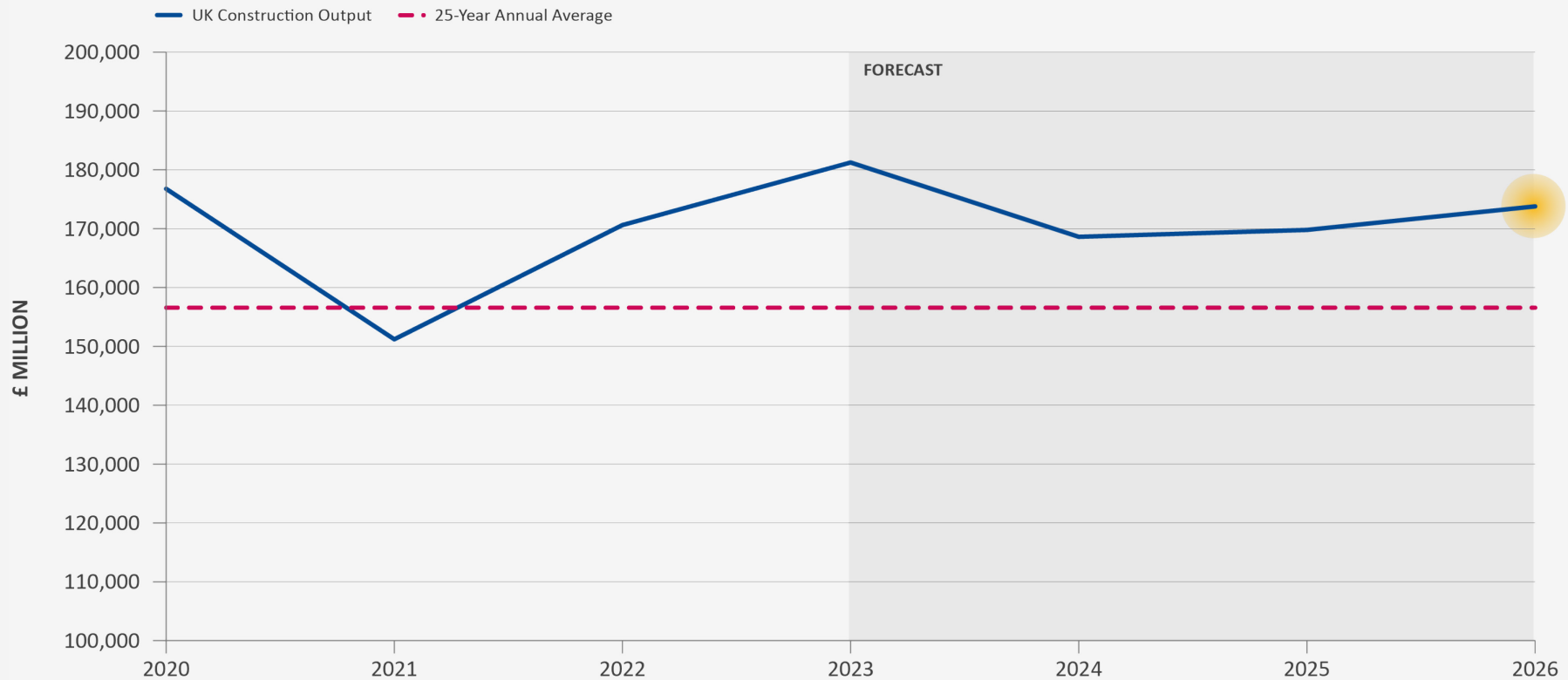
LONDON CONSTRUCTION NEW ORDERS (Q-ON-Q) SECTOR



## Downward revision to total output due to:

- **Persistent inflation** hindering economy
- **Interest rates higher for longer**
- **Bleaker prospects** for housebuilding
- **Higher financing costs**
- **Reduced confidence** to invest
- **Government budgetary constraints**

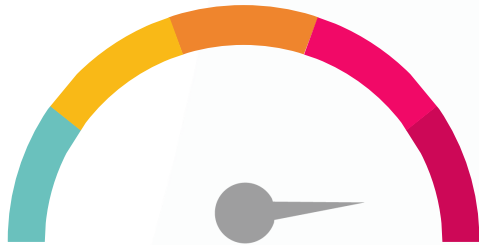
### UK CONSTRUCTION OUTPUT AND CPA FORECAST







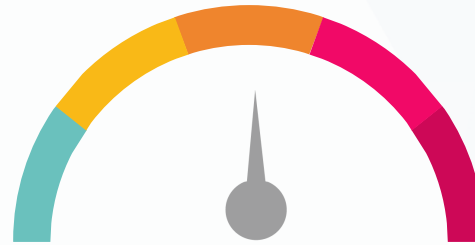
## 02 / CONSTRUCTION MARKET TRENDS – MATERIALS & LABOUR



## LABOUR

### Labour a Key Cost Pressure

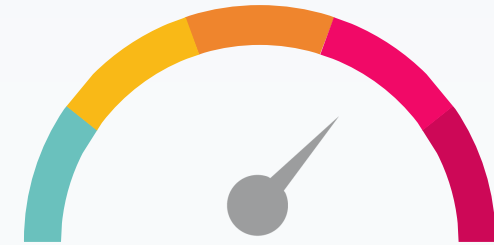
- Pressure on rates due to shrinking labour pool and cost of living crisis
- An ageing workforce, reduced access to migrant labour and higher economic inactivity levels causing a tight labour market



## MATERIALS

### Materials Prices Stabilising

- Less volatility as supply improves and demand softens
- Some key materials on a downward price trend while others are still rising



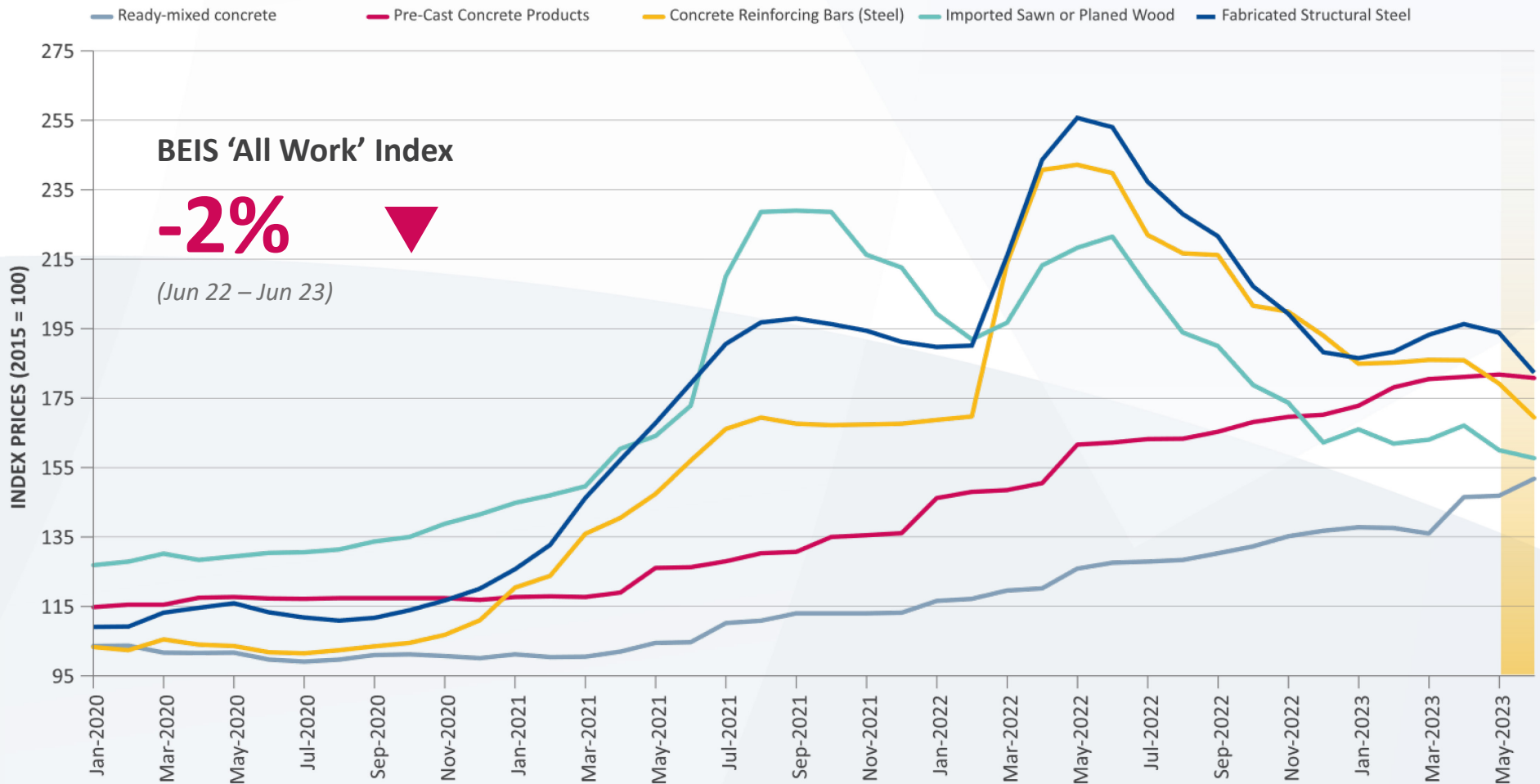
## CONTRACTOR CAPACITY

### Contractor Capacity to Improve

- Current lack of overall capacity due to full short-term order books
- Capacity expected to improve in the second half of the year as workloads ease and gaps in order books emerge

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

BEIS: PRICE INDICES OF CONSTRUCTION MATERIALS (UK)



BEIS MATERIALS RISERS AND FALLERS: QUARTERLY (MAR - JUN 2023) V ANNUALLY (JUN 2022 - JUN 2023)



## 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, elevated headline inflation and high interest rates to limit recovery in 2023

UK Rebar Supply Cost\*

▼ 30%

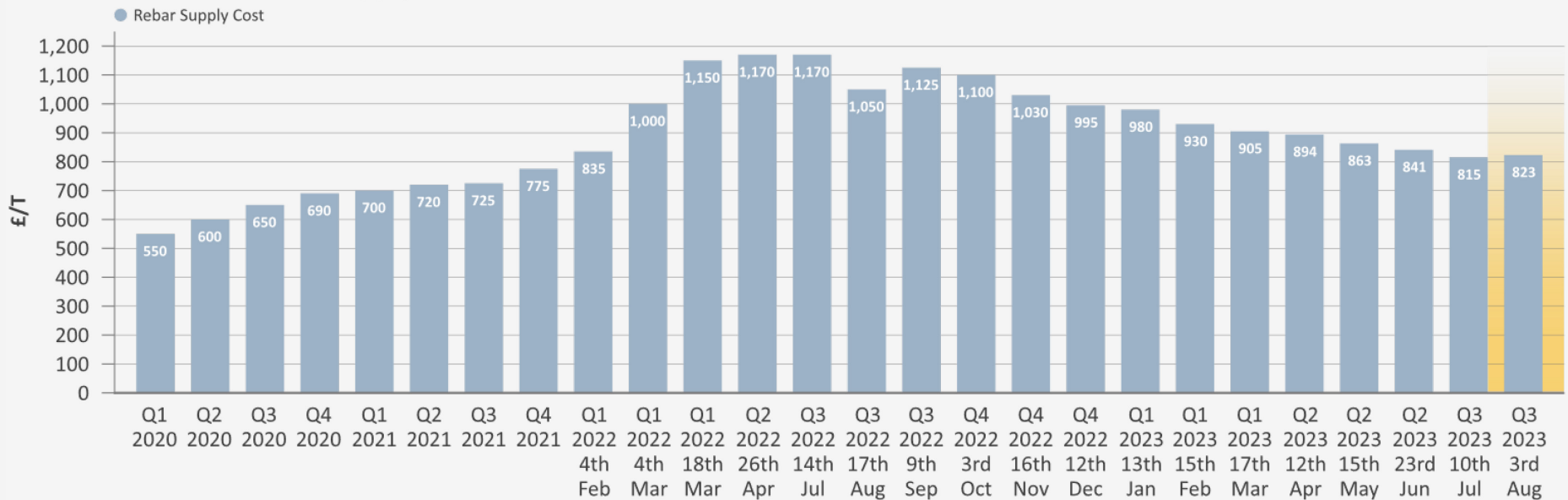
To £823/t (in Aug 2023) compared to 2022 high of c.£1,170/t

UK Structural Steel Cost

▼ 42%

To £840/t (in Aug 2023) compared to 2022 high of c.£1,450/t

REBAR: SUPPLY COST (£/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.29% since peaking in June 2022...



Commodity prices falling in tandem with **slowing economic activity**



**Global reallocation of trade flows** helped prices ease



Global **monetary tightening** having a cooling effect on demand



**Weaker price outlook for metals** due to softer Chinese demand

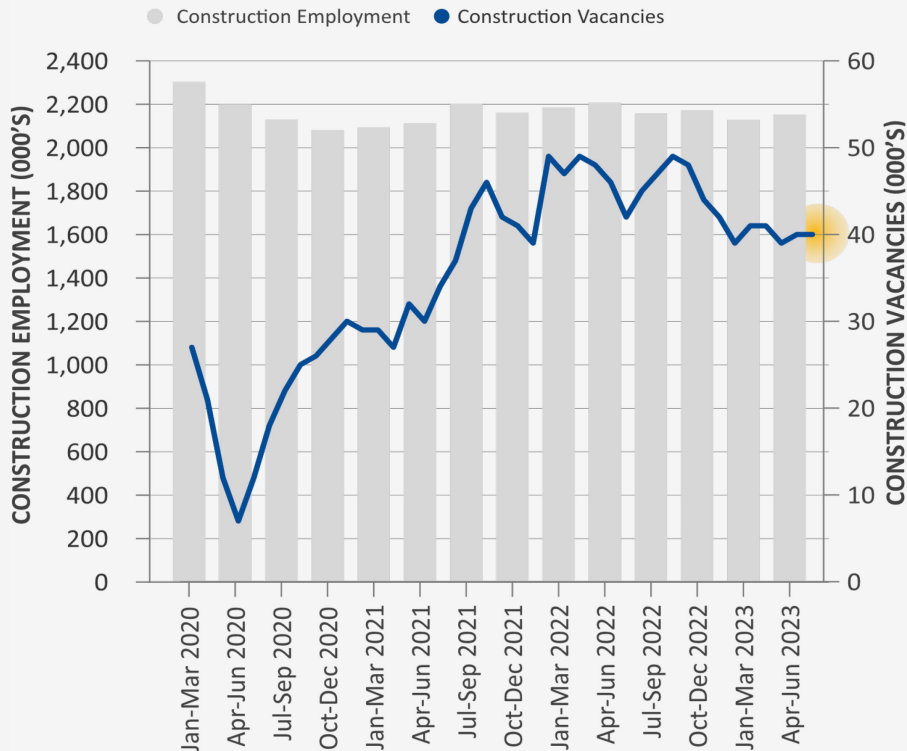


**Upside price risk factors remain** from supply disruptions and political tensions

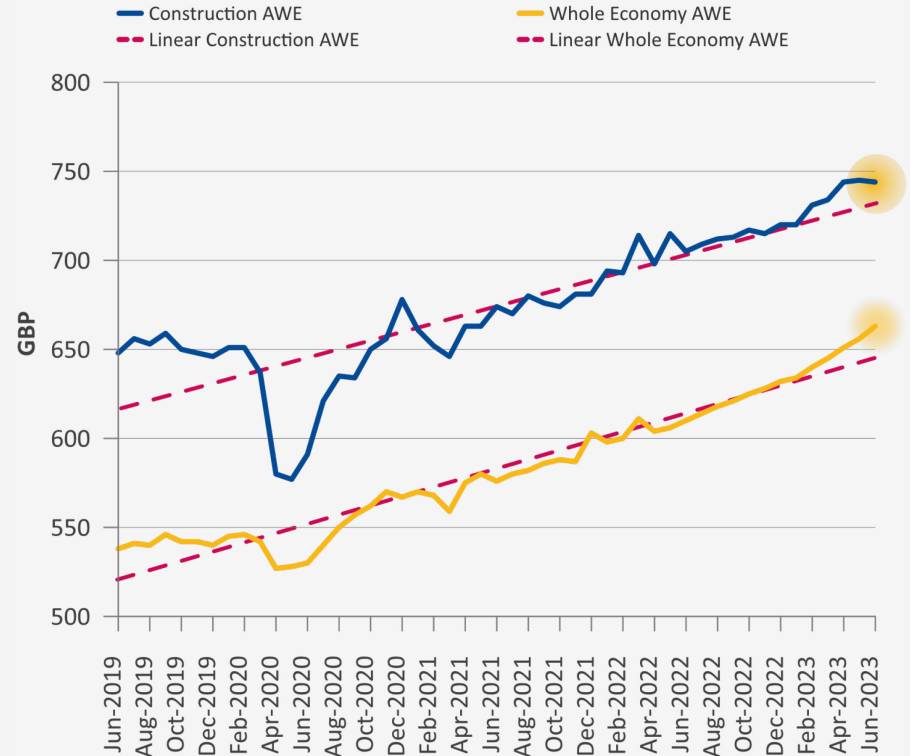


**Construction vacancies stabilise after falling at the end of 2022**  
**Construction earnings soften in June, but annual growth was still 5.5%**

**VACANCIES IN EMPLOYMENT (SA) V CONSTRUCTION EMPLOYMENT (NON SA)**



**AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION) SEASONALLY ADJUSTED**





## 03 / TRENDS IN KEY TRADES, ENERGY & TRANSPORT

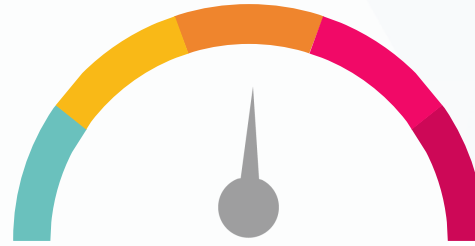


## Key Trade Analysis



### COMPETITIVE

- Demolition/Enabling Works
- Earthworks
- OH&P



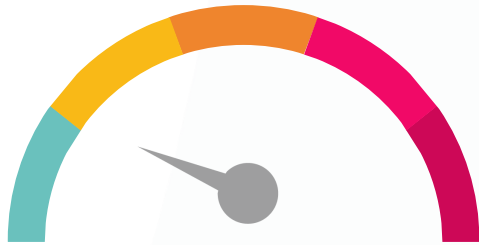
### UNDER PRESSURE

- Substructure
- Frame
- Joinery
- Finishes
- Preliminaries
- Drylining



### HIGHER INFLATION TO COME

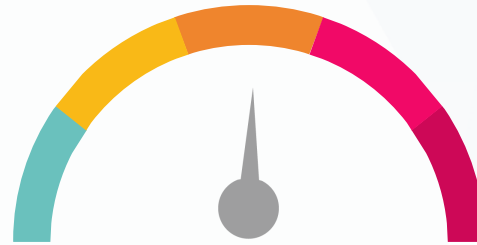
- Façades
- Concrete
- M&E



## ENERGY

### Easing

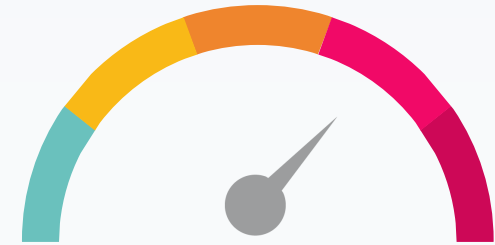
- European wholesale gas prices slide on subdued demand and record gas inventories
- Future oil prices a concern due to recent supply cuts



## TRANSPORT

### Stabilising

- Shipping costs continue to fall as consumer spending declines
- Road transport costs have risen due to higher fuel prices and increased operational overheads



## 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...

Gas prices fall but significant uncertainty remains around price outlook

Oil prices edge higher as OPEC+ supply cuts are extended

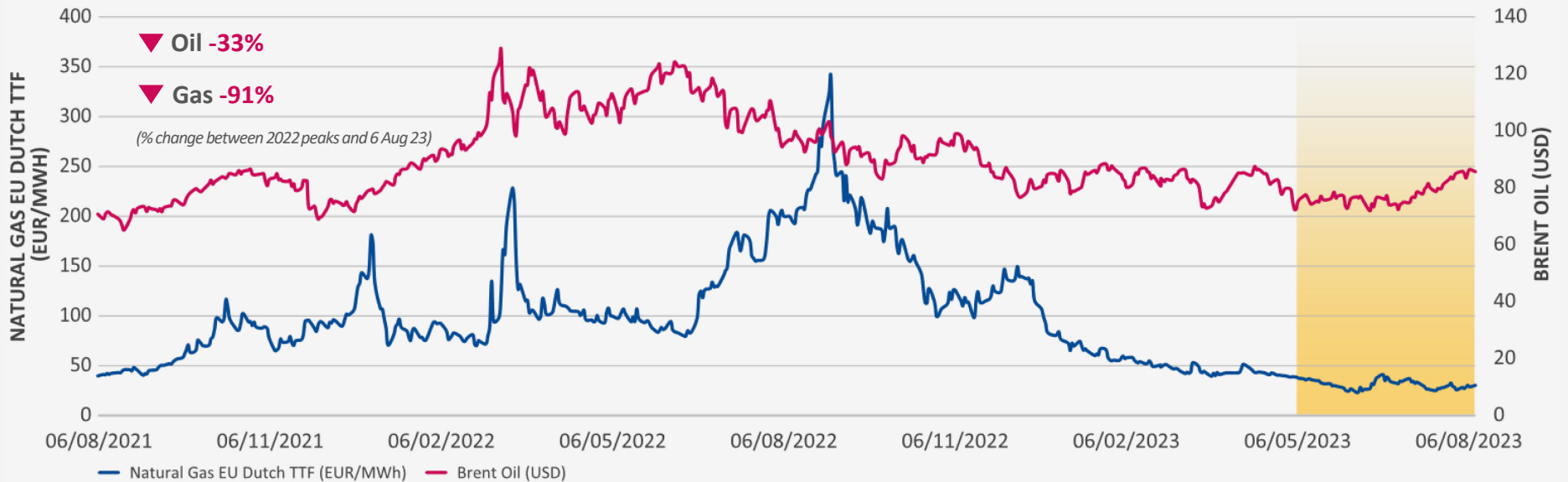
Direct energy contribution to CPI to be around zero or slightly negative in 2024/25

Construction to benefit from lower energy prices once fixed-term contracts end

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

- Below average demand
- High LNG storage levels in Europe (85%)
- Rapid expansion of Europe's LNG infrastructure

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



Shipping costs remain below the five and ten-year index averages...



**Strong reversal** of post-pandemic shipping pressures and freight charges



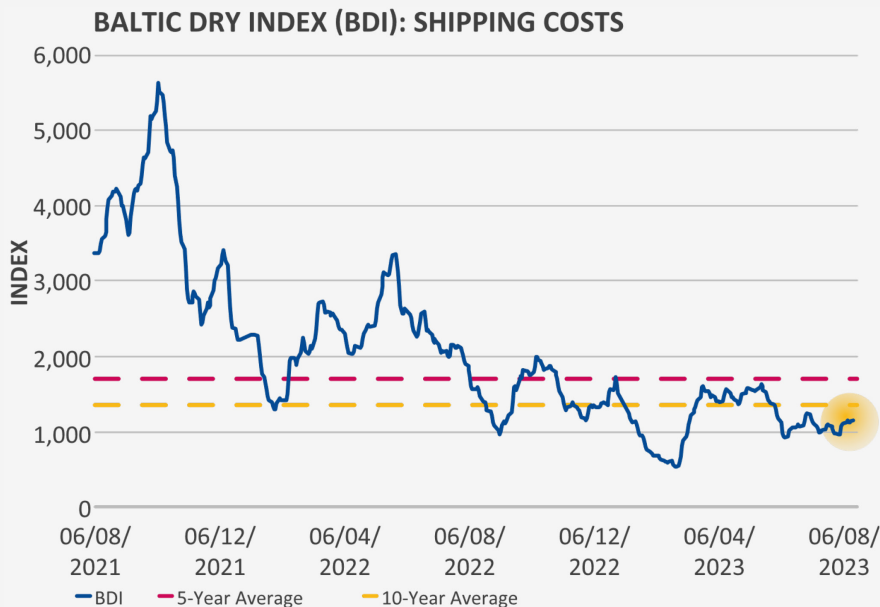
**Disruption has abated** as supply chain shocks and bottlenecks eased



**Greater availability of containers** due to tepid demand for goods

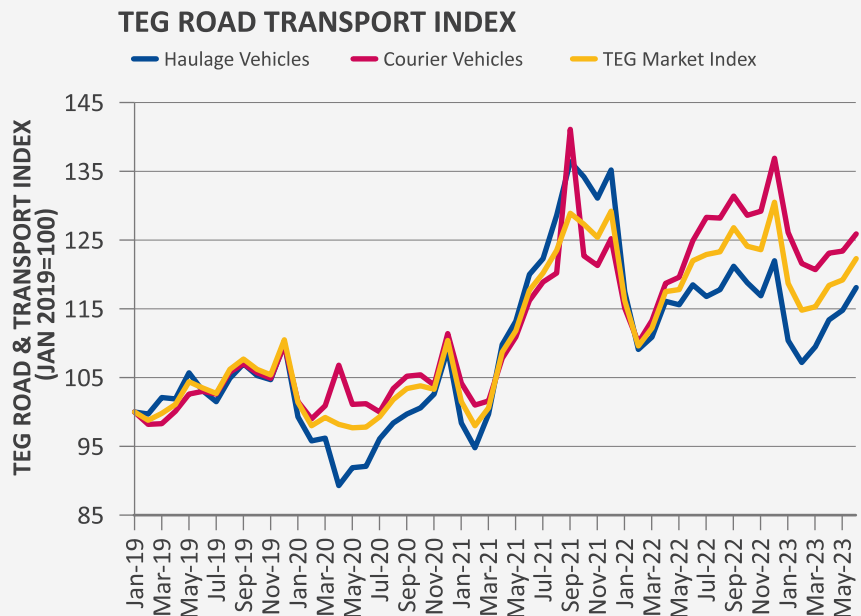


Freight costs set to **remain muted** and possibly fall in the short-term



*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: [Investing.com](https://www.investing.com)



*The Baltic Dry Index (BDI) – an index of average prices paid for the transport of dry bulk materials (eg coal and steel) across 23 routes*

Source: [Transport Exchange Group](https://www.transportexchange.com)



## **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 pockets of sustained demand

Robust contractor order books supporting workload, but some becoming more proactive in seeking bid opportunities

Converting pre-construction opportunities into real projects on site becoming more difficult

Limited sub-contractor capacity enabling firms to retain selectivity when tendering

Early works trades have greater capacity

Improving construction cost inflation outlook

Rising insolvencies are a growing concern

Higher borrowing costs weighing on investment plans

### TENDER PRICE FORECAST

for 3<sup>rd</sup> Quarter 2023 is...

**3.00%**  
Annual UK Average

▲ compared to 2.75% Annual UK Avg. in Q2 2023

Supply conditions continue to normalise, helping to moderate materials cost inflation pressures. However, higher labour input cost pressures, coupled with the anticipated dip in demand not hitting the market quite when we thought it would, will have the effect of holding a higher level of inflation for a greater portion of the year.

#### KEY CONTACTS

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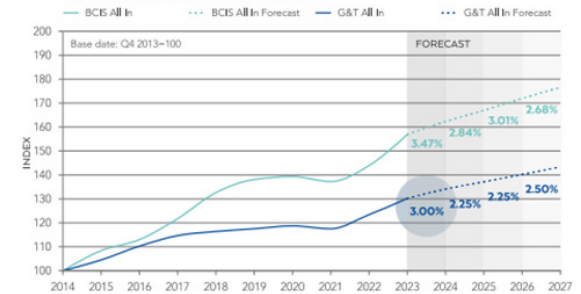
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#### TENDER PRICE ANNUAL PERCENTAGE CHANGE Q3 2023

% Regional forecasts	2023		2024		2025		2026	
	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Greater London	3.25	2.75	2.25	2.00	2.50	2.50	2.50	2.50
South East	3.25	2.75	2.25	2.00	2.50	2.50	2.50	2.50
South West	2.75	3.25	2.25	3.25	2.25	3.00	2.25	2.50
East	3.25	2.75	2.50	2.50	2.50	2.50	2.50	2.50
Midlands	3.25	3.00	2.25	2.50	2.00	2.00	2.50	2.50
Wales	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Yorks & Humber	2.00	2.50	2.00	2.50	2.00	2.50	2.00	2.50
North West	2.00	2.00	1.75	2.00	1.75	2.00	1.75	2.50
North East	2.50	2.50	2.00	2.00	2.00	2.50	2.00	2.00
Scotland	3.00	2.75	2.25	2.50	2.25	2.25	2.25	2.25
Northern Ireland	3.00	3.00	2.25	2.25	2.00	2.00	2.50	2.50
<b>UK Average</b>	<b>3.00</b>	<b>2.75</b>	<b>2.25</b>	<b>2.25</b>	<b>2.25</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>

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

#### TENDER PRICE TREND 'ALL UK TPI'



This forecast publication must be treated as a guide only, being that it is based on averages of various types and sizes of projects across a region, ascertained through our latest market research.

[Read our latest report](#)

HOW DO OUR TENDERS...  
We conduct a...  
consider factors...

#### INPUT COSTS

- ▲ 5.1%
- ▼ -4.5%
- ▲ 1.8%
- ▼ -19.4%
- ▼ -22.8%
- ▼ -21.2%
- ▲ 24.5%
- ▼ -33.0%

KEY  
Input to tender price...  
contributory impact...  
High Cost Drivers

#### MACRO ECONOMIC

- ▲ 0.2%
- ▲ 8.7%
- ▲ 11.3%
- ▲ 5.0%
- ▲ 3.8%
- ▲ 6.5%

### Flight to higher quality driving refurbishment

- Volume of new starts up almost **80%** over Winter (Q3 2022) survey (from **2.5m** to **4.4m sq ft**)
- Highest volume of **refurbishment** scheme starts on record (**3.2m sq. ft.** across **37 schemes**)

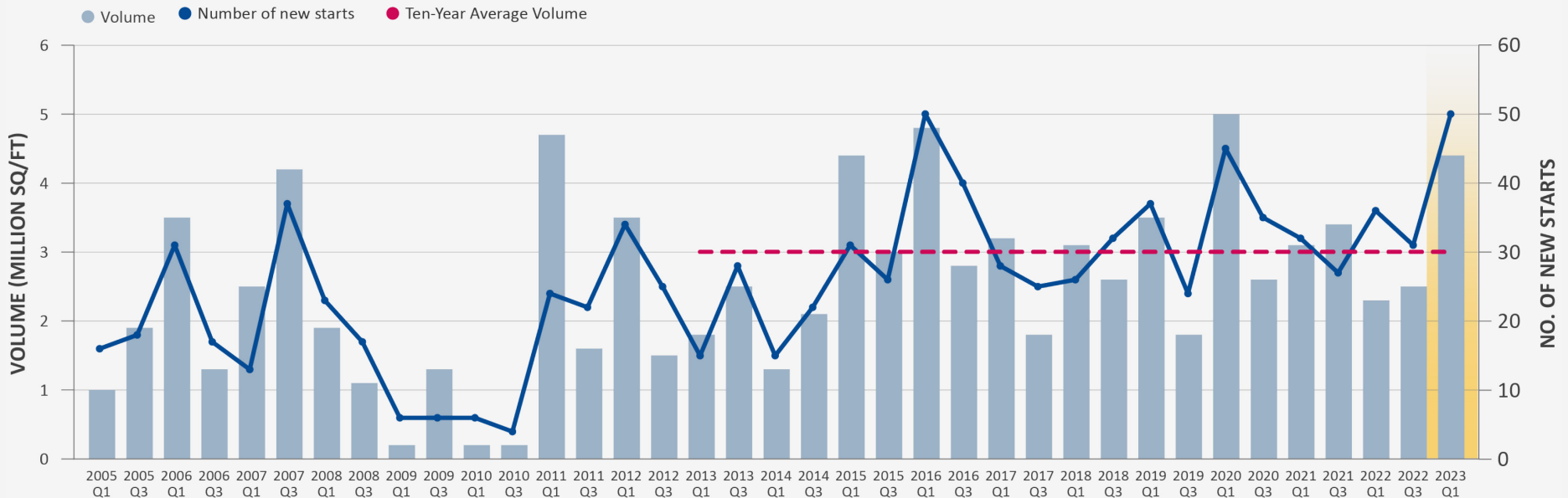
### Strong demand for best-in-class-space

- Number of new starts rose from **31** to **50** in the latest survey period
- Average new scheme size rose to **c.88,000 sq ft** (from **c.79,000 sq ft**)

### Rises attributed to:

- **Pent-up demand** (caused by supply chain issues)
- **Labour shortages**
- **Planning process** delays
- Increased **pressure to refurbish space** under threat of obsolescence

CENTRAL LONDON: VOLUME AND NUMBER OF NEW STARTS PER SURVEY



## Developers are quietly optimistic about the future of London’s development pipeline...

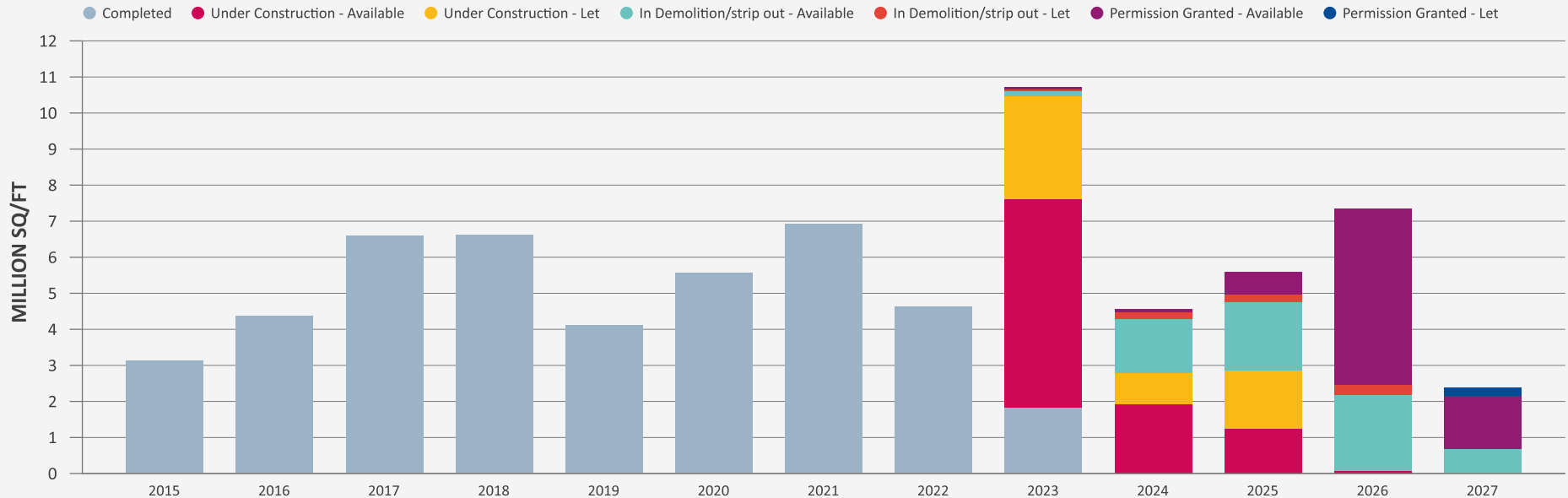
Viability of development projects remains challenging (due to inflation and higher finance costs)

Delays in completion mean over **10m sq ft** is projected to be delivered in 2023

But significant volumes of completions likely to be pushed out to 2024 and beyond

Optimism grows for London development pipeline due to easing inflation and strong demand for Grade A space

### CENTRAL LONDON: FUTURE OFFICE DEVELOPMENT PIPELINE



Source: [Deloitte](#) Note: Deloitte’s Future Office Development Pipeline graph shows space that is currently under demolition and the year in which construction is expected to complete.



**471 construction firms in the UK went out of business in May 2023 – 34% higher than a year ago**

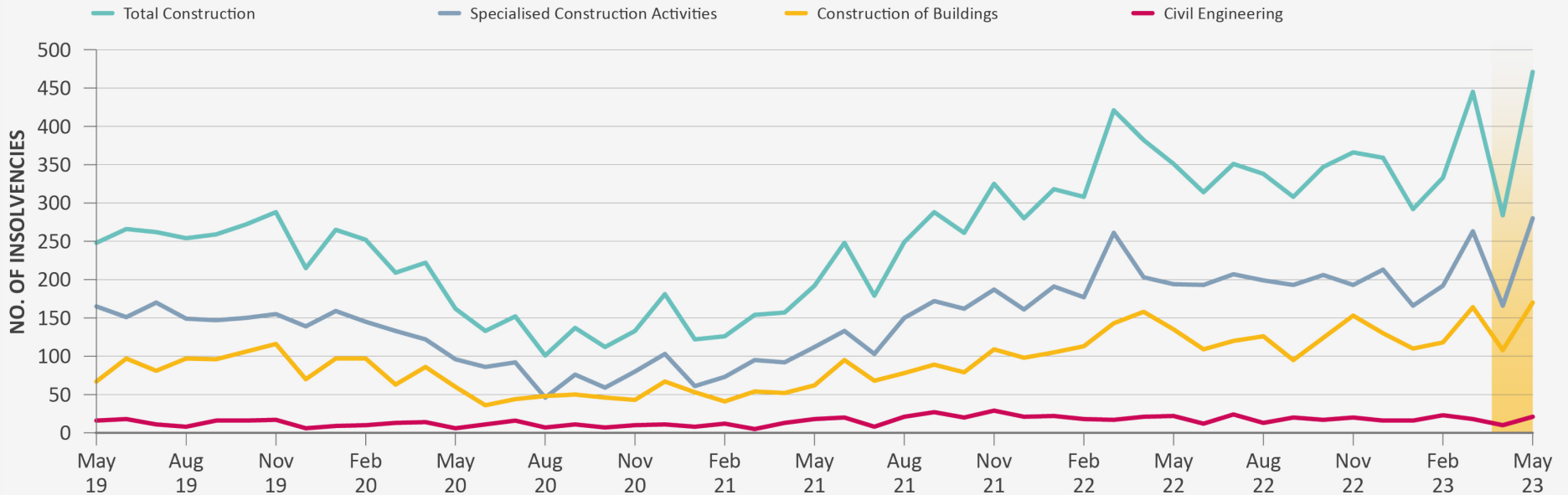
**4,559 construction insolvencies** in the UK in year to May 2022 – more than any other UK sector

**58.5%** were specialist contractors, **36.5%** were main contractors and just **5%** were civil engineering firms

Firms hit by historical **increases in energy/materials costs**, compounded by **unpaid bills** and **supply chain issues**

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

**REGISTERED COMPANY INSOLVENCIES (ENGLAND AND WALES): CONSTRUCTION, NOT SEASONALLY ADJUSTED**



Source: [The Insolvency Service](#)

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.

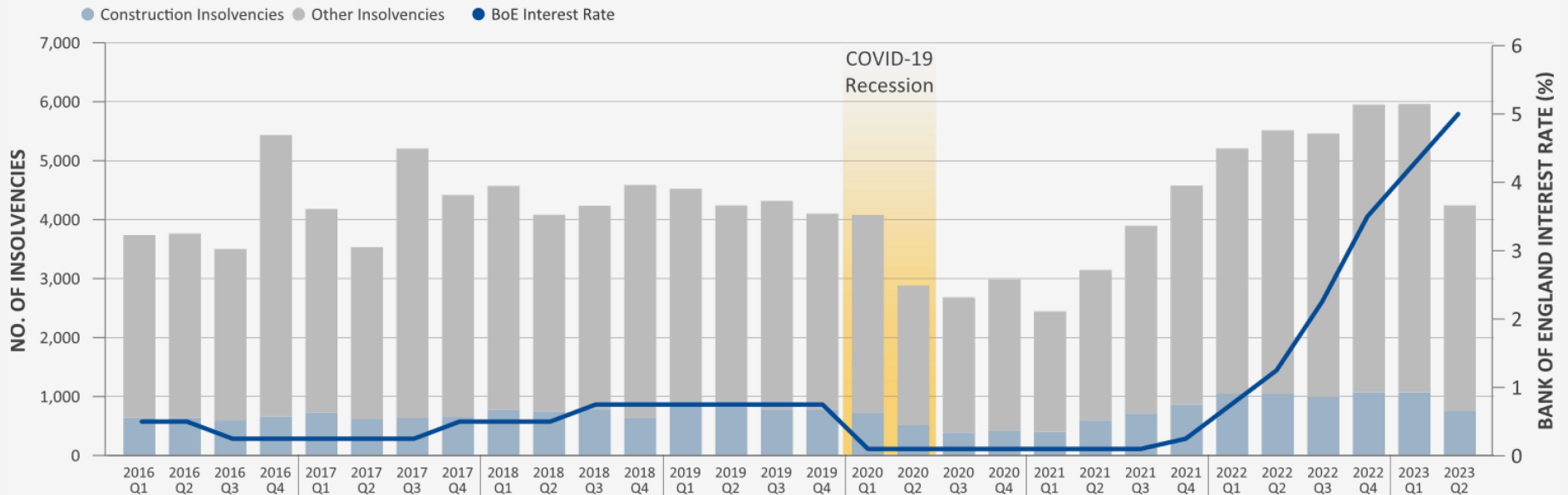
With output forecast to decline, further rises in insolvencies are expected

Historically, insolvencies tend to rise during recession and peak thereafter

COVID-19 recession bucked this trend, fuelled by fiscal support

This prolonged the inevitable and in Q1 2023 insolvencies started to rise as assistance was phased out

### UK INSOLVENCIES (CONSTRUCTION AND OTHER) V. BANK OF ENGLAND INTEREST RATE



Source: [The Insolvency Service](#), [Bank of England](#)  
 Note: Q2 2023 insolvency numbers only include two months of data (Apr-May). Insolvency data for June was not available at the time of publication. The interest rate data series above also only shows bank rate rises to the end of June 2023.

## What can you do to **protect** your construction project from **supply chain insolvencies**?



**01.**  
Undertake a **Credit Check**



**02.**  
Use of **Performance Bonds/or  
Parent Company Guarantee**



**03.**  
Engage the **Supply Chain**



**04.**  
Regular **Financial Stability Checks**



**05.**  
Follow **Contract  
Payment Timeline**



**06.**  
Reduce **Early Payments**



**07.**  
Ensure **Appropriate  
Retention is Held**



**08.**  
Check **Insurances are Robust**



Given prevailing attitudes toward risk, some Main Contractors still reluctant to Single Stage tender...

Two Stage tendering still preferred given attitudes towards risk

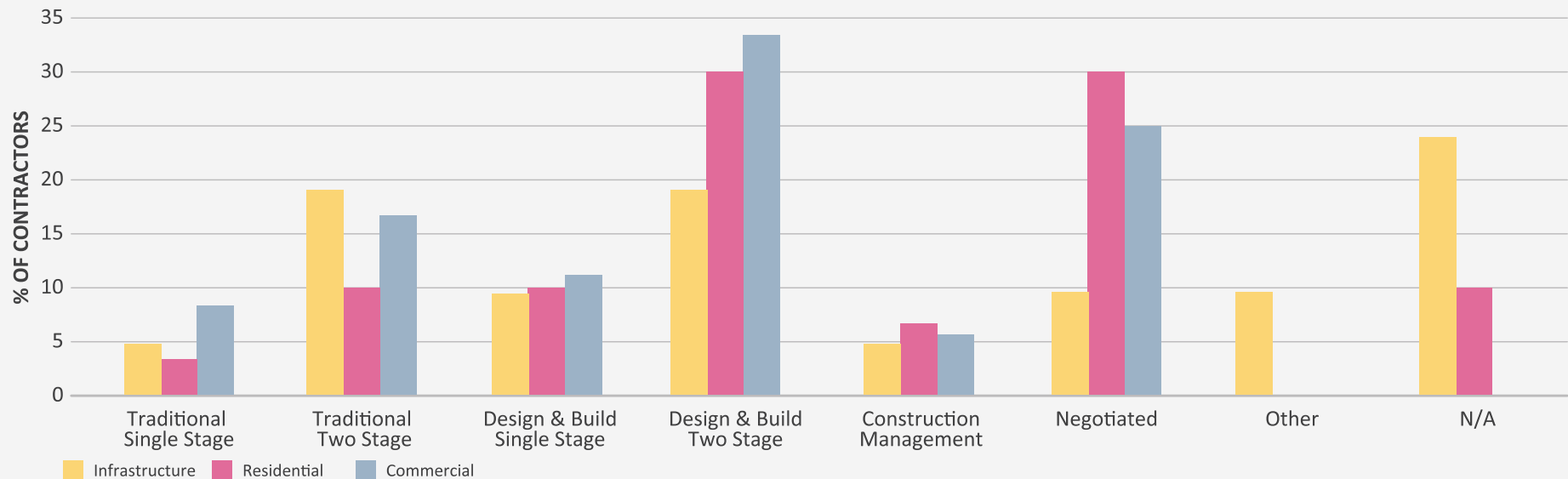
Some are more willing to entertain single stage to secure turnover in an uncertain market

Investors/developers bidding 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

PROCUREMENT ROUTE BY SECTOR





## 05 / KEY TAKEAWAYS

## Supply conditions continue to normalise, helping to moderate materials cost inflation pressures

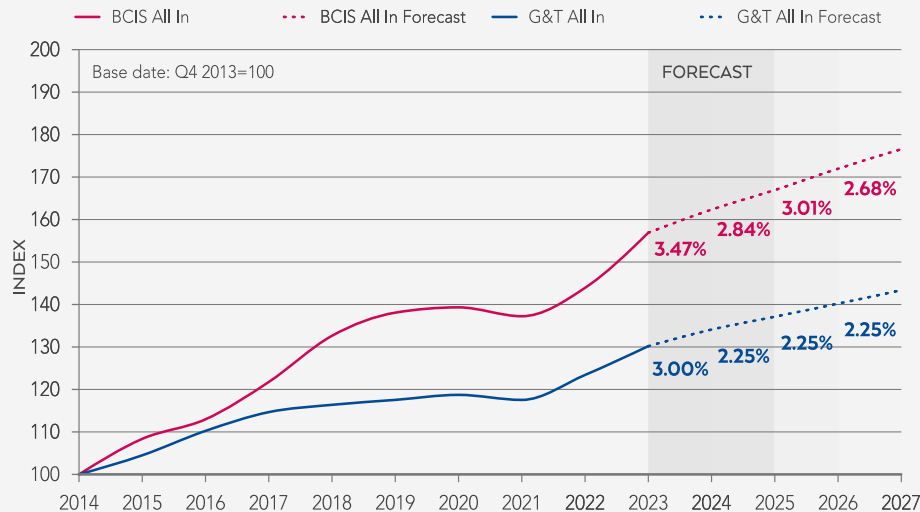
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**UK Average**  
Tender Price  
Forecast  
(2023)...

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

**3.00%** **3.25%**

### TENDER PRICE TREND 'ALL UK TPI'



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Last\* 2Q23

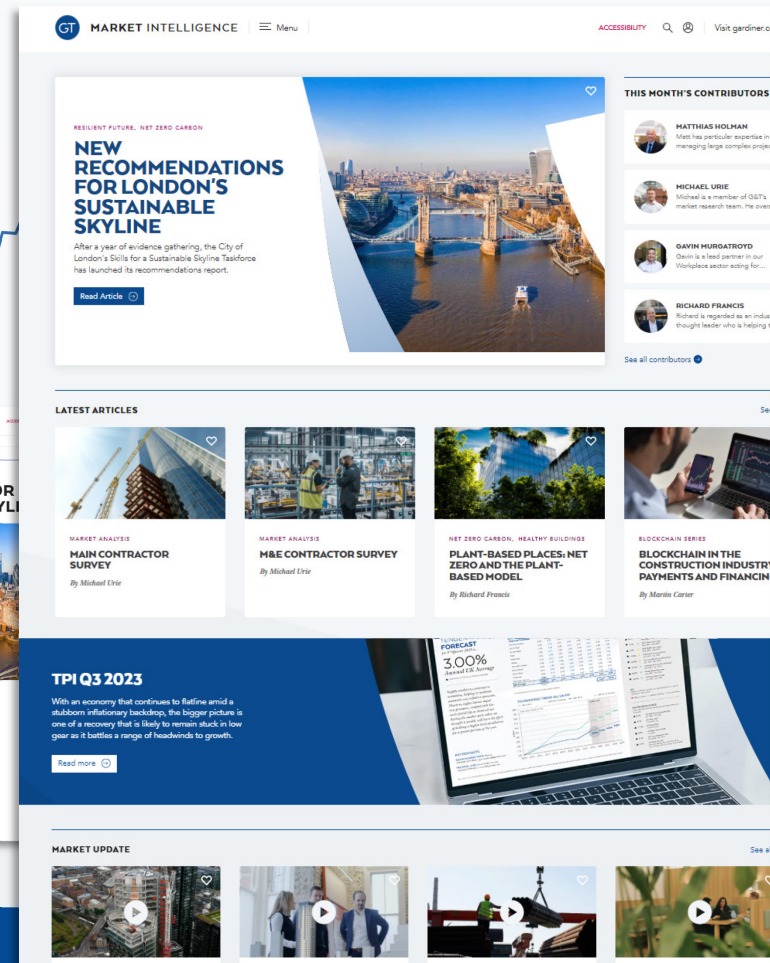
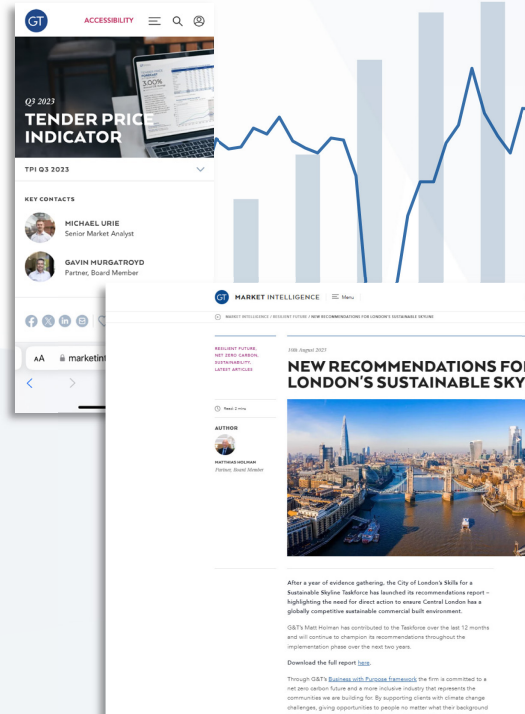
Our forward forecasts show annual tender price inflation (Jan-Dec)

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.

Stabilising input pricing

Labour now the key cost driver

Growing need to mitigate against supply chain insolvencies



FIND OUT HOW WE CAN HELP...

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



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