# MARKET UPDATE

*Potential opportunities as heat comes out of the market*

*November 2023*

In G&T's latest update for 2023, early signs of softer sub-contractor pricing and improving supply chain capacity are weighed against a difficult debt market for new, speculative work.

## Key topics in this report…

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


Watch our film here

# 01 / MACRO ECONOMICS & CONSTRUCTION OUTPUT

## High interest rates, continued uncertainty and low productivity prompt downgrade to economic growth forecasts

### Zero Economic Growth Forecast for 2024…
UK faces the prospect of near-stagnant growth due to persistent inflation and high borrowing costs

### CPI 4.6% *(Oct 2023)*
Headline consumer price inflation slows sharply

### UK Construction PMI *(Oct 2023)*
Second lowest activity reading since May 2020

### Interest Rates: Have we Reached the Top of the Ladder?
Interest rates left on hold for second time in a row at 5.25%

### 4.3% Unemployment Rate *(May – Jul 23)*
Rise in unemployment rate is at odds with strong pay data

***Source:*** *ONS, Bank of England, S&P Global*

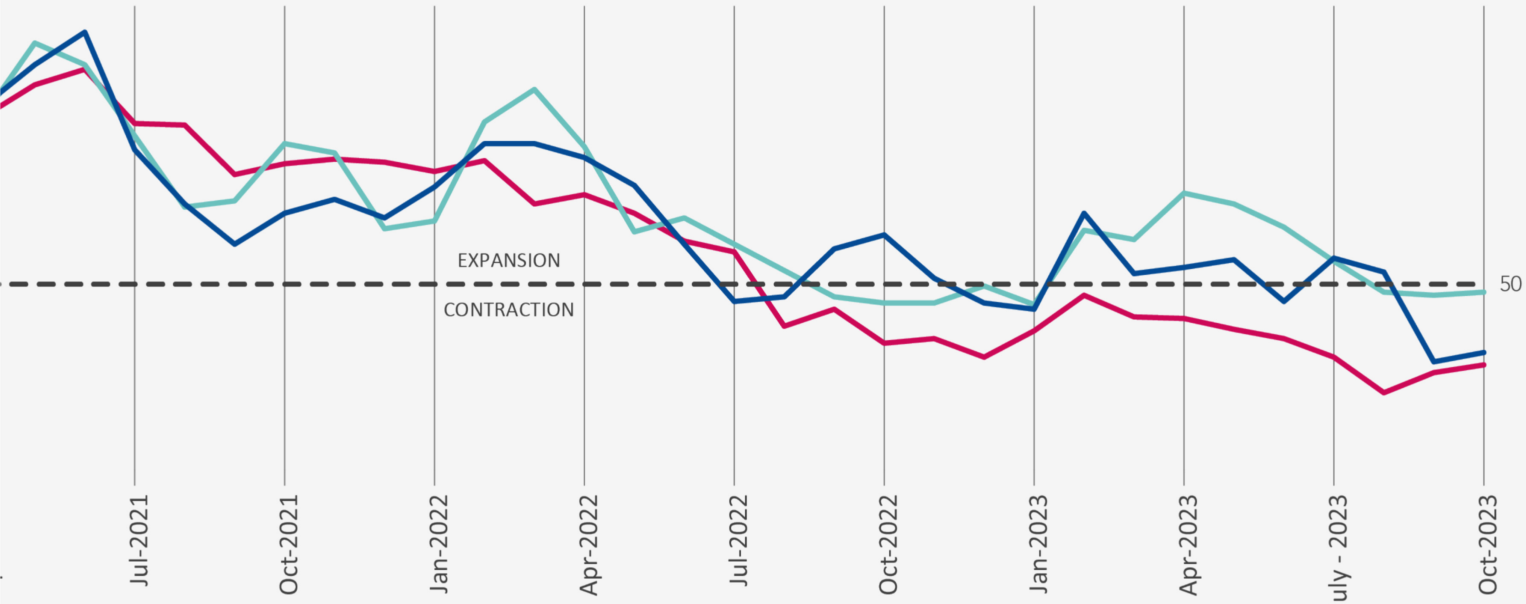
## Sentiment-based UK Construction PMI points to continued decline in activity in October…

**Challenging business conditions** due to **lack of new projects** replacing completed ones

**Fragile client confidence** and **high borrowing costs** contributed to **weaker sales**

Purchasing prices declined due to **improving supply conditions** and **falling demand**

Signs of **spare capacity emerging** as **sub-contractor charges decrease**

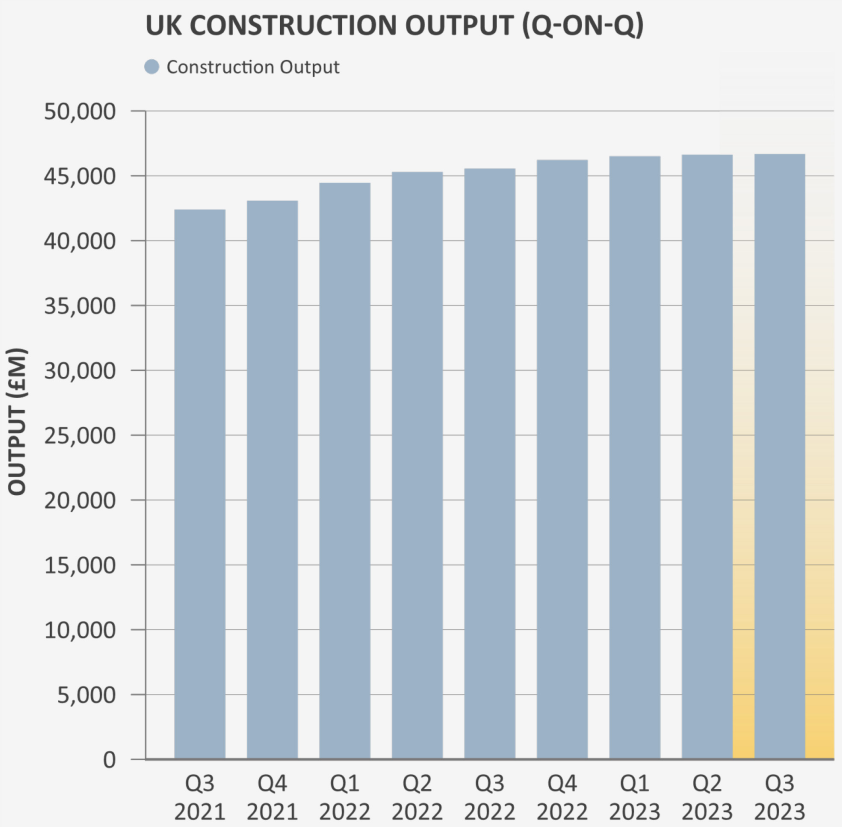


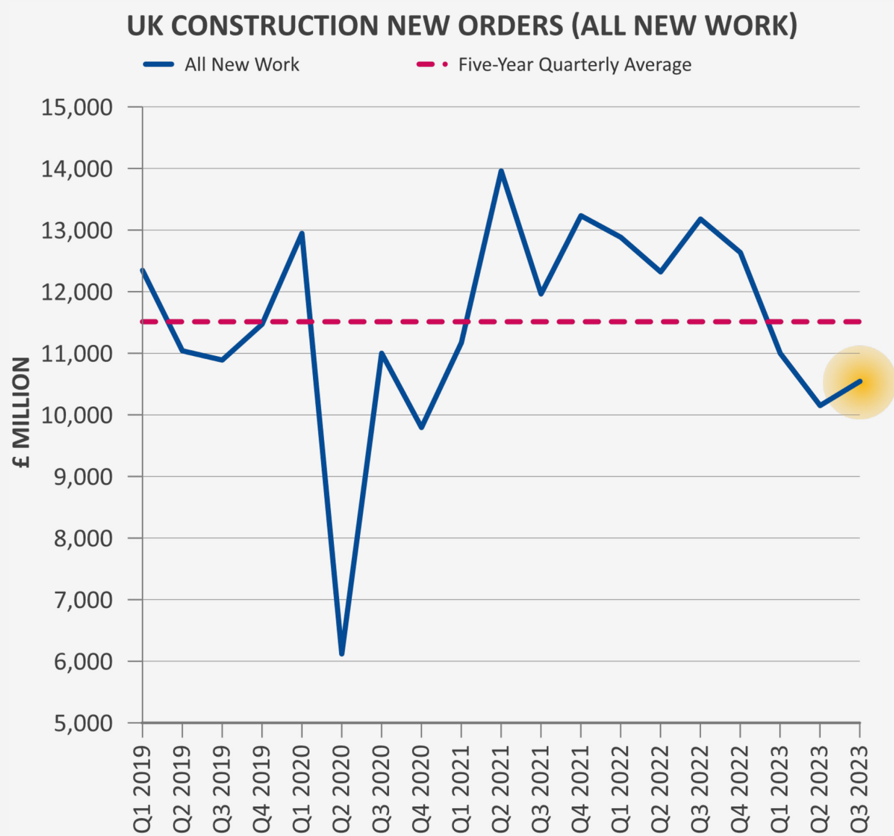

*Services* ***49.5***
*Construction* ***45.6***
*Manufacturing* ***44.8***

***Source:*** *S&P Global*

**UK construction output growth slowed to 0.1% in Q3 2023, but hitting yet another quarterly record of £46.4 billion**

**Surprise 3.9% rise in new orders in Q3 2023, ending three consecutive quarters of falling new order volumes**



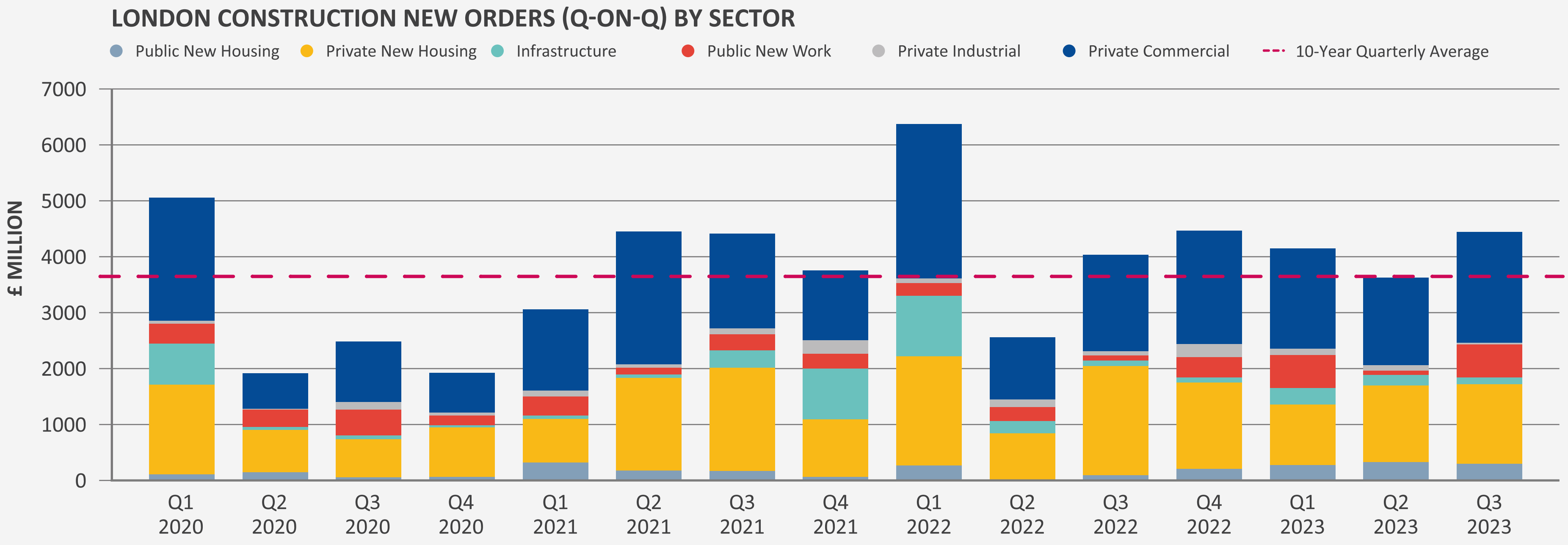

*Source:* ONS

## London new orders rose 23% in Q3 to £4.4bn, surpassing the 10-year average figure

**Borrowing costs** and **longer-term outlook remain uncertain,** deterring new investment

Q3 growth led by **strong rise in Public New Work** and **Private Commercial activity** from refurb projects

While **Q3 figures provide a measure of relief**, they are **not reflective of overall market sentiment**

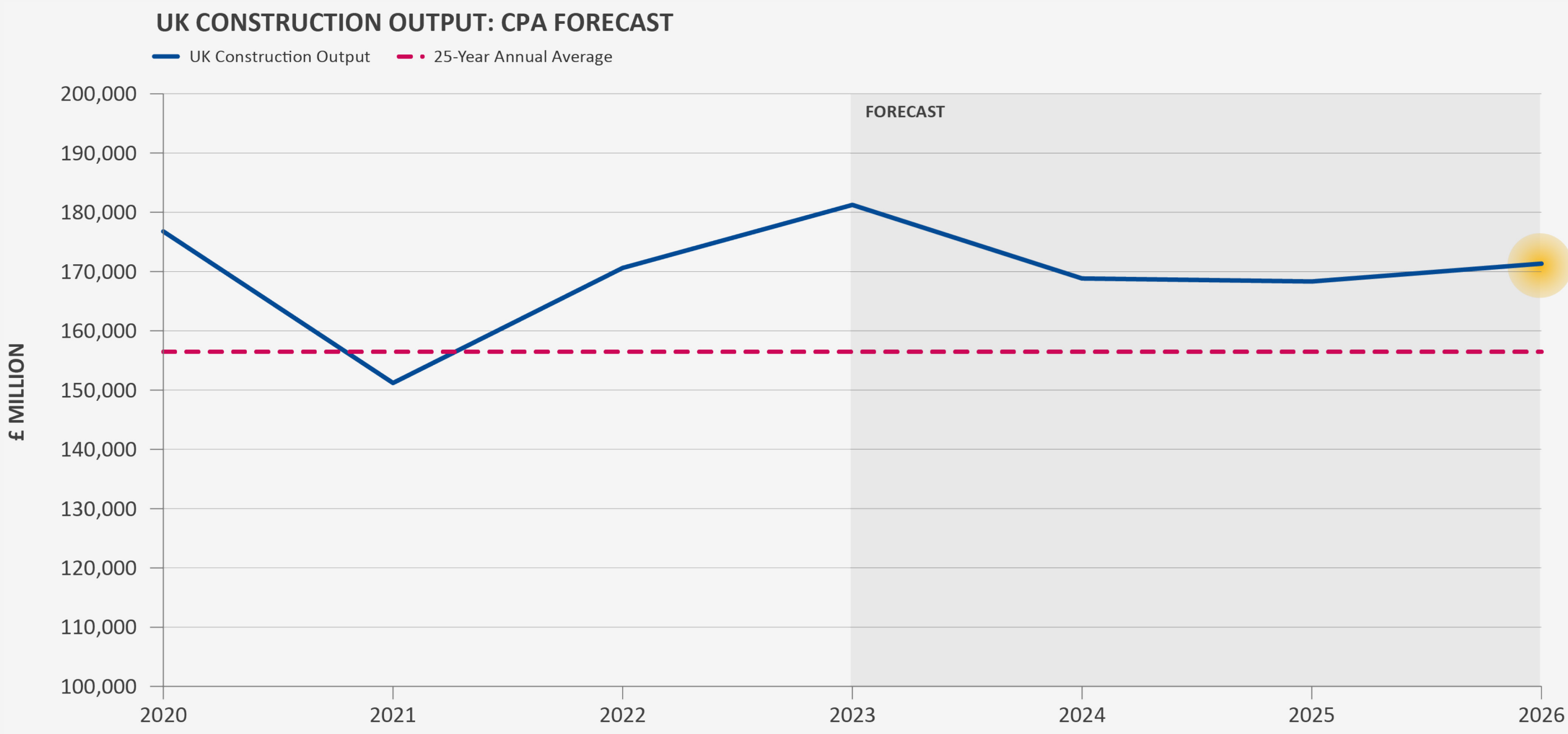



*Source:* ONS

## 0.3% fall in construction output forecast for 2024 as slow economic growth pushes back recovery of some sectors

## 2024 Outlook

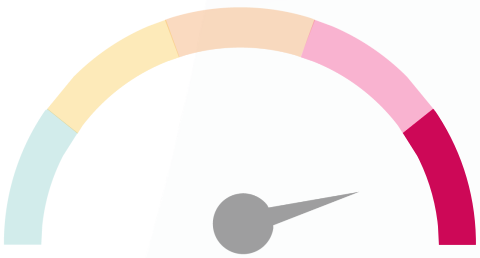
- **Mixed fortunes** across sectors
- **Stubborn inflation** limiting growth
- **High interest rates** to **slow** the **recovery**
- **Demand** tied to **borrowing costs**
- **Peaking industrial investment**
- Government **budgetary constraints**

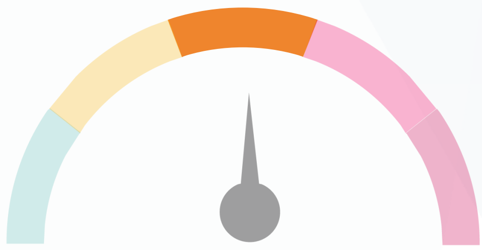


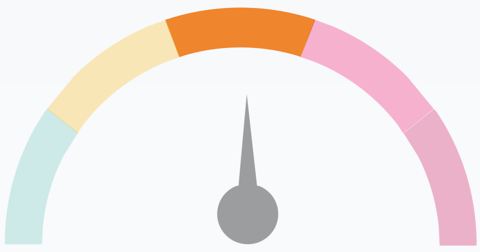

*Source: CPA*

# 02 / CONSTRUCTION MARKET TRENDS – MATERIALS & LABOUR

## Cost Drivers







### LABOUR

#### Labour: The Biggest Cost Driver

- Pressure on rates due to ongoing skilled labour shortages across the industry
- Softer new order growth may provide short-term relief to labour pressures

### MATERIALS

#### Materials Prices Now Falling

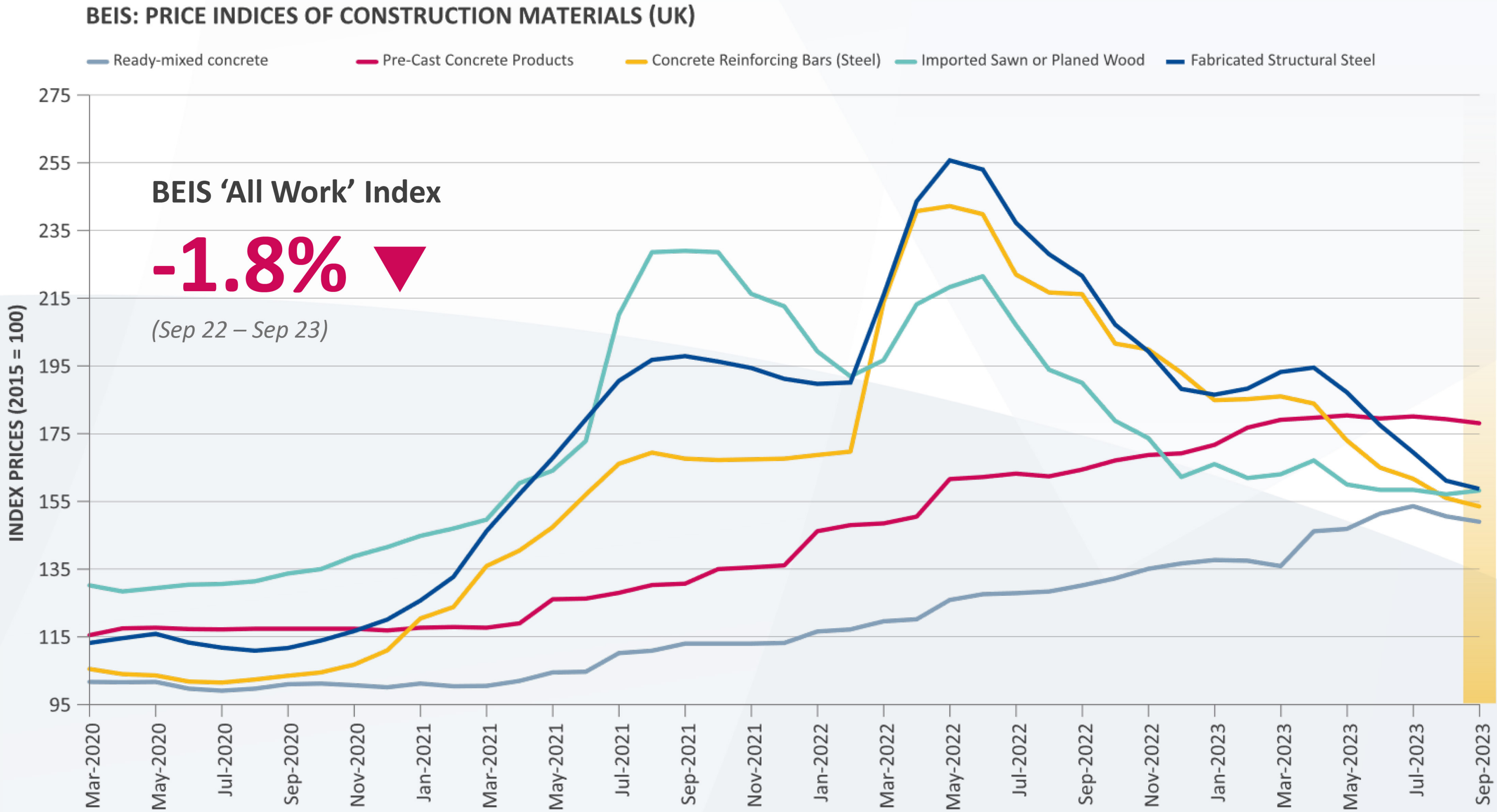
- Inflation rate falls on annual basis, but prices remain historically high
- Material prices on watchlist due to impact of conflict in the Middle East

### CONTRACTOR CAPACITY

#### Emerging Spare Capacity

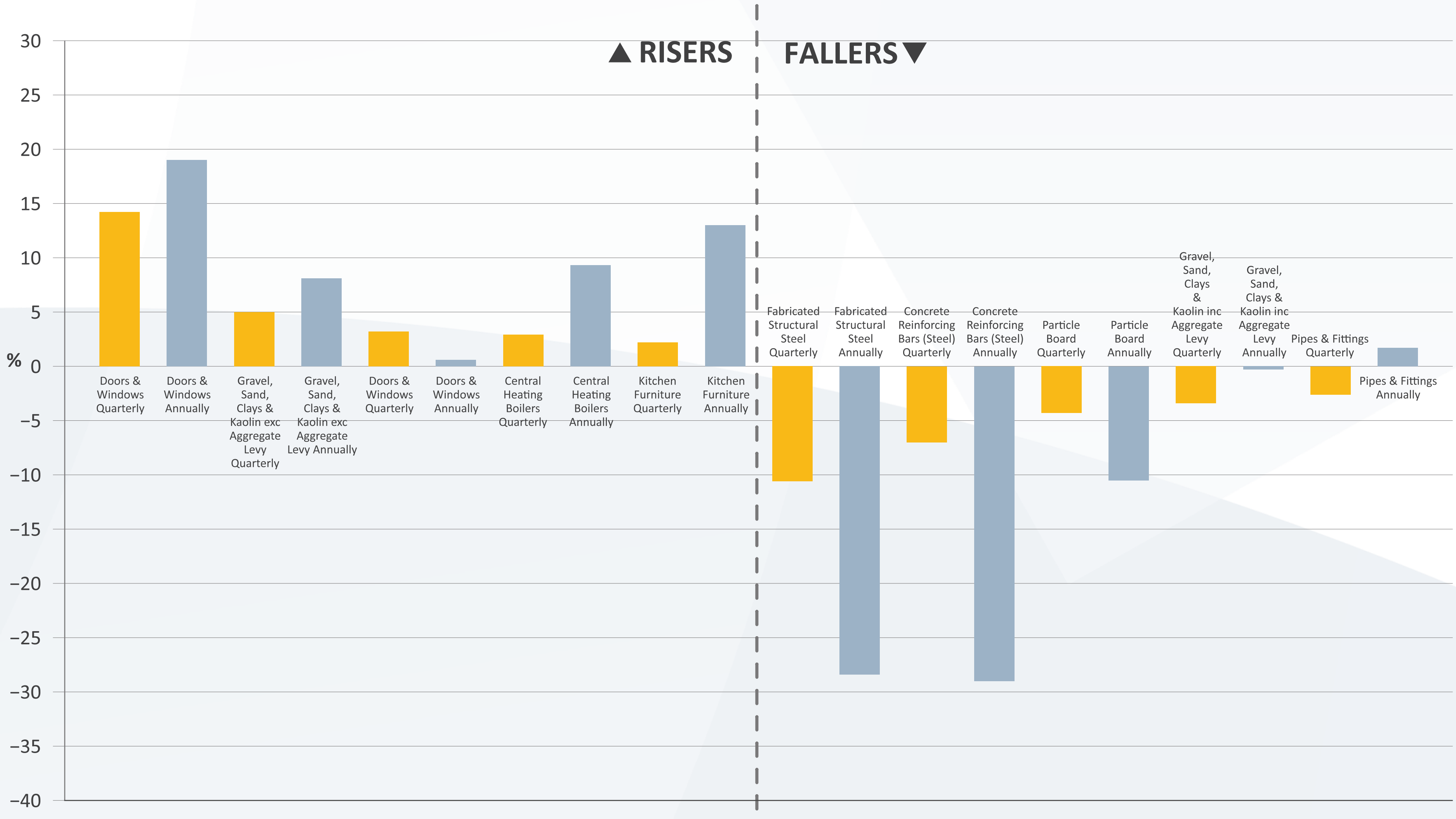
- As workloads ease, contractor capacity has started to improve
- Early trades seeing greatest capacity as they try to fill gaps in 2024 pipeline

## Softer demand and improved availability helps ease rate of cost inflation for many key materials…




*Source:* *BEIS*

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




*Source:* BEIS

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

**Lower global demand** amid fears of economic stagnation and a slowdown in new-build sector output

Stockholders drop pricing to **reduce excess inventory** while **lower energy prices** feed through to production

**Cheap steel import supply surge** from Asia into Europe

**British Steel** accelerates **decarbonisation programme** by adopting electric arc furnaces

**UK Rebar Supply Cost***

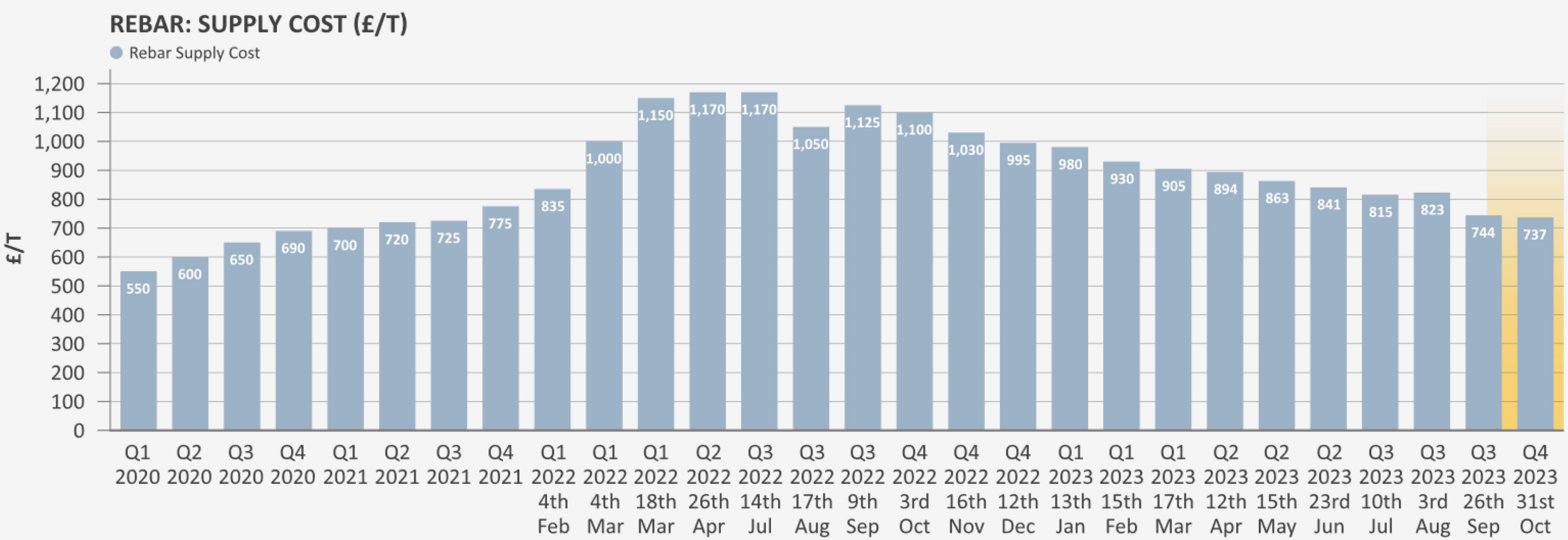
▼ 37%

To *£737/t (in Oct 2023)* compared to 2022 high of **c.£1,170/t**

**UK Structural Steel Cost**

▼ 46%

To *£780/t (in Oct 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).*

## S&P GSCI Commodity Price Index down c.31% from June 2022 peak…

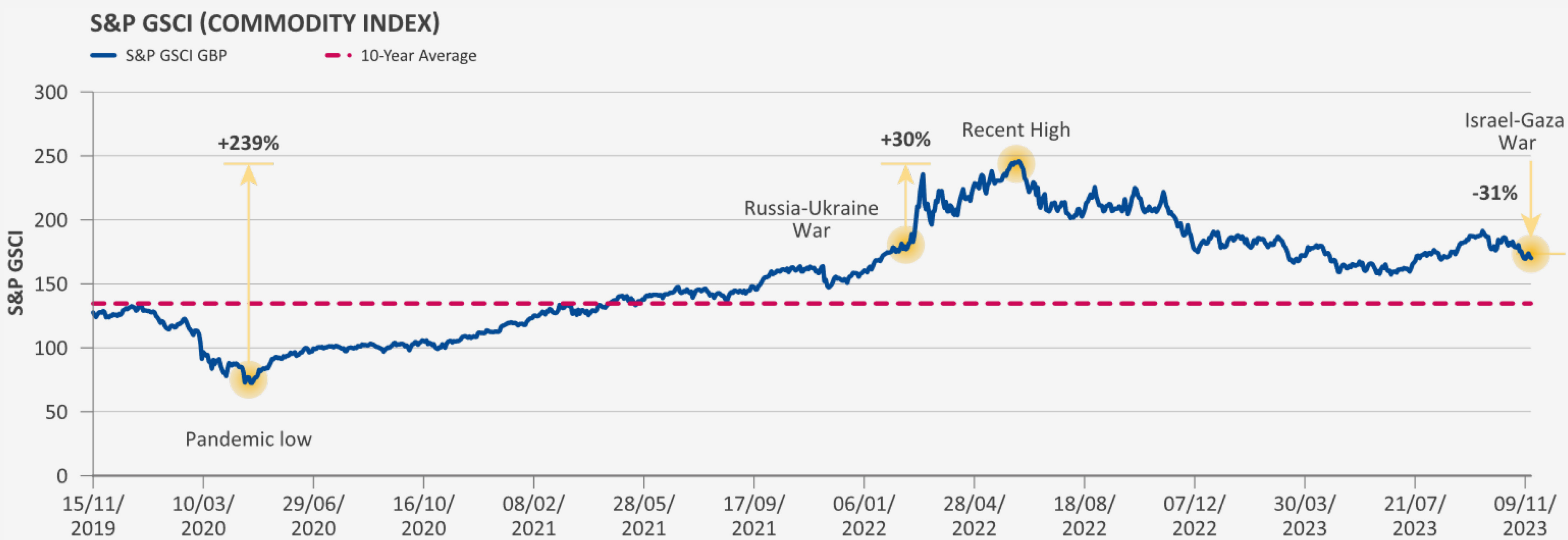
Commodity prices falling in tandem with **slowing economic activity**

**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

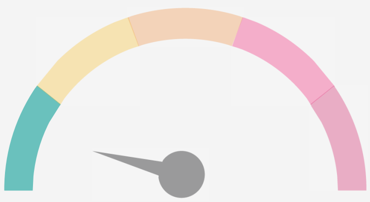
**Upside price risk factors remain** from supply disruptions and political tensions




*Source:* S&P Global

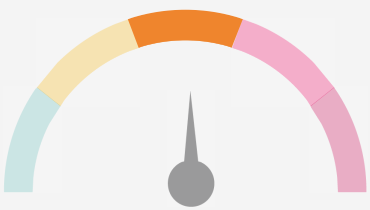
## If the conflict in the Middle East were to escalate, the global economy could face a dual energy shock…

World Bank's preliminary assessment of the potential near-term implications of the conflict on oil supply and prices in the global markets.



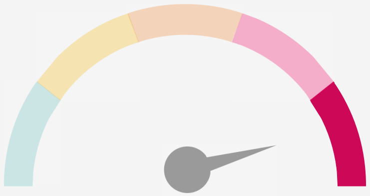
### Small Disruption *(equivalent to Libyan civil war in 2011)*

- Global oil supply reduced by 500,000 to 2 million barrels per day
- Oil prices increase by 3-13% relative to the average for the current quarter – to a range of $93 to $102/bbl



### Medium Disruption *(equivalent to Iraq war in 2003)*

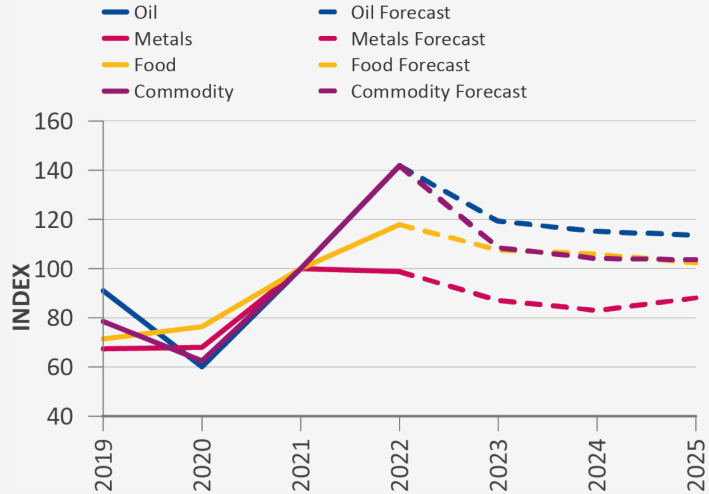
- Global oil supply curtailed by 3-5 million barrels per day
- Oil prices increase by 21-35% initially – to a range of $109 and $121/bbl



### Large Disruption *(equivalent to Arab oil embargo in 1973)*

- Global oil supply would shrink by 6-8 million barrels per day
- Oil prices increase by 56-75% initially – to a range of $140 and $157/bbl

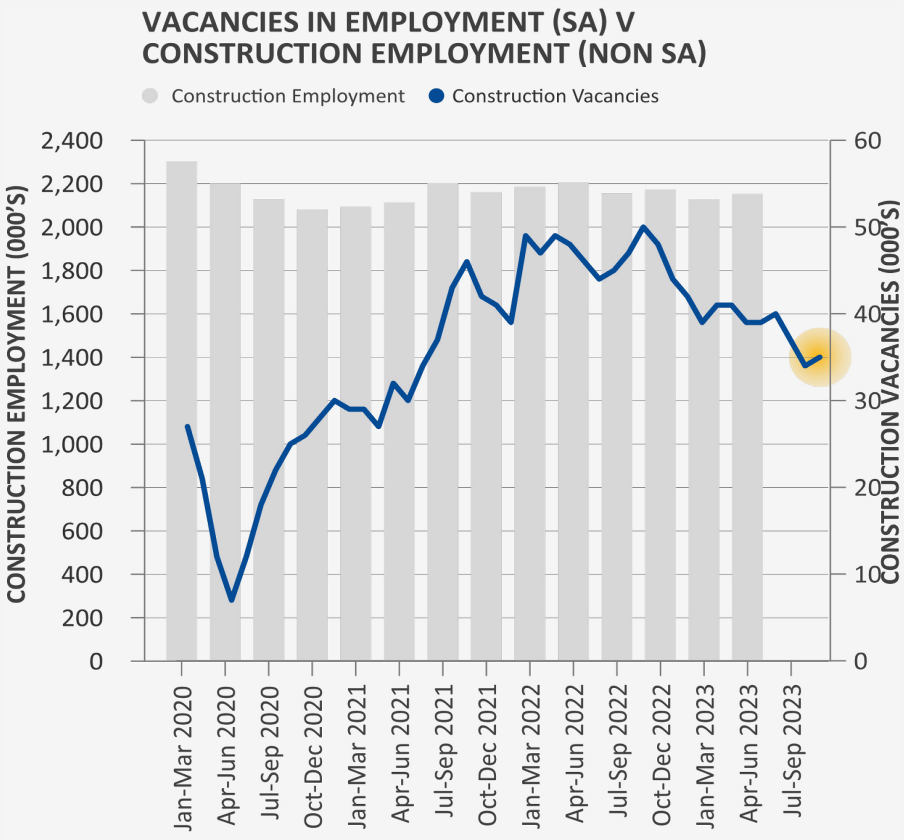
**WORLD BANK BASELINE FORECAST: COMMODITY PRICES**

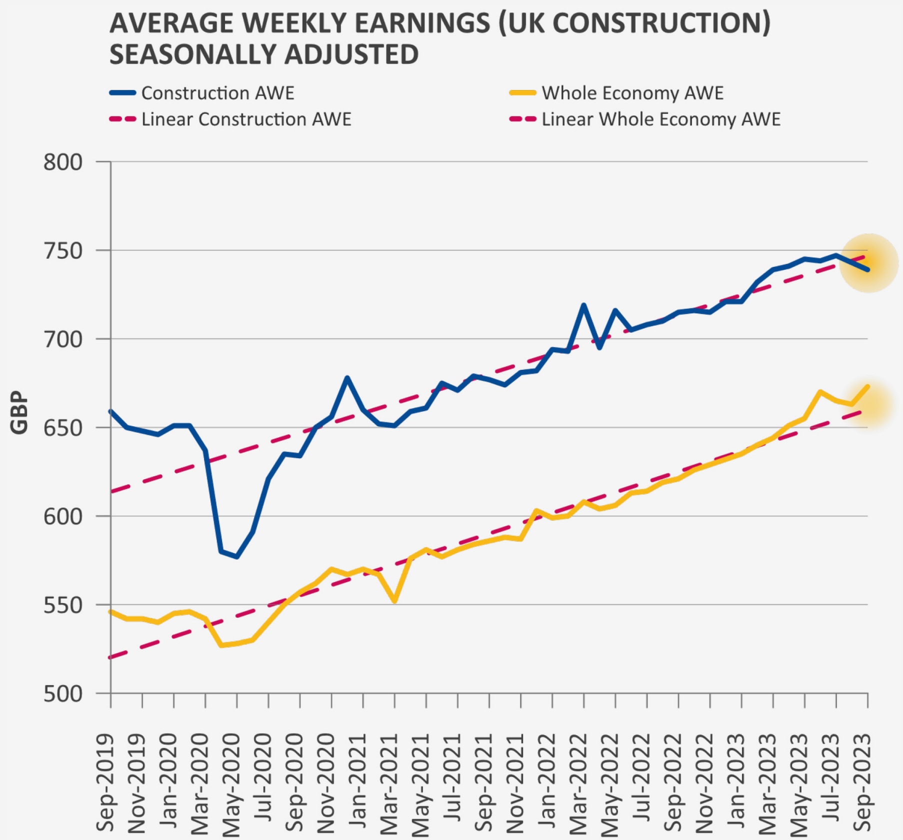



***Note:** Under the Bank's baseline forecast, oil prices are expected to average $90 a barrel in Q4 2023 before declining to an average of $81 a barrel next year as global economic growth slows. Overall commodity prices are projected to fall 4.1% next year. Prices of agricultural commodities are expected to decline next year as supplies rise. Prices of base metals are also projected to drop 5% in 2024. Commodity prices are expected to stabilize in 2025.*

***Source:** Bloomberg; World Bank*

## Construction vacancies decline due to subdued demand and cautious hiring strategies
## August sees construction earnings growth ease to 4.5%




*Source:* ONS

# 03 / SPOTLIGHT: THE RISE OF CONSTRUCTION INSOLVENCIES

## Clients will need to be proactive to mitigate the impact of rising insolvencies…

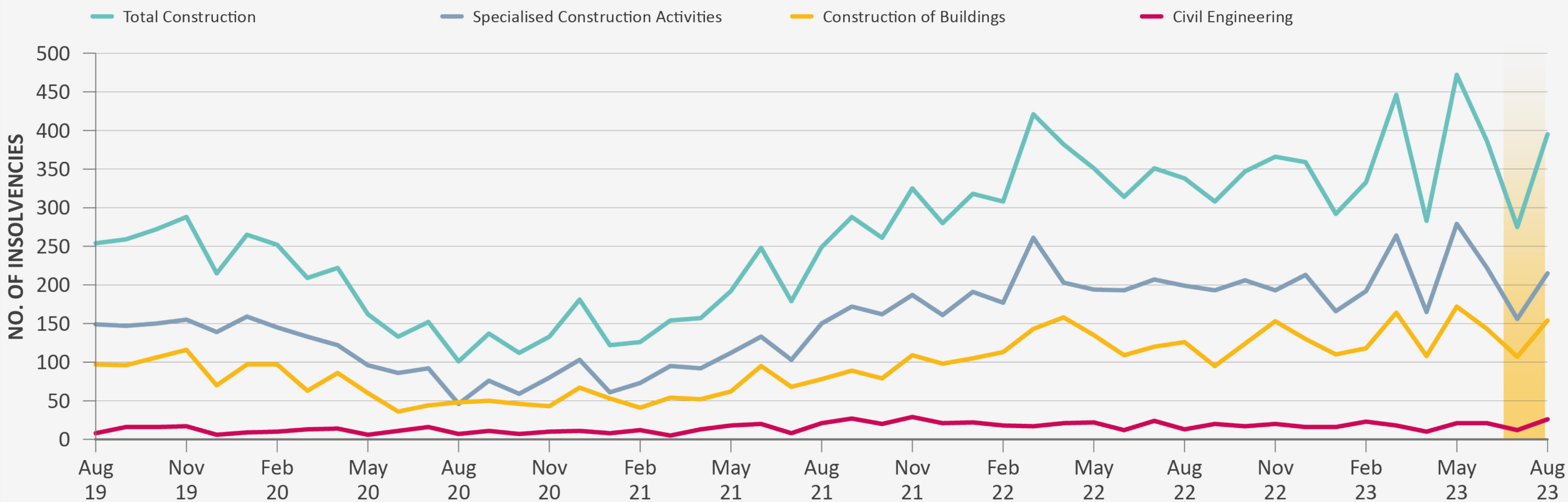
**Perfect storm of factors** pushes construction insolvencies to **4,262 – 7.6%** higher than a year ago

**53.3%** of insolvencies were specialist contractors (ie trade/sub-contractors), **37%** main contractors and **5%** civil engineering firms

Firms contending with **supply side issues** (ie, Higher material costs, planning delays, and skills shortages), impacting **financial viability**

Full impact of **residential slowdown** and **delayed Government projects** yet to feed through to insolvencies

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.*

## Current trajectory following previous trends (ie higher interest rates push insolvencies higher)

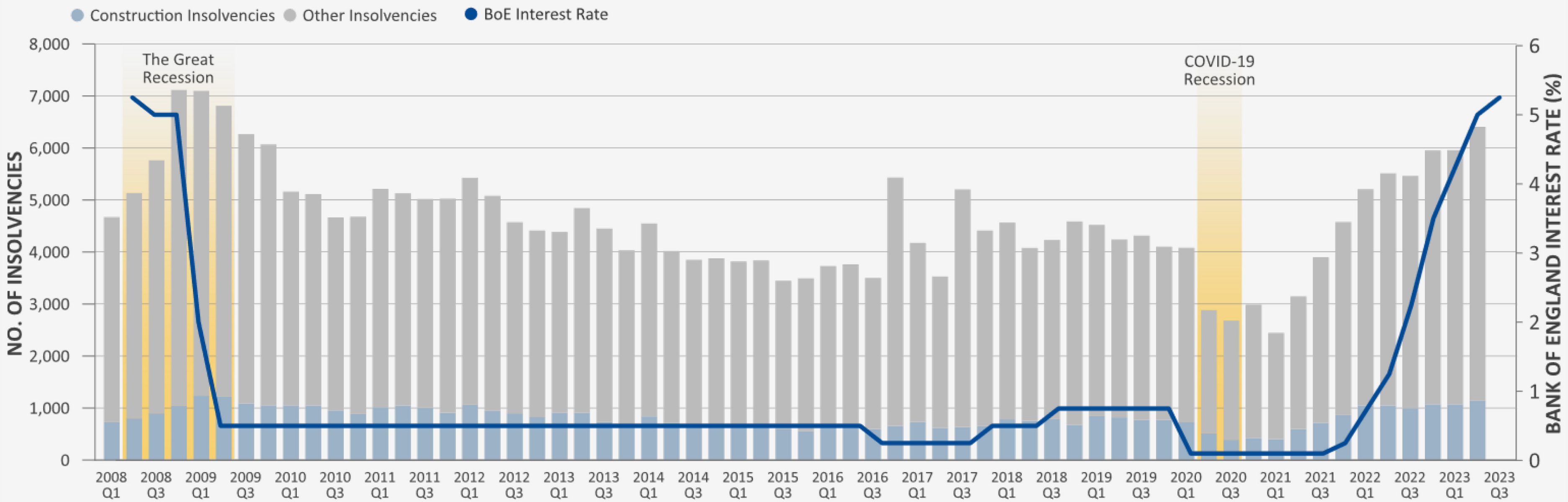
Subdued construction growth compounding with **stubborn inflationary pressures**, **elevated interest rates** and **faltering demand**

Current trajectory of insolvencies is following previous trends (ie **higher interest rates push insolvencies higher**)

Pandemic support measures **delayed usual increase in insolvencies**, but insolvencies are now rising rapidly

Construction **SMEs particularly exposed to economic disruption** due to limited liquidity and less consistent pipelines of work

### 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 Credit Checks
Undertake Robust Financial and Credit Checks

### 02 Performance Bonds
Use of Performance Bonds/or Parent Company Guarantee

### 03 Engage
Engage the Supply Chain and Meet the CFO

### 04 Stability
Regular Financial Stability Checks

### 05 Timeline
Follow Contract Payment Timeline

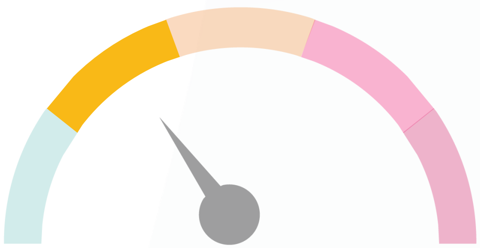
### 06 Early Payments
Reduce Early Payments

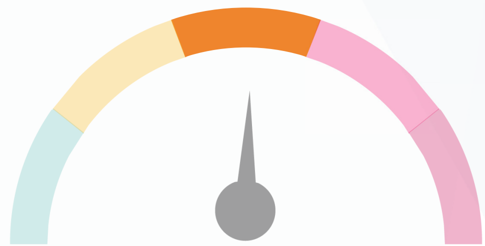
### 07 Retention
Ensure Appropriate Retention is Held

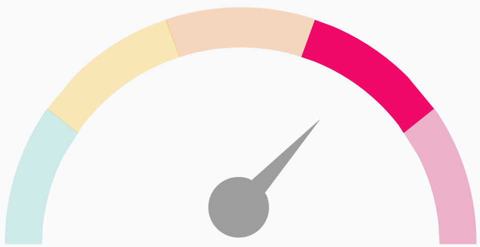
### 08 Insurances
Check Insurances are Robust

# 03 / TRENDS IN KEY TRADES, ENERGY & TRANSPORT

## Key Trade Analysis







### COMPETITIVE

- Demolition/Enabling Works
- Earthworks
- Substructure
- OH&P

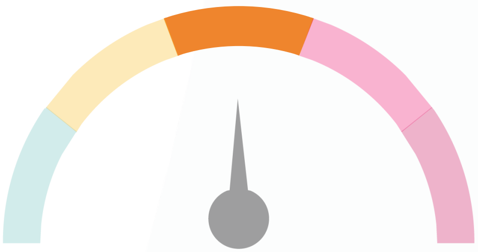
### UNDER PRESSURE

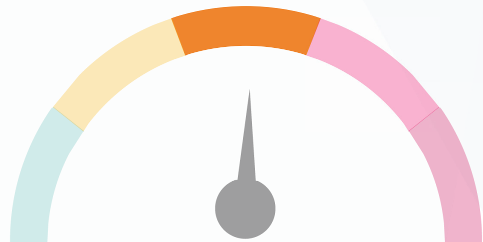
- Frame
- Carpentry/Joinery
- Finishes
- Preliminaries
- Drylining
- Façades

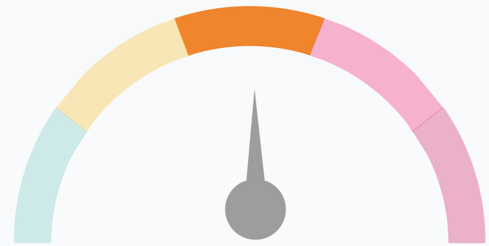
### HIGHER INFLATION TO COME

- Concrete
- MEP/Lift

## Overview







### ENERGY

#### An upside risk to price stability

- European wholesale gas prices slide on subdued demand and record gas inventories
- Future oil prices a concern due to OPEC+ cuts and disruption in the Middle East

### TRANSPORT

#### Stabilising as demand wanes

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

### TRADES

#### Fewer trades under pressure

- Less inflationary pressure on early works trades than later/finishing trades
- Labour-intensive trades have seen the greatest inflationary rises in 2023

## Energy prices less volatile **but outlook could quickly reverse…**

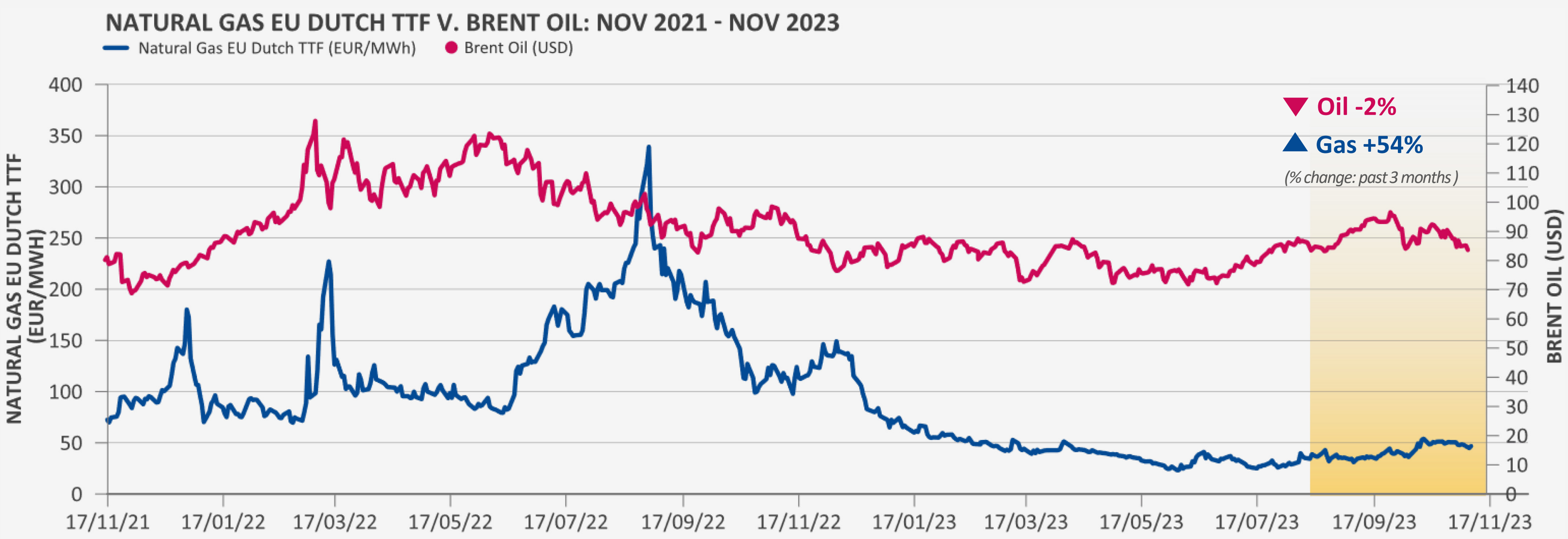
**Gas prices rise following supply concerns** (production cuts, pipeline leaks, strikes at LNG facilities)

**Oil prices soften**, reversing all gains made since the Israeli-Palestinian conflict

Energy prices can impact **product availability**, **project viability**, **project planning** and **budgeting** and **risk** management strategies

***Potential risks for future wholesale gas prices***

- *A cold 2023/24 winter*
- *Rebound in Chinese LNG demand*
- *Supply disruptions (ie escalation of Israeli-Palestinian conflict, production cuts, pipeline leaks, strikes)*




**Source:** *Trading Economics*

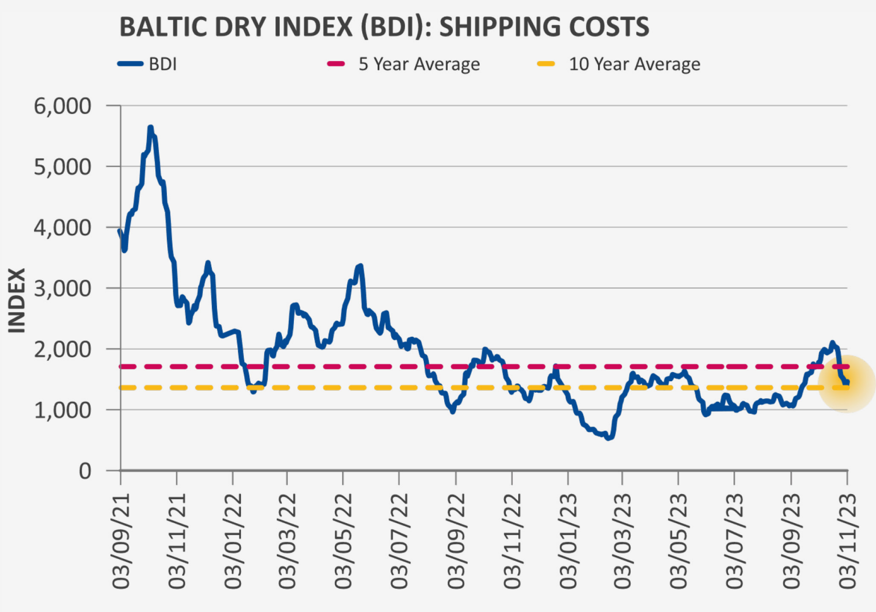
## Shipping costs fall as global consumer demand wanes, but road haulage operators feel price pressures…

**Shipping:** Higher fuel prices offset by waning consumer demand/spending for goods

Buyers/shippers **ordering less** and paring excess inventories in a **destocking effort**

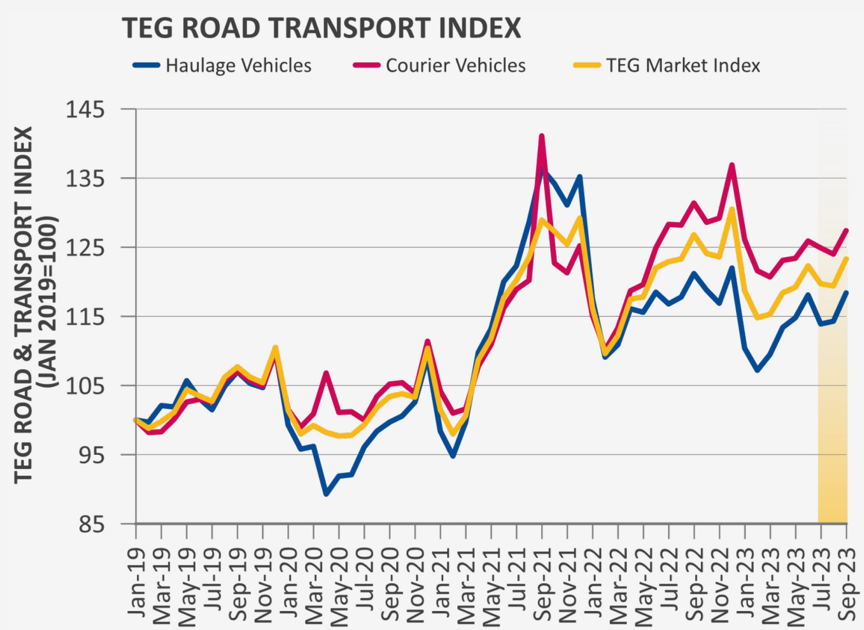
Rises in **fuel prices, business overheads** and a **new HGV levy** have pushed transport costs higher

**High interest rates** and **driver shortages** affecting haulage operators' prices




*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




***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

# 04 / MARKET CONDITIONS & PROCUREMENT TRENDS

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

Interest rate hikes may lead to **increased competition in tender pricing** from 2024 onward

Expectations of reduced market activity and **heightened tendering competition** over the next six months

**Main Contractors expected to proactively seek work** and respond to tender invitations as gaps in order books appear

However, **contractors might prioritise resizing** for profitable work over pursuing higher turnover if demand decreases

Contactors **shifting focus to different markets/sectors** in search for growth

Some **client investment plans on hold due to high borrowing costs**, changing building regulations and high land values

More schemes being **delayed, reconfigured, or not materialising** due to viability concerns

**Growing concern about insolvencies** as construction starts decline


GARDINER &THEOBALD

TENDER PRICE **FORECAST**

*for 4th Quarter 2023 is...*

3.00%

*Annual UK Average*

compared to 3.00% Annual UK Avg. in Q3 2023

*The UK construction industry continues to grapple with uncertain demand, high construction and financing costs, as well as skilled labour shortages. The good news is that some stubborn material pressures are now receding, and tender price inflation looks set to reduce in 2024 and beyond. But with 'higher for longer' interest rates, there are challenges to viability in the immediate future.*

KEY CONTACTS

GAVIN MURGATROYD *Partner*
+44 (0)20 7209 3000 | g.murgatroyd@gardiner.com

MICHAEL URIE *Senior Market Analyst*
+44 (0)20 7209 4362 | m.urie@gardiner.com

TENDER PRICE ANNUAL PERCENTAGE CHANGE Q4 2023

| % | 2023 | | 2024 | | 2025 | | 2026 | |
|---|---|---|---|---|---|---|---|---|
| Regional forecasts | Now | Last* | Now | Last* | Now | Last* | Now | Last* |
| Greater London | 3.25 | 3.25 | 2.25 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 |
| South East | 3.25 | 3.25 | 2.25 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 |
| South West | 2.50 | 2.75 | 2.25 | 2.25 | 2.00 | 2.25 | 2.25 | 2.25 |
| East (Anglia) | 3.25 | 3.25 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Midlands | 3.00 | 3.25 | 2.00 | 2.25 | 2.00 | 2.00 | 2.25 | 2.50 |
| Wales | 2.50 | 2.75 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Yorks & Humber | 2.00 | 2.00 | 2.00 | 2.00 | 2.50 | 2.00 | 2.50 | 2.00 |
| North West | 2.00 | 2.00 | 2.00 | 1.75 | 2.50 | 1.75 | 2.50 | 1.75 |
| North East | 2.50 | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Scotland | 3.00 | 3.00 | 2.50 | 2.25 | 2.50 | 2.25 | 2.25 | 2.25 |
| Northern Ireland | 3.00 | 3.00 | 2.25 | 2.25 | 2.00 | 2.00 | 2.50 | 2.50 |
| **UK Average** | **3.00** | **3.00** | **2.25** | **2.25** | **2.25** | **2.25** | **2.50** | **2.50** |

Last* 3Q 2023

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

TENDER PRICE TREND 'ALL UK TPI'



Read our latest report

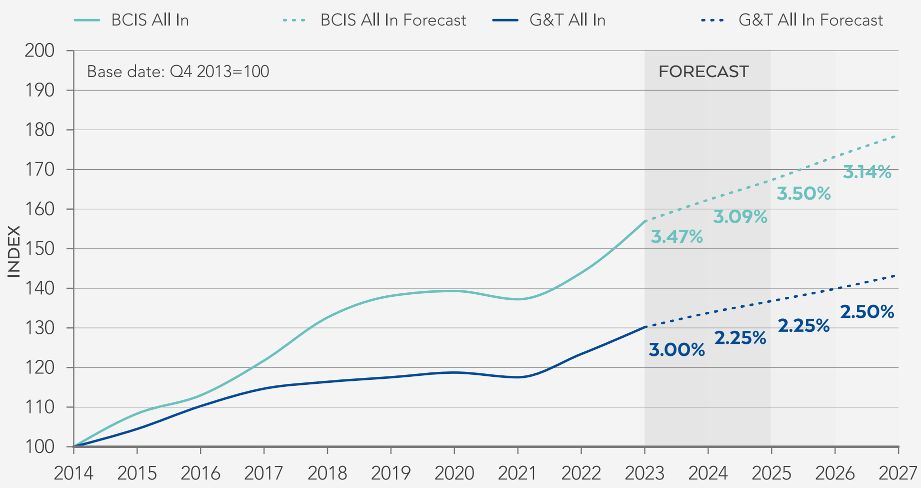
*Note*: see [G&T's Q4 2023 TPI report](#) for a more detailed analysis and insights into how market conditions are driving tender price inflation.

## The UK construction industry continues to grapple with uncertain demand, high construction and financing costs, as well as skilled labour shortages…

But the good news is that **stubborn material price inflation pressures are now receding**, and tender price inflation looks set to **fall in 2024** and beyond. However, with **'higher for longer'** interest rates, there are **challenges to scheme viability** in the immediate future.

| **UK Average** Tender Price Forecast (2023)... | **London** Tender Price Forecast (2023)... |
|---|---|
| **3.00%** | **3.25%** |

### TENDER PRICE TREND 'ALL UK TPI'




### TENDER PRICE ANNUAL PERCENTAGE CHANGE Q4 2023

| % | 2023 | | 2024 | | 2025 | | 2026 | |
|---|---|---|---|---|---|---|---|---|
| **Regional forecasts** | **Now** | **Last*** | **Now** | **Last*** | **Now** | **Last*** | **Now** | **Last*** |
| Greater London | 3.25 | 3.25 | 2.25 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 |
| South East | 3.25 | 3.25 | 2.25 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 |
| South West | 2.50 | 2.75 | 2.25 | 2.25 | 2.00 | 2.25 | 2.25 | 2.25 |
| East (Anglia) | 3.25 | 3.25 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Midlands | 3.25 | 3.25 | 2.00 | 2.25 | 2.00 | 2.00 | 2.25 | 2.50 |
| Wales | 2.50 | 2.75 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Yorks & Humber | 2.00 | 2.00 | 2.00 | 2.00 | 2.50 | 2.00 | 2.50 | 2.00 |
| North West | 2.00 | 2.00 | 2.00 | 1.75 | 2.50 | 1.75 | 2.50 | 1.75 |
| North East | 2.50 | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Scotland | 3.00 | 3.00 | 2.50 | 2.25 | 2.50 | 2.25 | 2.25 | 2.25 |
| Northern Ireland | 3.00 | 3.00 | 2.25 | 2.25 | 2.00 | 2.00 | 2.50 | 2.50 |
| **UK Average (weighted)** | **3.00** | **3.00** | **2.25** | **2.25** | **2.25** | **2.25** | **2.50** | **2.50** |

**Last*** **3Q 2023**

***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.*

# Procurement routes still being dictated by Tier 1 Contractor market

Choice of procurement route continues to be **Tier 1 contractor-led**

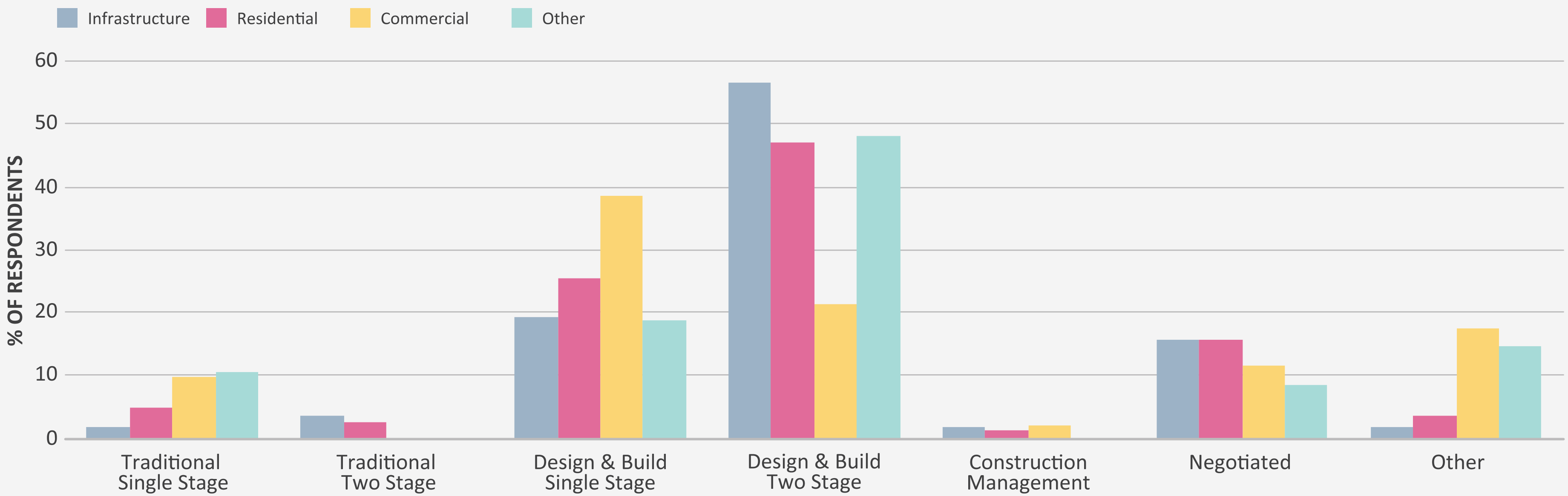
**General towards single stage tendering,** particularly amongst the bigger contractors on large schemes

Tender lists are **typically reduced** and **highly volatile** for traditional single stage

Changing **market conditions** starting to being about **a shift in procurement trends**

Contractors to become **more accommodating towards single** stage to secure turnover in an uncertain market

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




*Source:* G&T Q4 2023 TPI Survey

# 05 / KEY TAKEAWAYS

**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

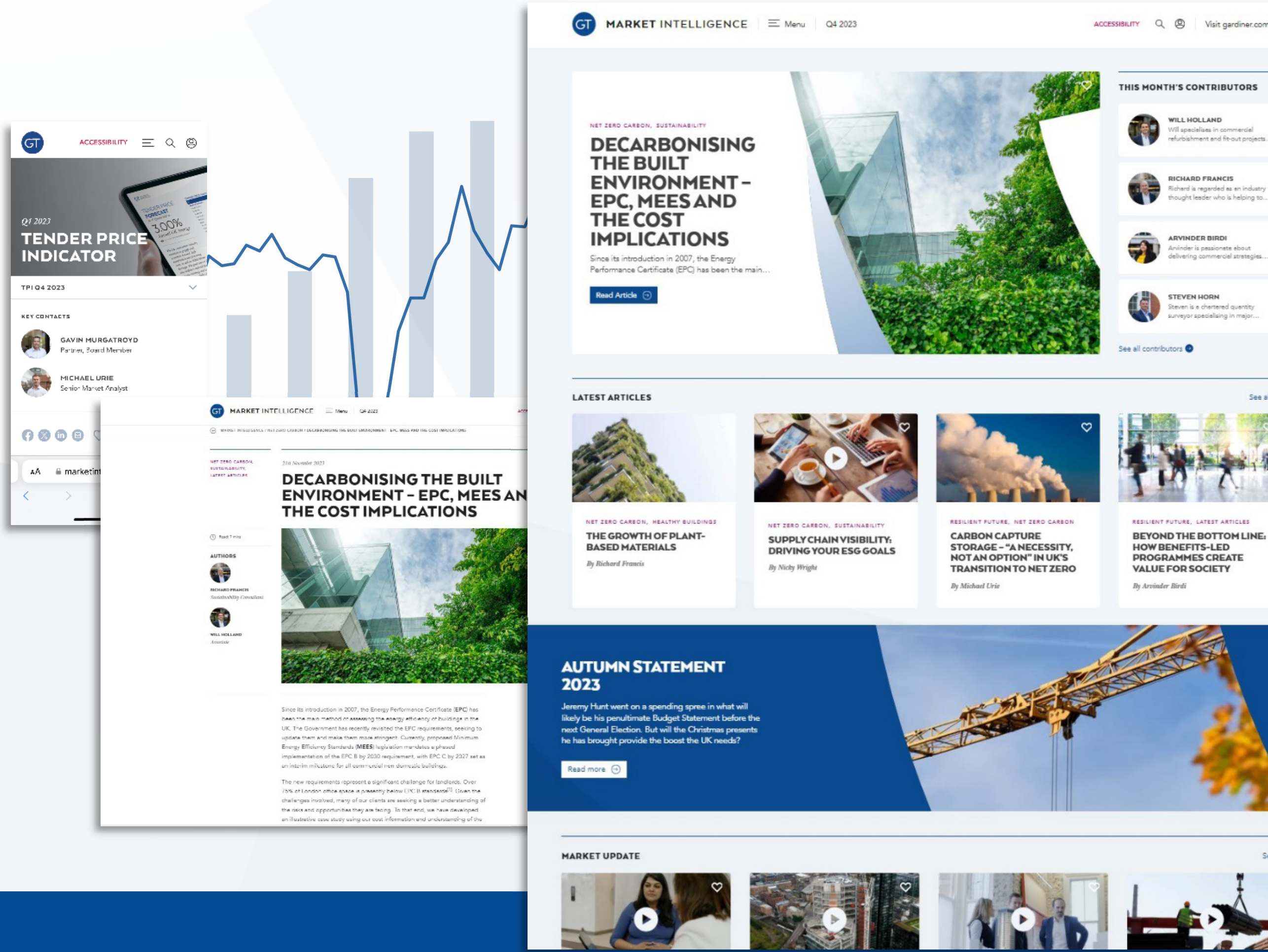
**CAPACITY**
Match your projects to the right contractor and capacity

**BUYING WINDOWS**
Identify buying windows to capitalise on market conditions

**Potential opportunities** as sub-contractors look to pass on **stabilising material costs to secure work**

**Improving capacity** for Main Contractors and early trades

We anticipate a **shift to refurbishment and sustainability projects in early 2024**, amidst the challenges of the debt market




## FIND OUT HOW WE CAN HELP…

https://marketintel.gardiner.com/

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