

# MARKET UPDATE

*Construction costs stabilise:  
is the worst behind us?*



In G&T's first update for 2024, reassuring input cost trends and **improving supply chain capacity** are weighed against an uncertain growth outlook and supply chain concerns.

### MACRO ECONOMICS & CONSTRUCTION OUTPUT

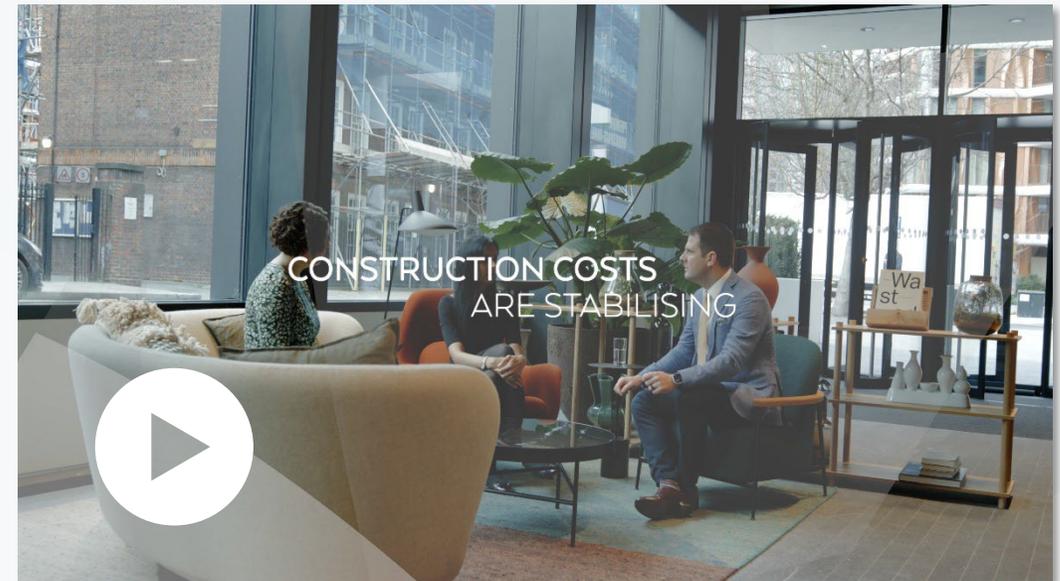
### CONSTRUCTION MARKET TRENDS

### THE RISE OF CONSTRUCTION INSOLVENCIES

### TRENDS IN KEY TRADES

### MARKET CONDITIONS & KEY TRENDS

### KEY TAKEAWAYS



[WATCH OUR FILM HERE](#)

01

# MACRO ECONOMICS & CONSTRUCTION OUTPUT



As price pressures ease and expectations of interest rate cuts mount, the economy may begin to recover from last year's stagnation



### IS THE PERIOD OF ECONOMIC STAGNATION COMING TO AN END?

Forecasters predict slowing inflation and bank rate cuts should help build economic momentum



### CPI 4% (Jan 2024)

Inflation has fallen faster than expected, but what impact will the Red Sea crisis have on prices?



### UK CONSTRUCTION PMI (Jan 2024)

While still indicating a decline in activity, January's reading of 48.8 was the highest in five months



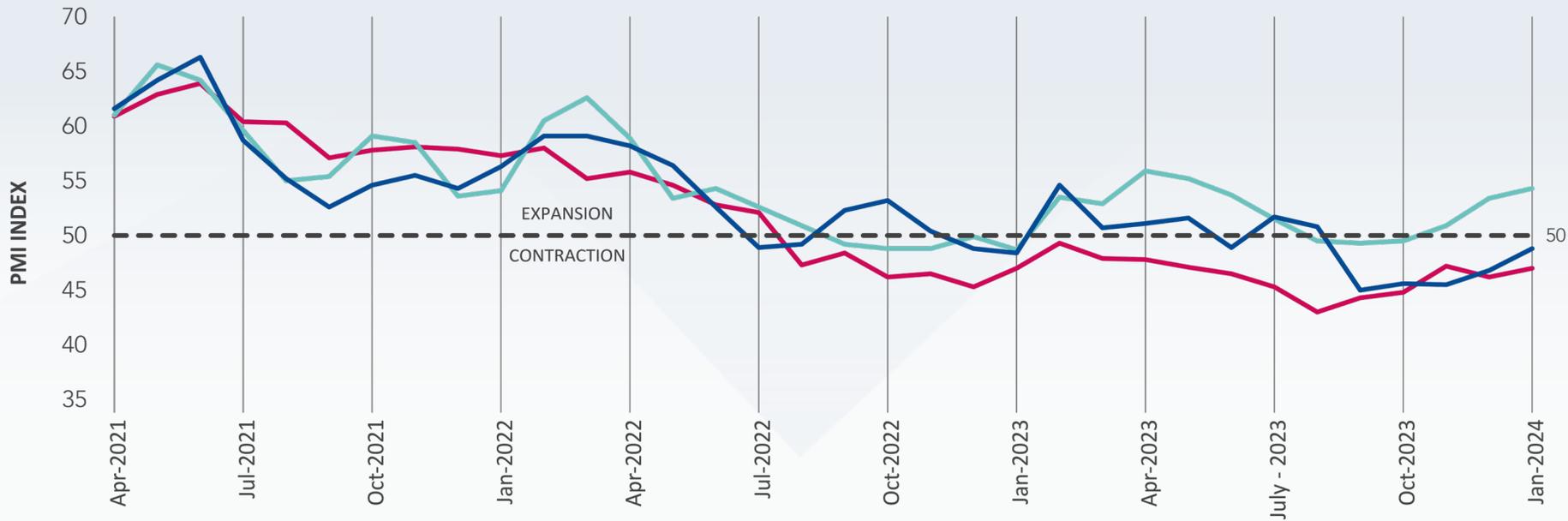
### INTEREST RATE CUTS ON THE HORIZON

Rate cuts expected but inflation uncertainty to increase BoE caution



### 3.8% UNEMPLOYMENT RATE (Oct – Dec 23)

Unemployment rate eases but gives misleading impression of labour market tightness



SERVICES

54.3

CONSTRUCTION

48.8

MANUFACTURING

47.0

UK Construction PMI remains in contraction territory, but **expectations for the year ahead strengthen...**

New work continues to contract due to **delayed decision-making and subdued market conditions**

**Sustained input inflation** driven by **higher prices for imported items**

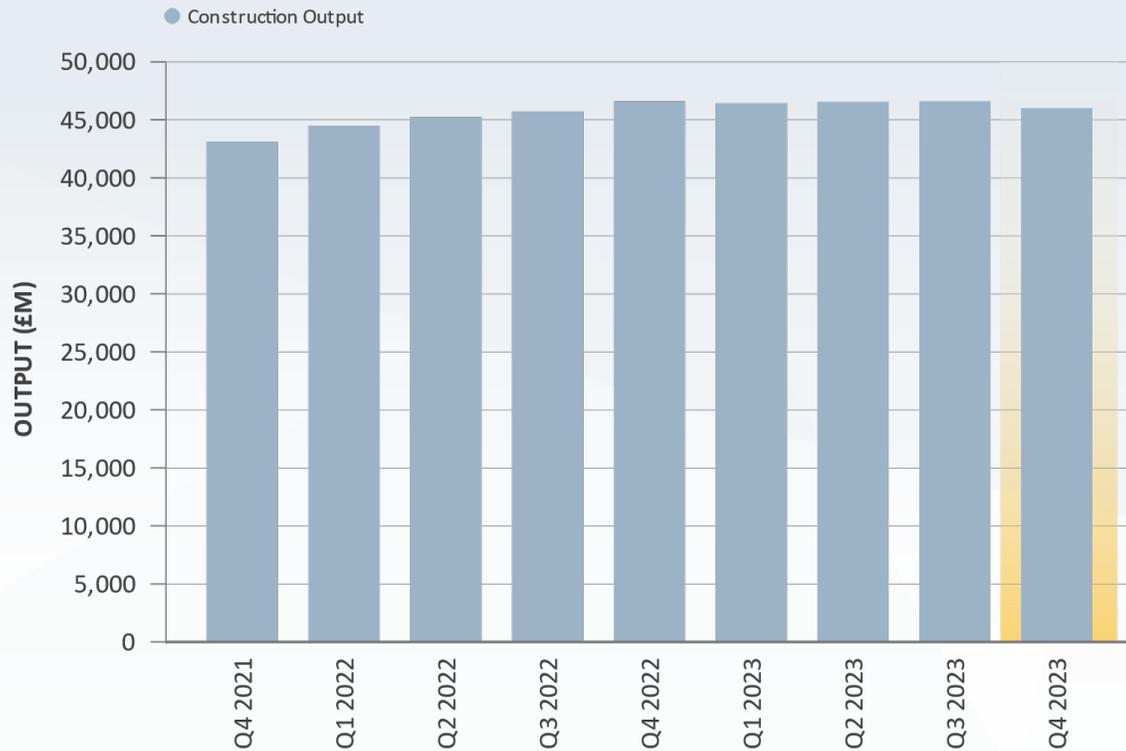
Despite improvements in sub-contractor availability, **tender prices continue to be impacted by inflation**

Optimism that business conditions and **economic backdrop will improve** over 2024

Source: [S&P Global](#)

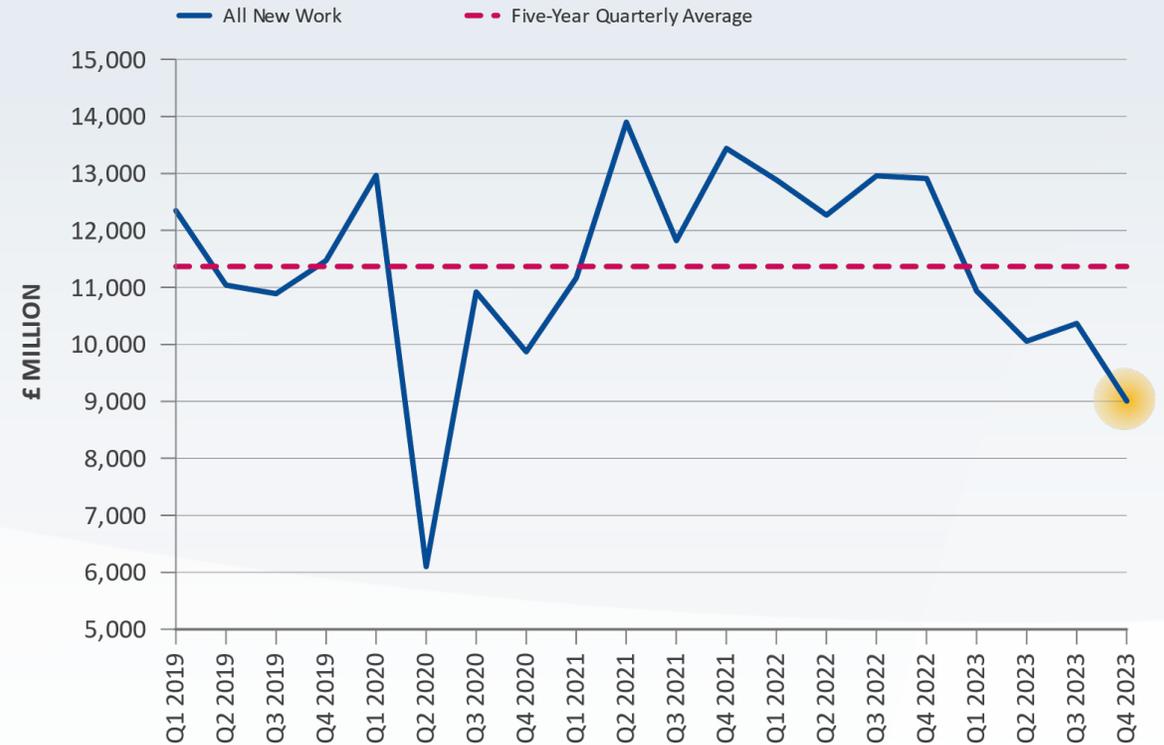
Note: The PMI is a subjective, sentiment-based index. Output and new order trends may therefore vary from official ONS' data trends, which are based on hard economic data.

### UK CONSTRUCTION OUTPUT (Q-ON-Q)



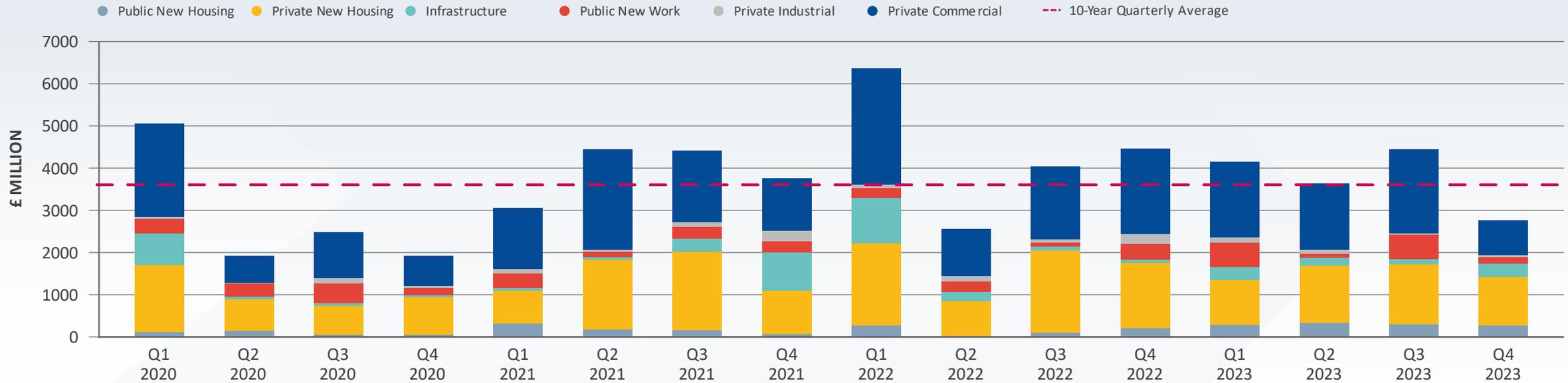
**UK construction output growth fell by 1.3% in Q4 2023, the biggest quarterly contraction in more than two years**

### UK CONSTRUCTION NEW ORDERS (ALL NEW WORK)



**New order volumes resume their downward trend in Q4, falling by 13.1% to just over £9bn**

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



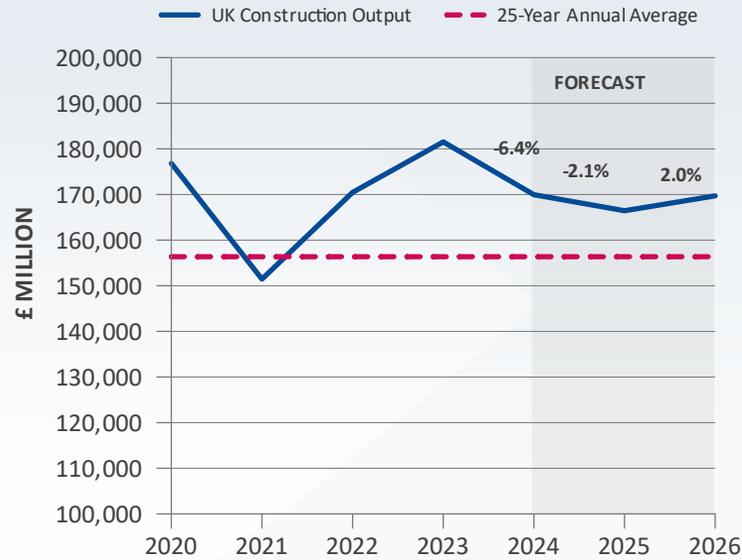
London new orders fell 38% in Q4 to £2.8bn, well below the 10-year average figure

Weak investment conditions and uncertain growth outlook impact client confidence

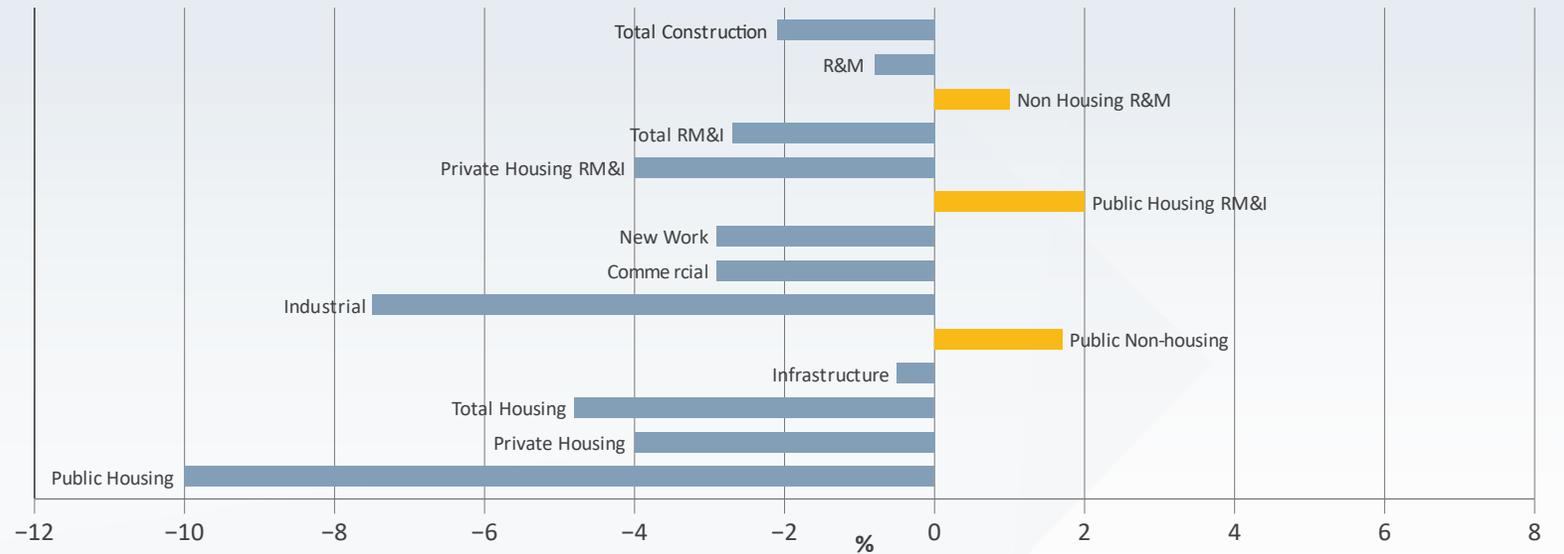
Stabilising cost pressures, good availability of materials and improving contractor capacity are positive signs

Commercial new orders fall but the London office development pipeline remains resilient

## UK CONSTRUCTION OUTPUT: CPA FORECAST



## CONSTRUCTION OUTPUT FOR 2024 BY SUB-SECTOR: CPA MAIN FORECAST



**2.1% fall in construction output forecast for 2024 amid challenging environment, but recovery anticipated in 2025**

### 2024 OUTLOOK



Slightly brighter economic prospects



Slowing inflation, interest rates to fall



Supply issues if Red Sea blockages persist



Impact of election on project sign offs



Mixed fortunes across different sectors



Housing output impacted by low demand

02

# CONSTRUCTION MARKET TRENDS – MATERIALS, COMMODITIES & LABOUR



Low Pressure

High Pressure



**MATERIALS**

**CONTRACTOR CAPACITY**

**LABOUR**

**MATERIALS**

*Price Falls Linked To Stagnating Demand*

- Collective stabilisation in construction material price inflation
- Price falls due to stagnating demand, lower wholesale energy prices and improvements in product availability

**CONTRACTOR CAPACITY**

*Capacity Continues To Improve*

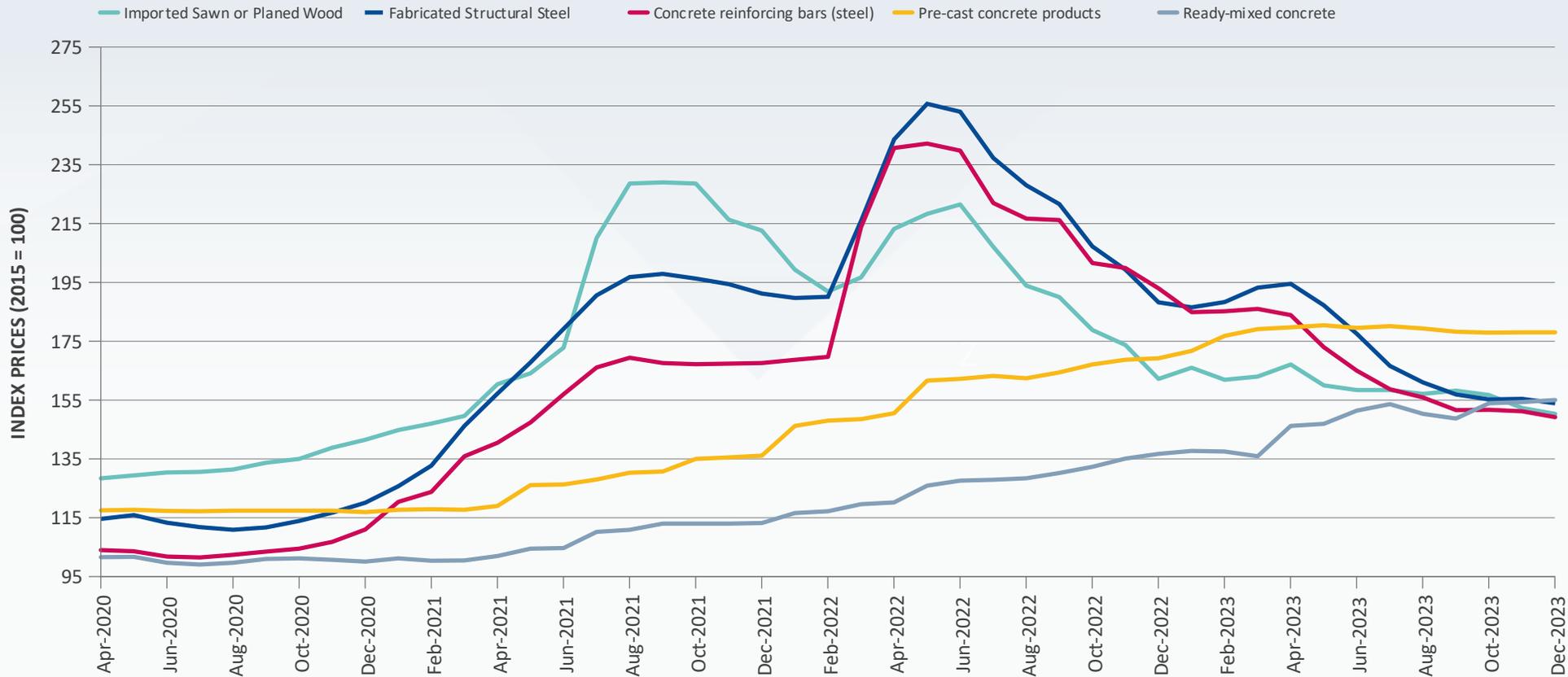
- Easing workloads and emerging pipeline gaps improving tender engagement
- Most trades have capacity to tender works and there are contractors in all trades hungry for work

**LABOUR**

*Wage Awards Driving Costs But Pressure Is Easing*

- Site rates still rising but at a slower rate given reduced construction activity
- Short-term peak has passed but shrinking labour pool to drive long-term earnings growth

BEIS: PRICE INDICES OF CONSTRUCTION MATERIALS (UK)



BEIS 'ALL WORK' INDEX

**-2.3%** ▼

(Dec 22 – Dec 23)

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

BEIS MATERIALS RISERS AND FALLERS: QUARTERLY V ANNUALLY

● Quarterly (Sep - Dec 2023) ● Annual (Dec 2022 - Dec 2023)



REBAR: SUPPLY COST (£/T)



UK REBAR SUPPLY COST\*

**-2.2%**

to £721/t (in Feb 2024) compared to £737/t (in Oct 2023)

UK STRUCTURAL STEEL COST

**0 to -2%**

to £780-800/t (in Feb 2024), unchanged from Oct 2023

Steel prices stabilise after significant falls and are likely to remain subdued in 2024

Global steel demand remains weak

Prices bottoming out following production cuts

Supply has readjusted to meet lower demand levels

Pending no further volatility in the energy markets, steel prices are likely to be largely balanced in 2024

\*Data shows average supply cost of cut & bent rebar for a tonnage range 1-1,000 tonnes



**S&P GSCI Commodity Price Index down 32% from 2022 peak, but increased tension in the Red Sea poses supply risk...**

Commodity prices on **general downward trend** due to cooling demand

Prices ultimately being driven by **fundamental demand and supply** factors

Small uptick in commodity prices following **shipping disruption** in the Red Sea

Potential for initial tightness as **supply chains adjust to longer routes**

**Energy markets most vulnerable**, but no loss of supply yet



Attacks on vessels in the Red Sea have disrupted shipping in the Suez Canal – the fastest sea route between Asia and Europe

The Suez Canal handles 12% of global trade. Diverted vessels are taking a slower route, increasing shipping costs and stoking price pressure concerns on imported goods.

Low Impact High Impact



**OIL & GAS**

- 12% of oil and 8% of global LNG trade shipped via Suez Canal, so energy markets are vulnerable
- Disruption to maintain price premiums but without production cuts or wider escalation, impact will be limited

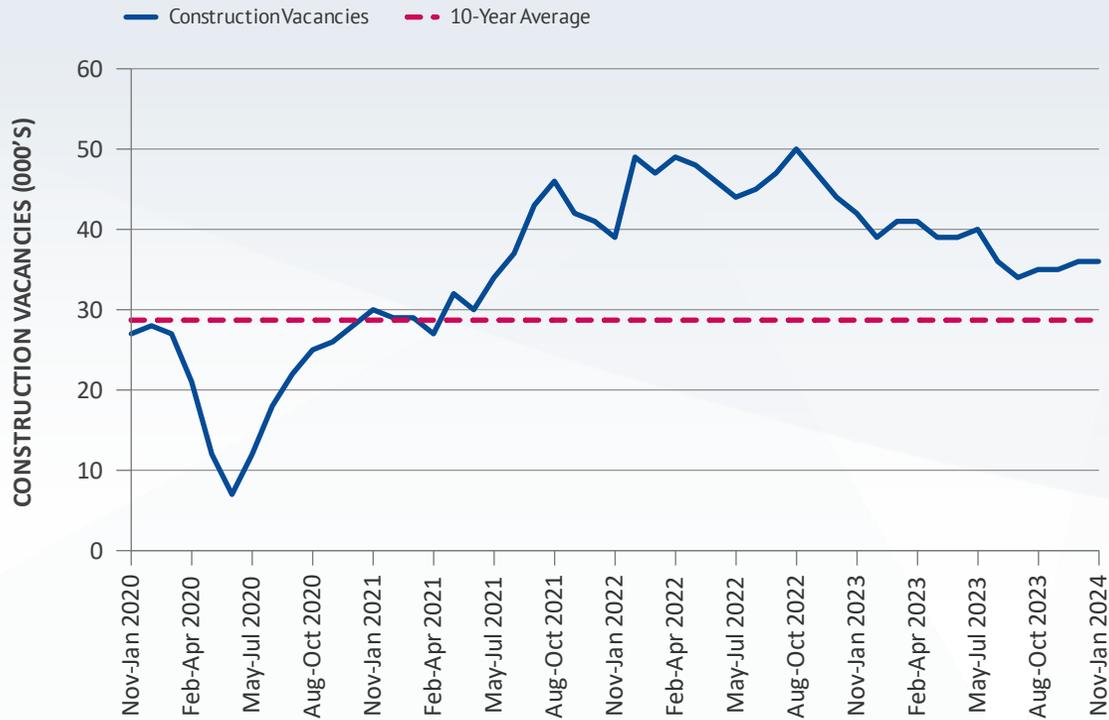
**METALS**

- China and other Asian countries are critical metals exporters to Europe
- Disruptions on the Red Sea route could increase costs and delay shipments to Europe

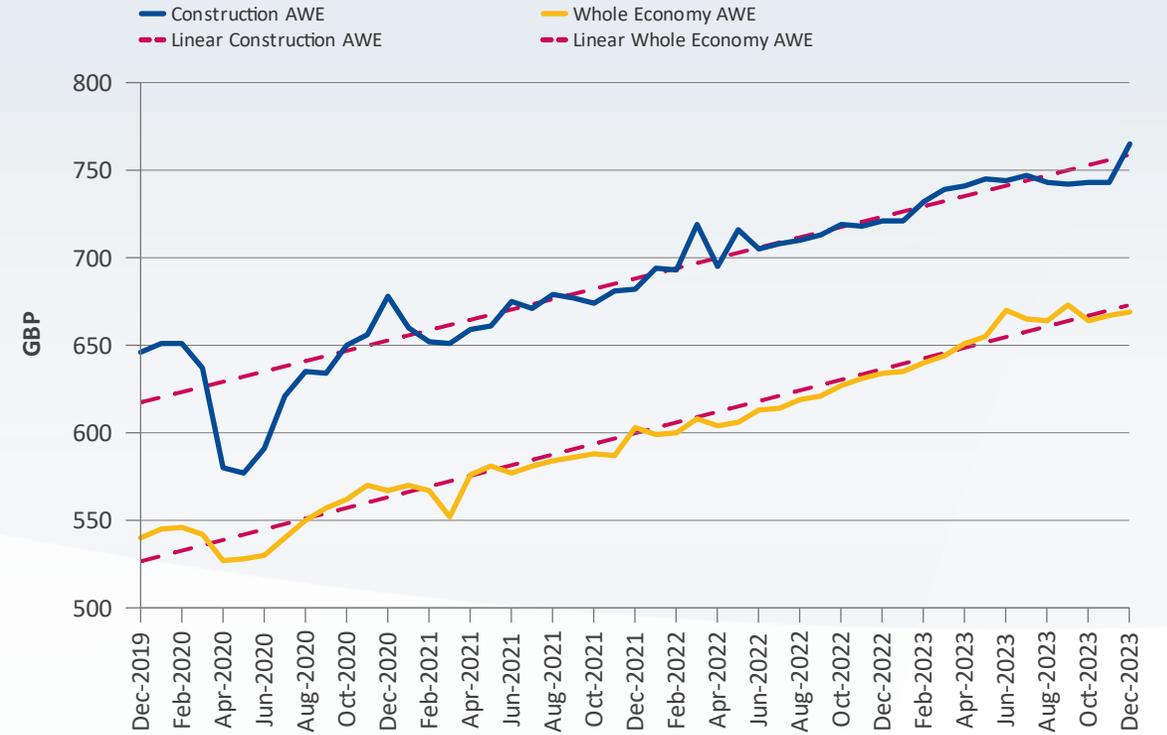
**SHIPPING COSTS**

- Diverted vessels adding 14-20 days to journey time
- Rise in shipping costs and supply chain delays could impact imported goods
- The cost of container shipping increased 150% since ships began to be diverted to avoid the Suez Canal

### VACANCIES IN CONSTRUCTION (SA)



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



Tight labour market experiences **temporary relief**

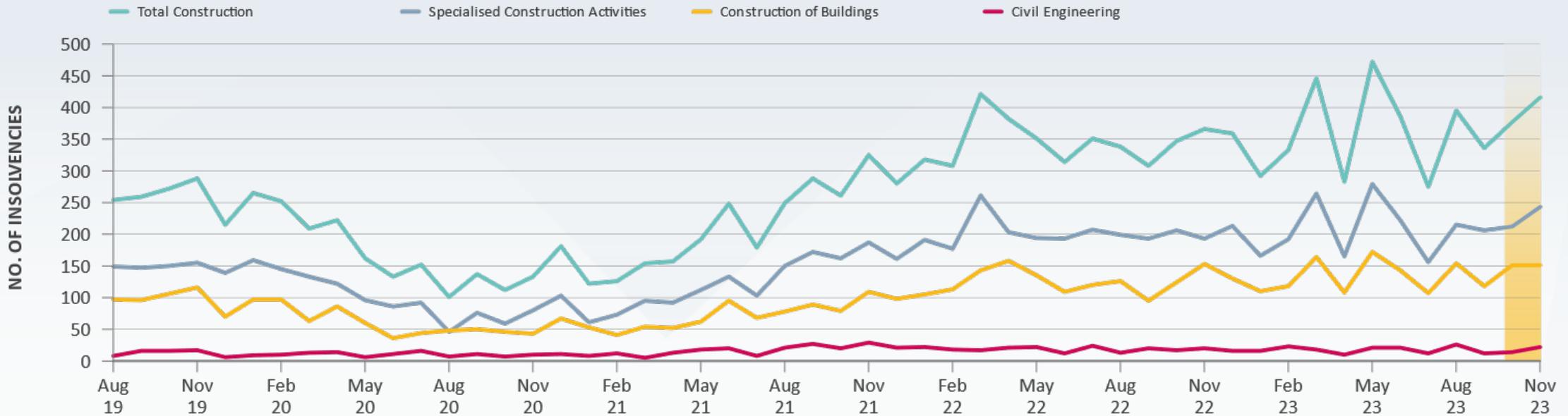


Wage growth has **passed its short-term peak** and is **beginning to normalise**

03

# SPOTLIGHT: THE RISE OF CONSTRUCTION INSOLVENCIES

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



Rising insolvencies remain a key concern up and down the supply chain....

**1,129 construction firms went out of business** in the three months to November 2023 – **9.6%** higher than a year ago

Trend driven by historic cost inflation and slowing construction activity, creating **financial pressure on firms**

**Smaller specialist firms most affected** but main contractors are not immune (eg Buckingham Group, Readie Construction)

**Increased risk aversion** among contractors who are pricing work and agreeing contract terms more cautiously

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.

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



### CREDIT CHECKS

Undertake Robust Financial and Credit Checks



### PERFORMANCE BONDS

Use of Performance Bonds/or Parent Company Guarantee



### ENGAGE

Engage the Supply Chain and Meet the CFO



### STABILITY

Regular Financial Stability Checks



### TIMELINE

Follow Contract Payment Timeline



### EARLY PAYMENTS

Reduce Early Payments



### RETENTION

Ensure Appropriate Retention is Held



### INSURANCES

Check Insurances are Robust

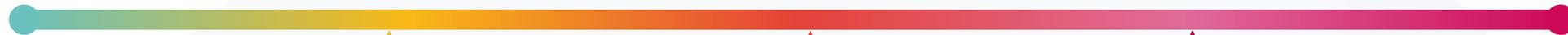
04

# TRENDS IN KEY TRADES



Low Pressure

High Pressure

**COMPETITIVE**

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

**BALANCED/STABLE**

- Carpentry/Joinery
- Finishes
- Drylining
- Concrete
- Preliminaries

**HIGHER INFLATION TO COME**

- MEP
- Lifts
- Façades

05

# MARKET CONDITIONS & KEY TRENDS

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

[READ OUR LATEST REPORT](#) 

**High interest rates** continue to impinge on development feasibility

Planning delays and **elevated construction costs** considered to be the leading challenges

'Flight to quality', EPC requirements and high demand for **best-in-class space** is driving commercial office refurbishment activity

Efficiencies being sought, including bulk/advance buying to achieve best price, and **improved payment terms** to improve cashflow

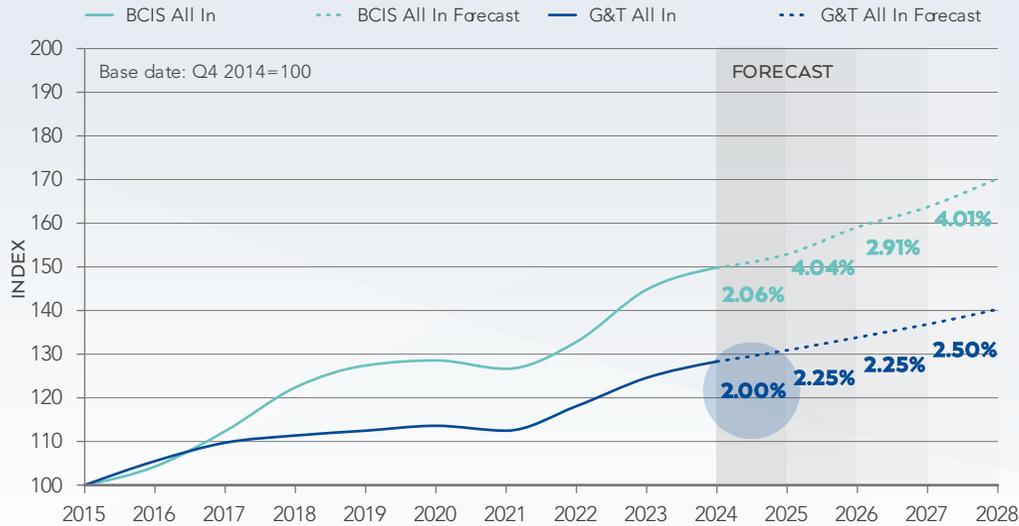
Emerging trend of contractors reducing overheads to **maintain competitiveness** as workloads soften

Reassuring input cost  
Trends of softer labour inflation and **falling materials prices**

Contractors seeking early projects starts, **forward engagement with suppliers** and increased selectivity when partnering

Concerns that **geopolitical developments** could disrupt supply chains

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE ANNUAL PERCENTAGE CHANGE Q1 2024

% Regional forecasts	2024		2025		2026		2027	
	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Greater London	2.00	2.25	2.25	2.50	2.50	2.50	2.50	N/A
South East	2.00	2.25	2.25	2.50	2.50	2.50	2.50	N/A
South West	2.25	2.25	2.50	2.00	2.25	2.25	2.25	N/A
East (Anglia)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	N/A
Midlands	2.00	2.00	2.00	2.00	2.00	2.25	2.00	N/A
Wales	2.00	2.25	2.00	2.50	2.25	2.50	2.50	N/A
Yorks & Humber	2.00	2.00	2.25	2.50	2.50	2.50	2.50	N/A
North West	2.00	2.00	2.00	2.50	2.00	2.50	2.50	N/A
North East	2.00	2.00	2.00	2.00	2.00	2.00	2.50	N/A
Scotland	2.75	2.50	2.50	2.50	2.25	2.25	2.25	N/A
Northern Ireland	2.25	2.25	2.00	2.00	2.50	2.50	2.50	N/A
<b>UK Weighted Average</b>	<b>2.00</b>	<b>2.25</b>	<b>2.25</b>	<b>2.25</b>	<b>2.25</b>	<b>2.50</b>	<b>2.50</b>	<b>N/A</b>

Last\* 4Q 2023

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

**UK AVERAGE**  
Tender Price Forecast (2024)

**2.00%**

**LONDON**  
Tender Price Forecast (2024)

**2.00%**

**With market activity slowing in some sectors, and deflationary pressures mounting, contractor pricing is expected to be more competitive in 2024...**

Although procurement conditions may become more favourable, interest rates and the high cost of debt remain a key pressure on viability. Pockets of the industry will remain busy, but signs point to an easing in the rate of tender price inflation in 2024.

*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.*

CENTRAL LONDON: FUTURE OFFICE DEVELOPMENT PIPELINE



The London office development market has **yet again shown its resilience...**

Highest volume of London office construction starts on record – **5.1m sq ft** (across 43 schemes)

The City recorded the highest volume of new starts of all seven London submarkets – **2.4m sq ft**

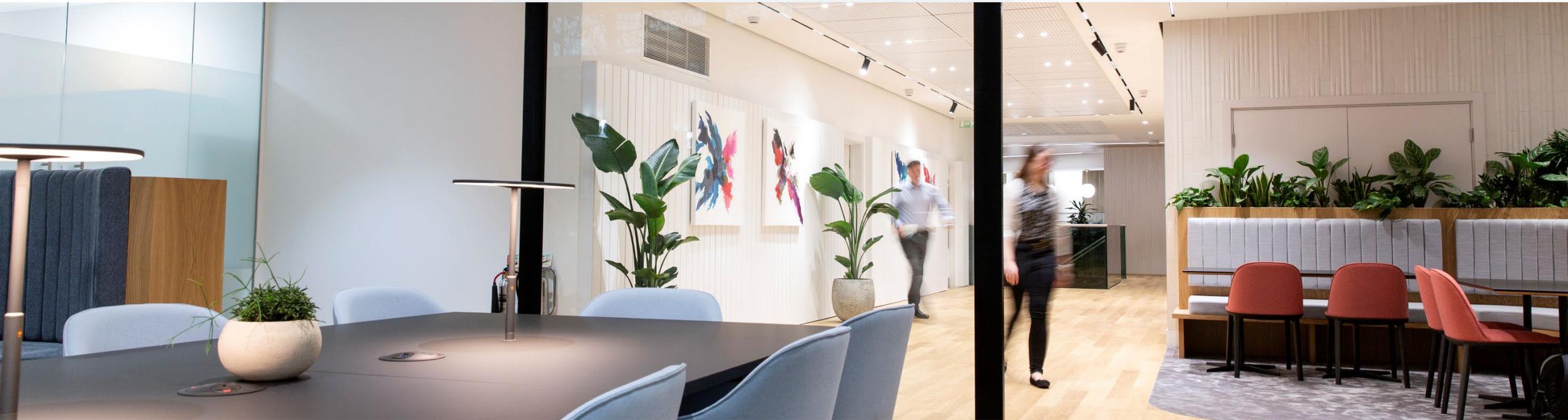
Completion volumes up by nearly one-third while total volume under construction rose **9%**

Nearly **6m sq ft** of space delivered between Q1-Q3 2023

Source: [Deloitte](#).  
 Note: The chart shows the year in which construction is expected to complete.

06

# KEY TAKEAWAYS



**Input cost pressures ease, despite Red Sea uncertainty**



**Supply chain: capacity is normalising, but insolvency risk demands vigilance**



**Anticipated falls in borrowing costs to help project feasibility**

Find out more about our market intelligence and **HOW WE CAN HELP**

# GT GARDINER & THEOBALD



**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.