

MARKET UPDATE

*Continued stability presents
window of opportunity*



In G&T's update for Q2 2024, hopes of an improving business outlook could **prompt a construction recovery**. Stabilising input costs and expectations of more favourable investment conditions could see **stalled projects being released to the market**.

MACRO ECONOMICS & CONSTRUCTION OUTPUT

CONSTRUCTION MARKET TRENDS

THE RISE OF CONSTRUCTION INSOLVENCIES & MEP PRESSURES

TRENDS IN KEY TRADES

MARKET CONDITIONS & KEY TRENDS

KEY TAKEAWAYS



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01

MACRO ECONOMICS & CONSTRUCTION OUTPUT



As the UK economy comes out of recession and lower inflation stokes hopes of interest rate cuts, are things looking up?



MOMENTUM IN THE ECONOMY TO GRADUALLY BUILD

UK exits shallow recession as household and business sentiment improves, but election uncertainty poses potential headwinds



CPI 2.3% (Apr 2024)

Headline inflation falls close to 2% target, but services inflation overshoots expectations



UK CONSTRUCTION PMI (Apr 2024)

Latest reading marks second consecutive month of growth, helped by rising workloads and a turnaround in demand



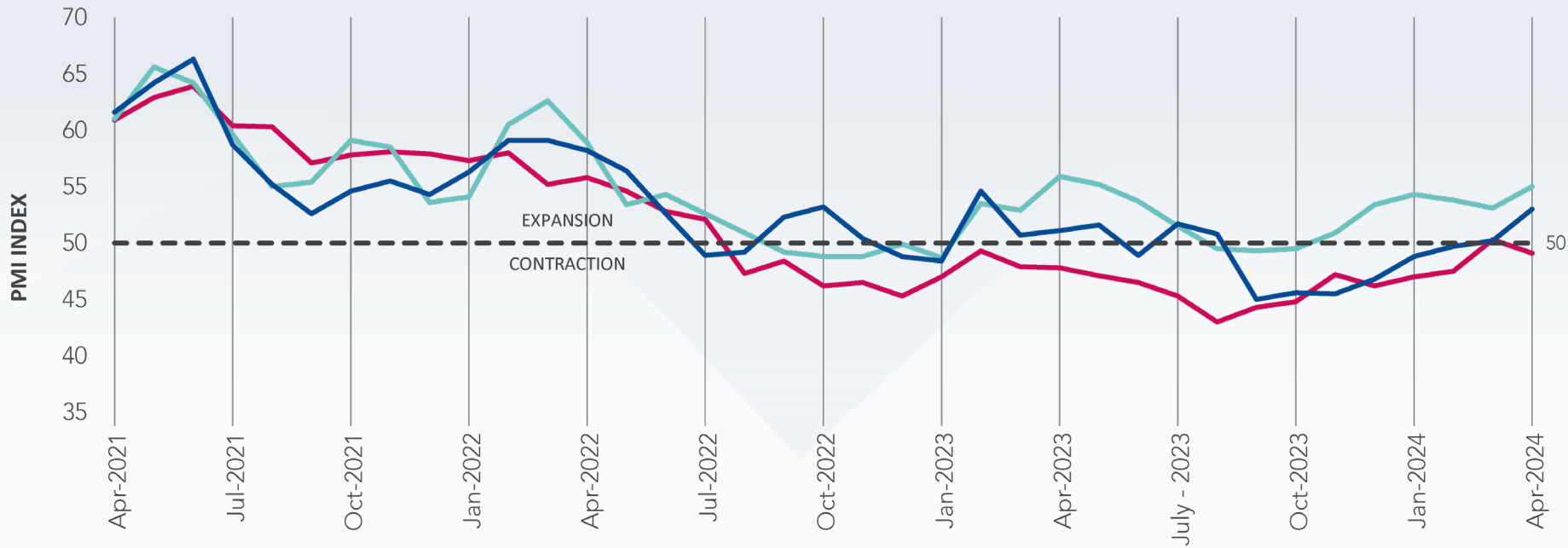
INTEREST RATE CUTS ON THE HORIZON

Bank of England edges closer to cutting rates, but wage data and domestic pricing pressures pose threat



4.3% UNEMPLOYMENT RATE (Jan 24 – Mar 24)

Unemployment rate climbs to highest for almost a year as jobs market cools



SERVICES

55.0

CONSTRUCTION

53.0

MANUFACTURING

49.1

UK Construction PMI hits 14-month high as expectations of an economic rebound and rate cuts boost demand...

Sector **consolidates** its recent **return to growth**

Weaker residential sector offset by **strong commercial** and **civil engineering growth**

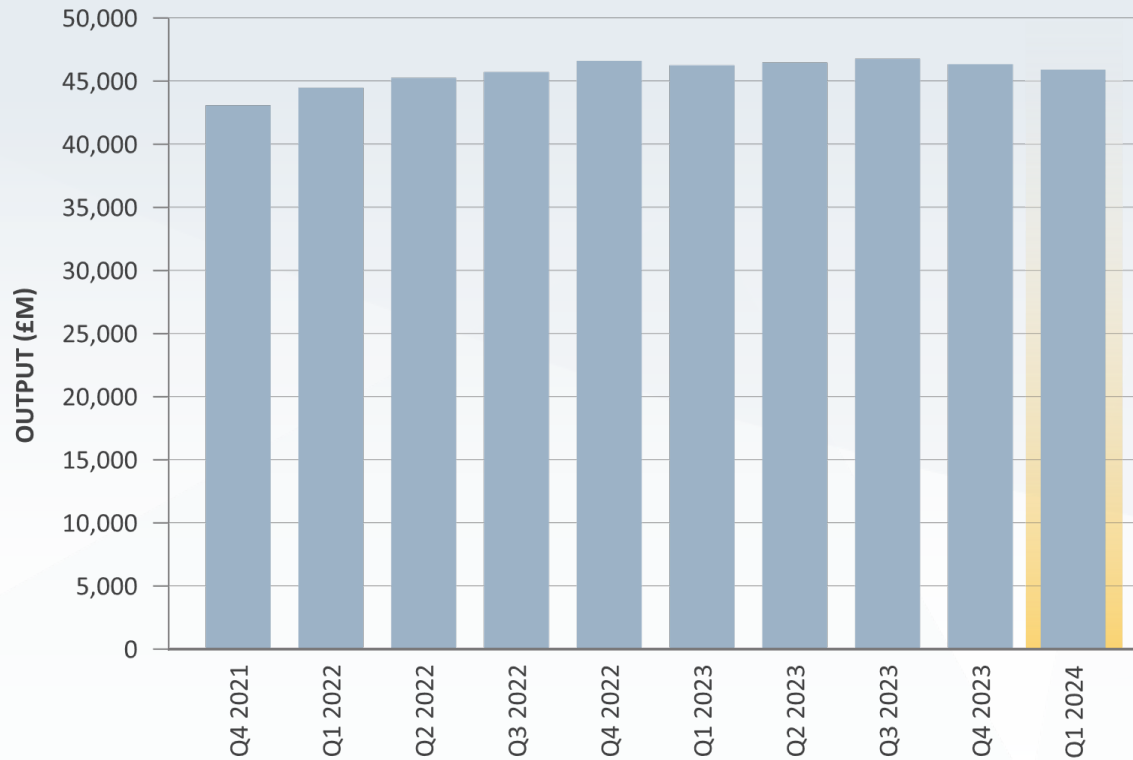
Input prices rose only modestly, aided by improved balance between supply and demand

Optimistic business outlook reflects **brightened demand prospects**

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.

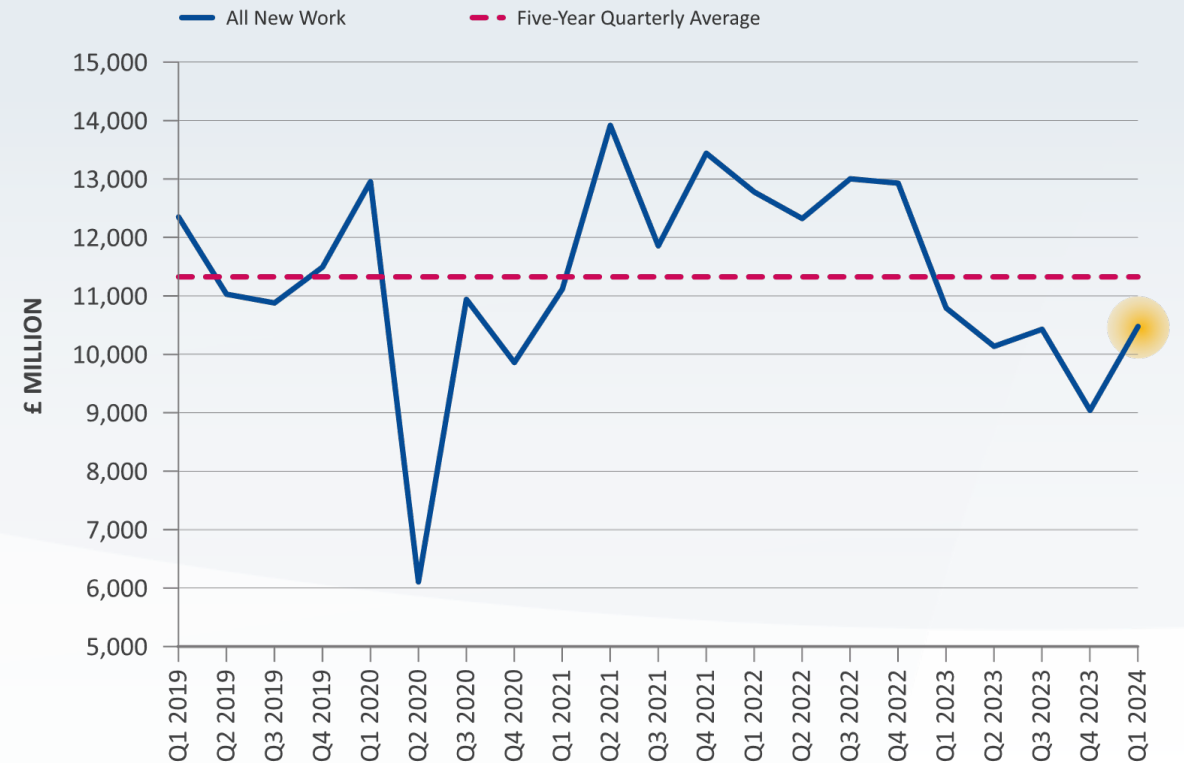
UK CONSTRUCTION OUTPUT (Q-ON-Q)



UK construction output growth fell by 0.9% in Q1 2024. Several variables – including election uncertainty – weighed on growth

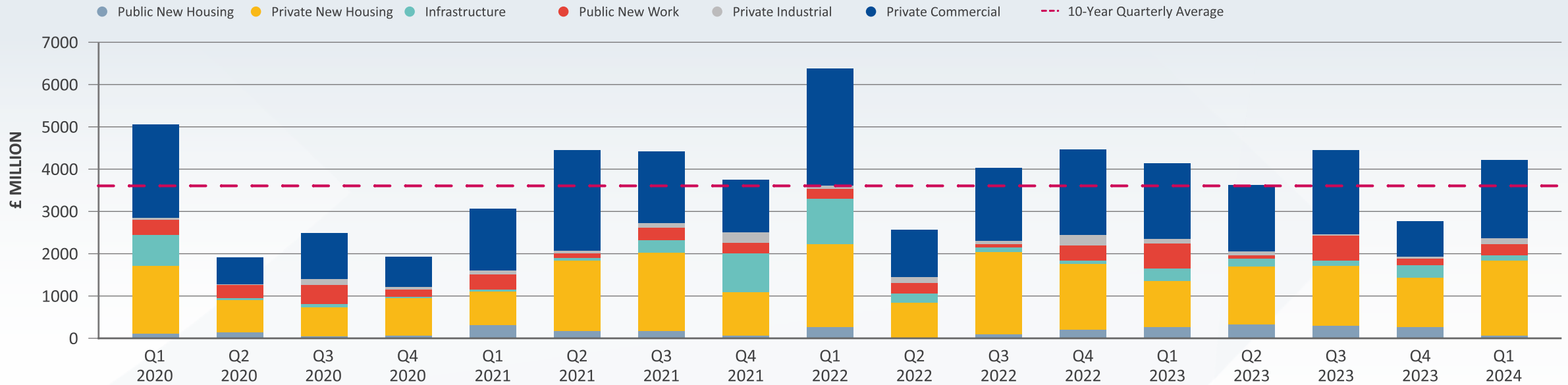
Source: [ONS](#)

UK CONSTRUCTION NEW ORDERS (ALL NEW WORK)



New orders rose 16% to £10.4bn, yet tough borrowing conditions persist, impacting project commitments

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



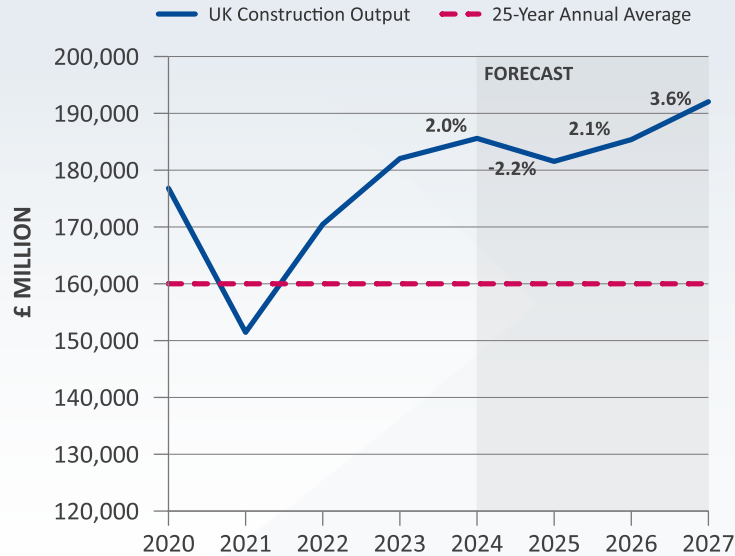
London new orders rose 58% in Q1 to £4.2bn, surpassing the 10-year average figure

Private Commercial and Private Industrial sectors were key growth drivers

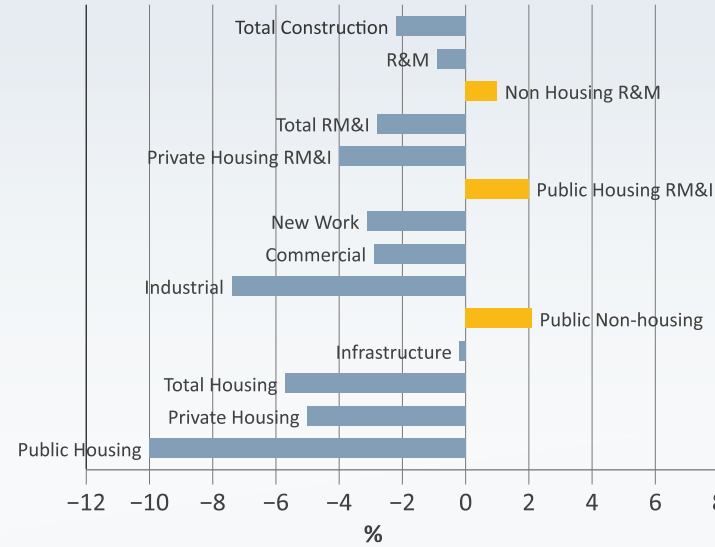
Stabilising cost pressures, good availability of materials and improving contractor capacity are positive signs

Commercial new orders recover but the London office development pipeline is stagnating

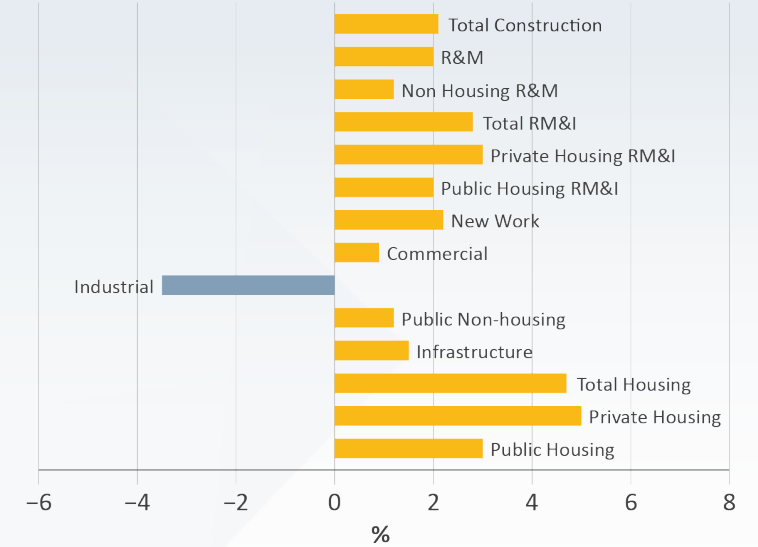
UK CONSTRUCTION OUTPUT: CPA FORECAST



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



CONSTRUCTION OUTPUT FOR 2025 BY SUB-SECTOR: CPA MAIN FORECAST



2.2% fall in construction output forecast for 2024 amid challenging environment, but recovery anticipated in 2025/26

2024 OUTLOOK



Output forecast to fall before a 2025 recovery



Rate cuts to improve economic prospects



Election: public/private spending uncertainty



Red Sea supply chain disruption



Insolvency risk to impact activity



Tight labour market may impede recovery

02

CONSTRUCTION MARKET TRENDS – MATERIALS, COMMODITIES & LABOUR



Low Pressure

High Pressure



MATERIALS

CONTRACTOR CAPACITY

LABOUR

MATERIALS

Are prices bottoming out?

- Little aggregate price movement points to easing deflationary pressure
- Despite Middle East conflict, commodity prices remain stable

CONTRACTOR CAPACITY

Improving but Contractors Remain Selective

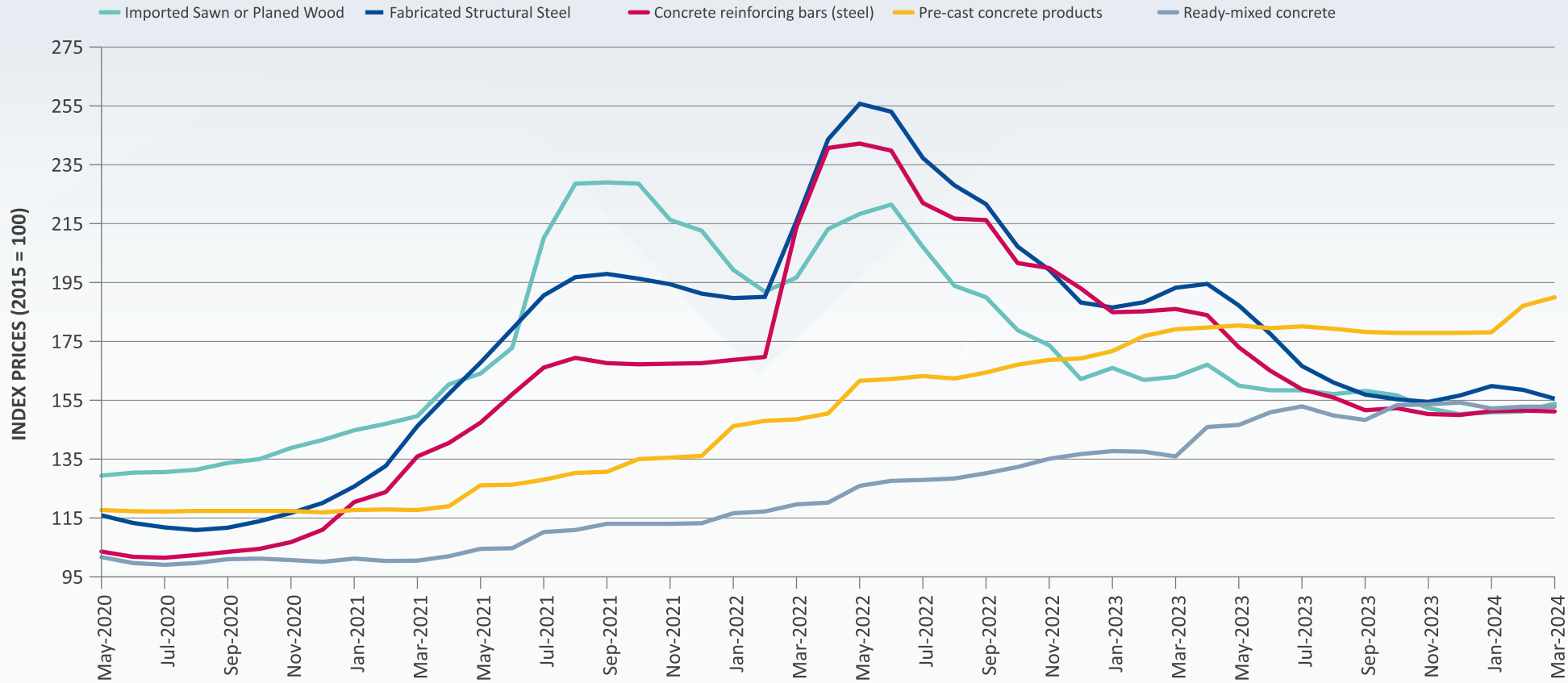
- Easing workloads and pipeline gaps have improved tender engagement
- Most trades have capacity to tender works, particularly early trades

LABOUR

Wage Pressures Easing

- Site rates still rising but at a slower rate given reduced construction activity
- Structural labour shortages and constraints remain, and will do in the long-term

BEIS: PRICE INDICES OF CONSTRUCTION MATERIALS (UK)



BEIS 'ALL WORK' INDEX

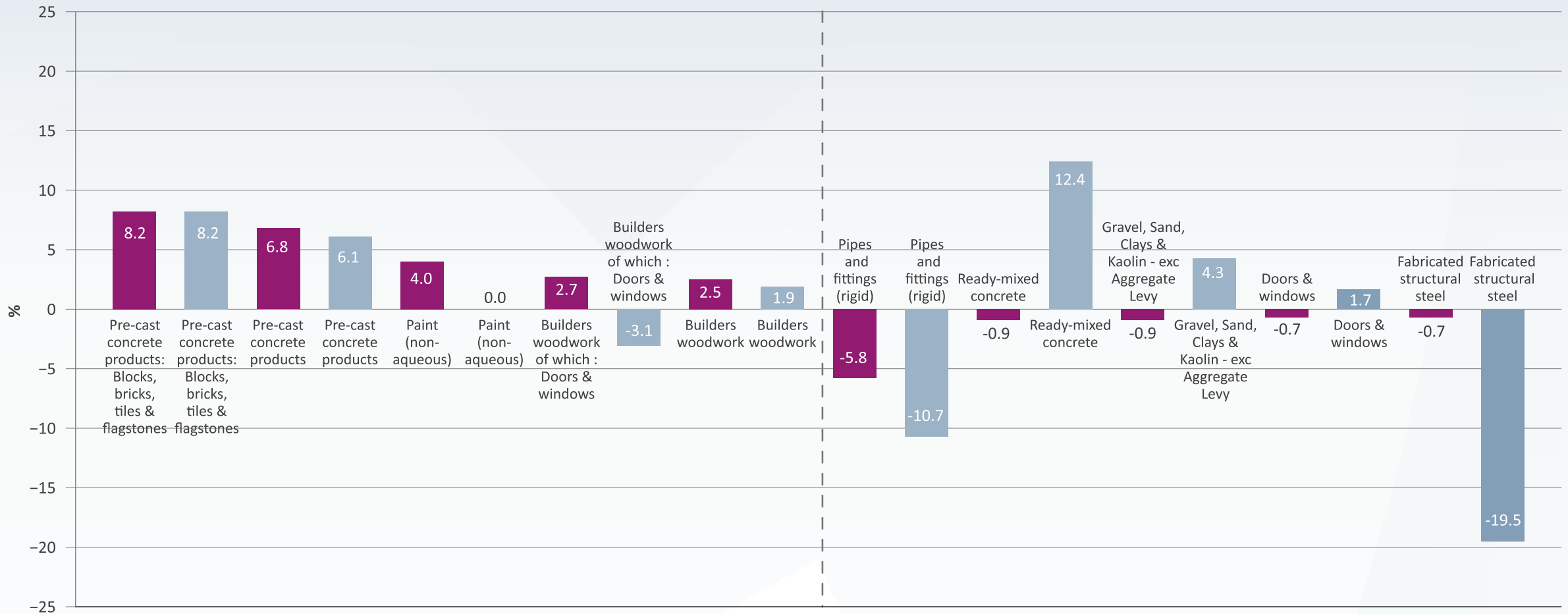
-2.2% ▼

(Mar 23 – Mar 24)

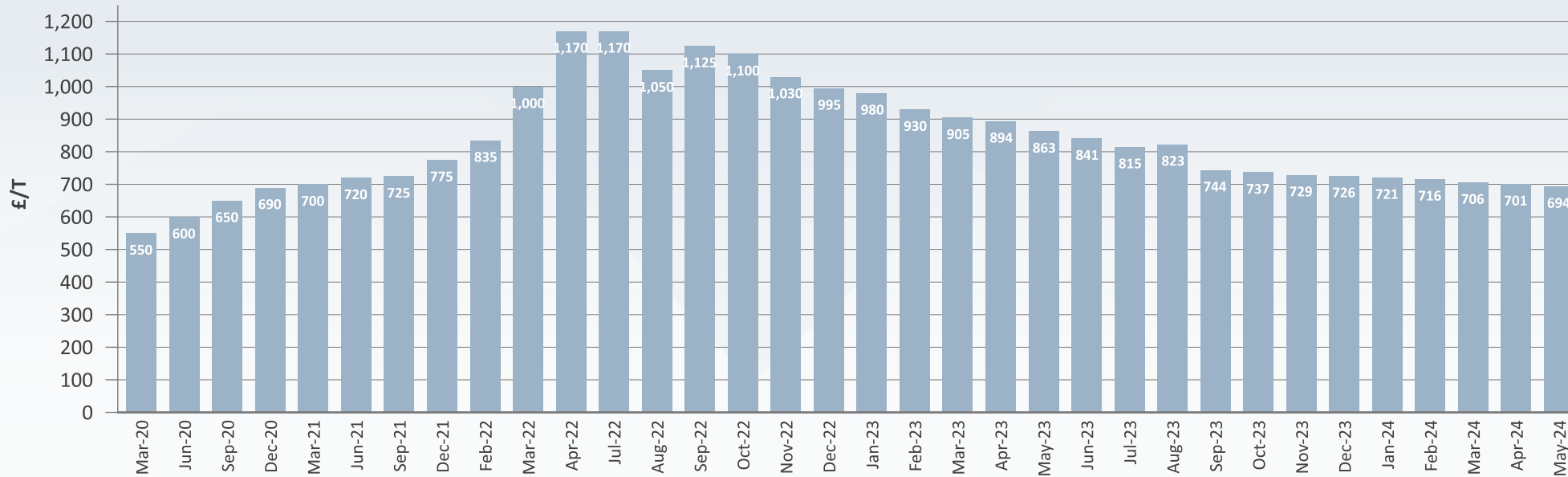
Deflationary trends appear to have softened pointing to a bottoming out of materials prices...

BEIS MATERIALS RISERS AND FALLERS: QUARTERLY V ANNUALLY

● Quarterly (Dec 2023 - Mar 2024) ● Annual (Mar 2023 - Mar 2024)



REBAR: SUPPLY COST (£/T)



REBAR SUPPLY COST*

-3.1%

From £716/t (in Feb 2024), to £694/t (in May 2024)

STRUCTURAL STEEL SUPPLY COST

-2.5 to -3.8%

from £780-800/t (in Feb 2024), to £750-780/t (in May 2024)

Falling iron ore prices, subdued demand and **increased supply drag steel prices lower...**

Subdued global demand due to tough macroeconomic environment

Prices bottoming out following production cuts

Market becoming more balanced as **supply readjusts to meet lower demand**

Short-term price trends to be influenced by **central bank interest rate decisions** and **geopolitical factors**

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



Disinflation stalls as declining commodity prices reach a standstill...

Decline over past two years has **come to a halt**

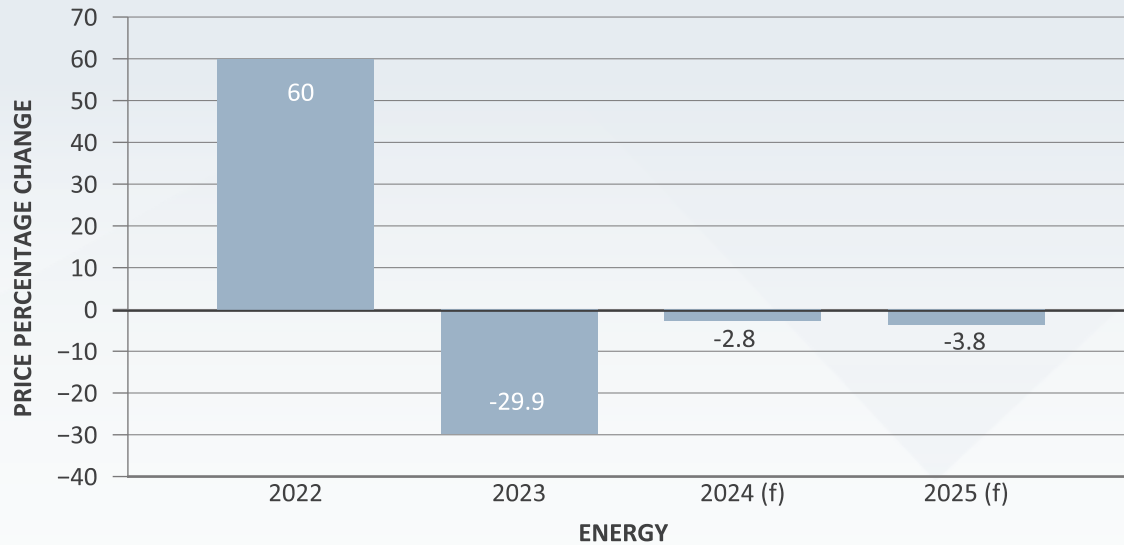
Geopolitical tensions **tighten supply** as demand starts to recover

Plateauing prices to impact **global inflation** and **interest rate movements**

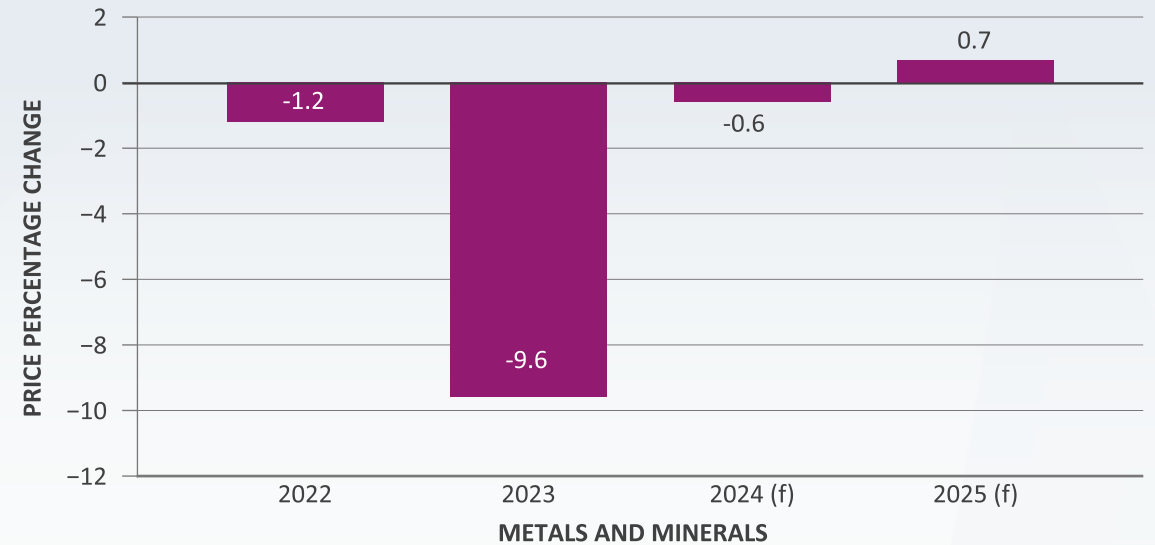
A major energy shock could **undermine inflationary progress**

Middle East risk maintains **price premium** on some commodities

WORLD BANK: ENERGY PRICE FORECASTS



WORLD BANK: METALS AND MINERALS FORECASTS



World Bank: Middle East tensions to quell disinflationary commodity price trends....

Energy price deflation to ease, but tensions pose upside risks

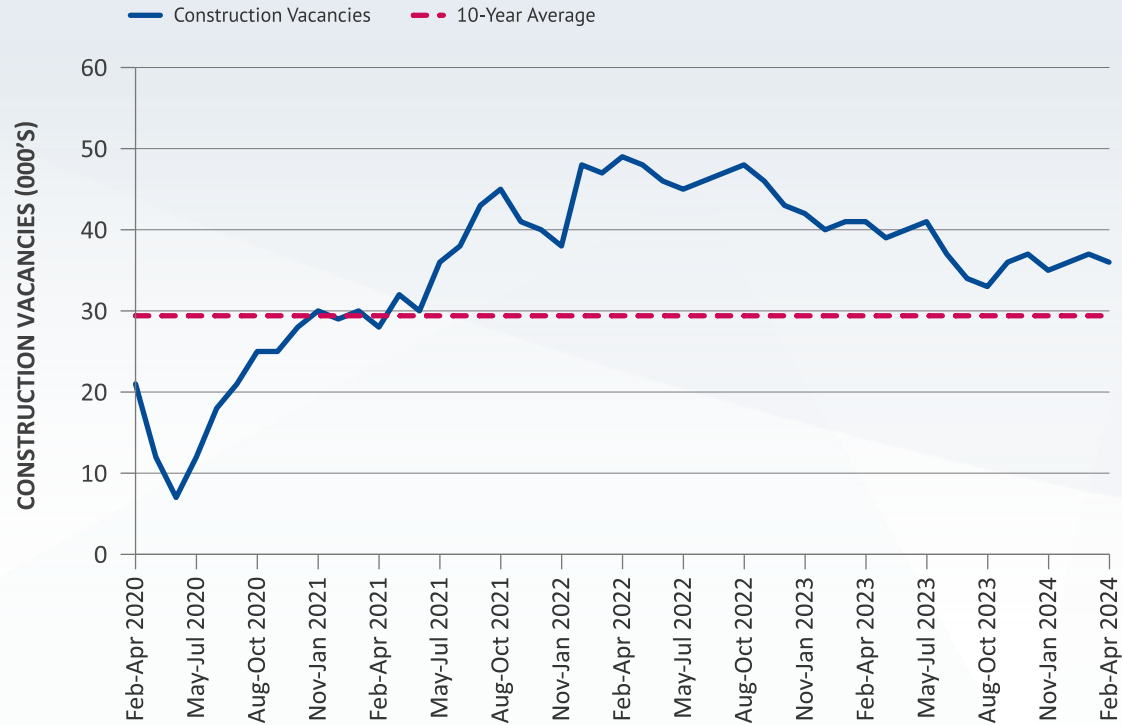
Commodity prices forecast to decline but remain **38% above pre-pandemic level**

Base metal prices expected to remain **steady** amid subdued demand

Despite subdued global GDP growth, **high commodity prices persist**

Heightened **geopolitical tension** seen as **primary risk** for commodities

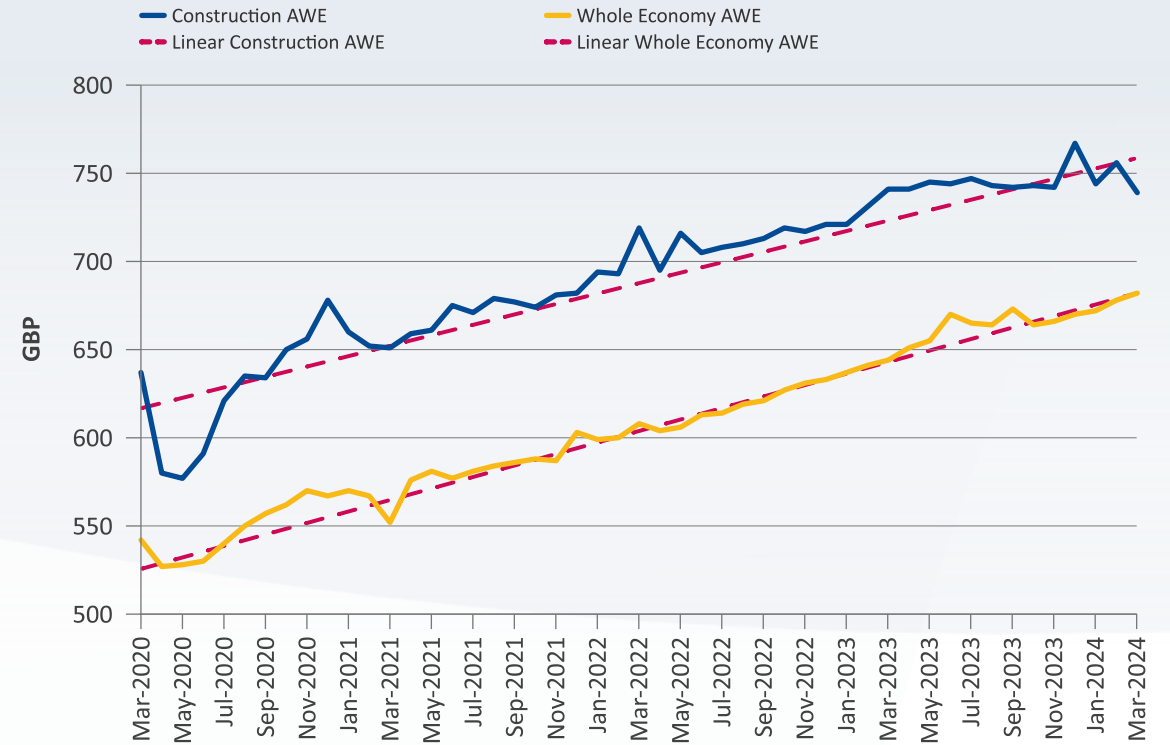
VACANCIES IN CONSTRUCTION (SA)



With growing spare capacity in the market, **demand for labour has softened**

Source: [ONS](#)

AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION) SEASONALLY ADJUSTED

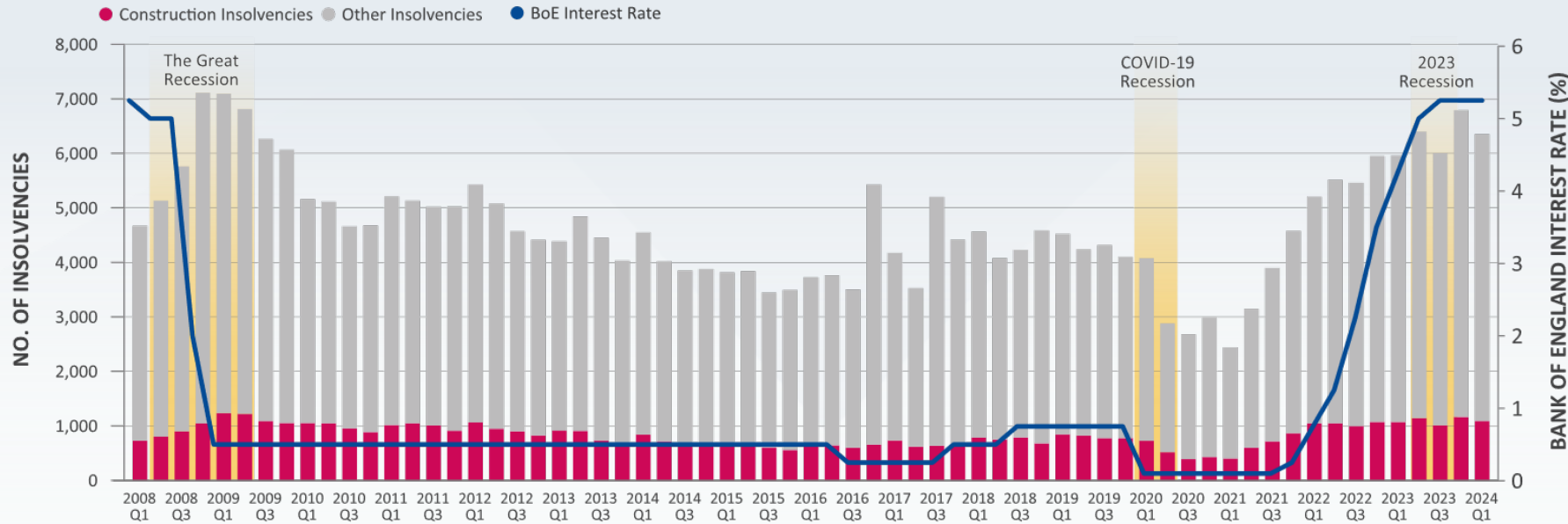


Wage growth normalising **but structural shortages and constraints remain**

03

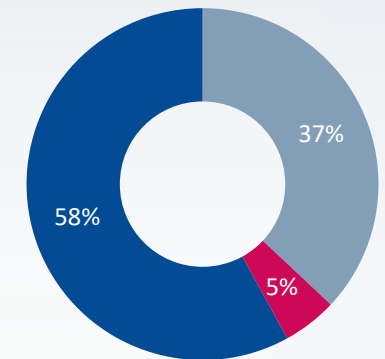
SPOTLIGHT: THE RISE OF CONSTRUCTION INSOLVENCIES & MEP PRESSURES

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



INSOLVENCIES BY TYPE (YEAR TO FEB 2024)

- Construction of Buildings
- Civil Engineering
- Specialised Construction Activities



Rising insolvency rates, and their potential ripple effects, considered the biggest risk to the industry....

4,403 construction firms went out of business in the year to Feb 2024 – **5.4%** higher than a year ago

Smaller specialist firms account for most of the insolvencies over the past year

6,141 construction companies are in ‘**critical financial distress**’ – up **38.6%** in Q1 2024

Sub-contractor insolvency seen as **number one risk by Main Contractors**, tempering appetites for fixed price contracts

Price pressures and capacity constraints in the Tier 1 MEP supply chain fuel a burgeoning bubble...



DEMAND LED CHANGE

- More complex, integrated MEP installations
- MEP intensive projects (ie Data Centres and Life Science) absorbing market capacity



SUPPLY LED CHANGE

- Loss of Tier 1 capacity and supplier consolidation impacting the market
- Material supply disruption (ie Red Sea conflict and trade embargoes)



PRICE IMPACT

- Specialist MEP items continue to see high inflation
- Enhanced MEP preliminaries to de-risk projects and limited design deliverables

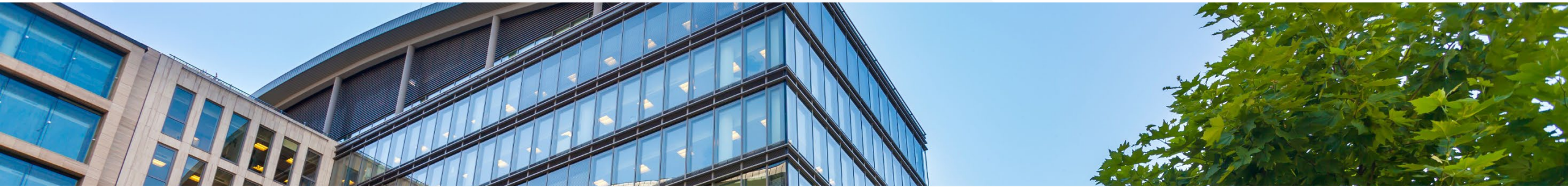


MITIGATION

- Proactive planning and tender list selection to reflect the live market push and pull
- Early design stage involvement of selected MEP contractors, potential MEP PCSA

04

TRENDS IN KEY TRADES



Low Pressure

High Pressure

**COMPETITIVE**

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

BALANCED/STABLE

- Carpentry/Joinery
- Finishes
- Drylining
- Preliminaries

HIGHER INFLATION TO COME

- MEP
- Lifts
- Façades
- Concrete

05

MARKET CONDITIONS & KEY TRENDS

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

[READ OUR LATEST REPORT](#) 

Finance for new developments likely to remain constrained until interest rates start to fall

Market activity **not yet translating** into substantial development commitments. General election uncertainty is also a headwind

Market conditions vary drastically by sector as contractors shift their focus to where demand is high

Building Safety Act presents uncertainty in project commencement dates and additional pre-contract costs

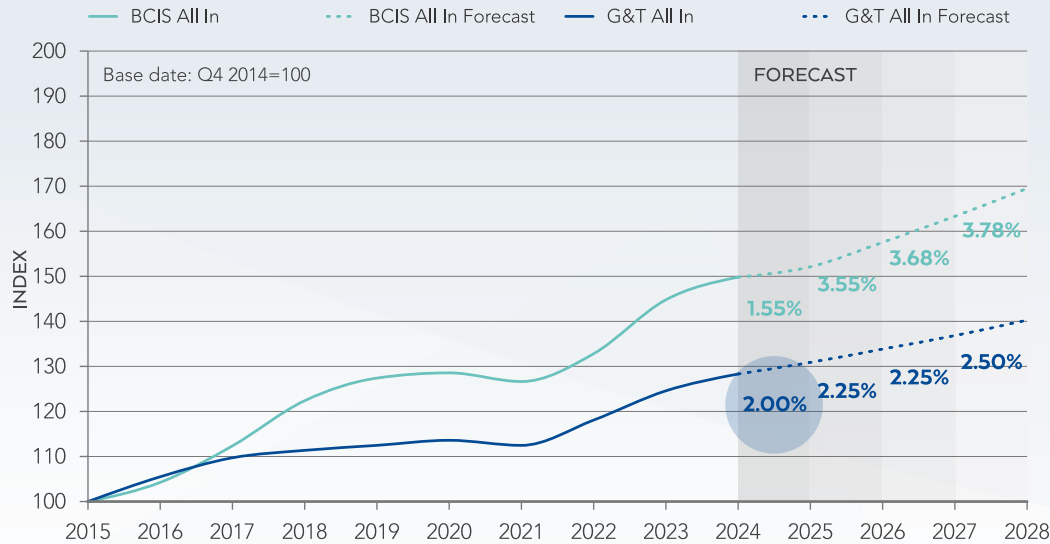
Contractors looking to fill 2025 pipeline, but a general lack of capacity means contractors remain selective

Material prices have stabilised, with little aggregate price movement over the last quarter

Contractors seeking **earliest possible visibility/engagement** on pipeline opportunities

Ongoing concern that **geopolitical tensions** could disrupt supply

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE ANNUAL PERCENTAGE CHANGE Q2 2024

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

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

Last* 1Q 2024

UK AVERAGE
Tender Price Forecast (2024)

2.00%

LONDON
Tender Price Forecast (2024)

2.00%

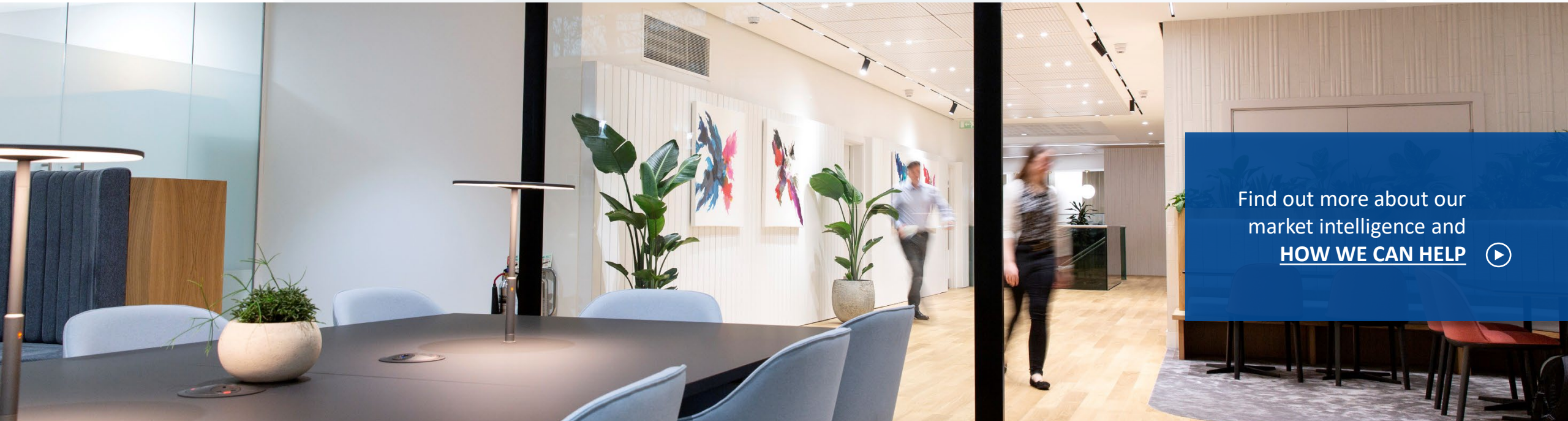
While construction costs remain elevated, inflation is stabilising, mirroring the headline measure of inflation in the wider economy...

Contractor pricing has become more consistent compared to 2023 and tenders are being held subject to lower inflationary allowances. However, inflationary pressures continue to outweigh deflationary drivers and various geopolitical factors pose an upside risk on some imported materials.

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.

06

KEY TAKEAWAYS



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



Material prices have stabilised, but risk of isolated cost spikes remains



Labour market remains tight but is becoming more balanced



Interest rate drop could **unlock funding** and **release new projects**



Potential buying window as contractors seek to **secure pipeline/turnover**

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.