

Gardiner & Theobald

# MARKET UPDATE

*Growth Potential: Boosted by Opportunity,  
Constrained by Capacity*



The UK construction industry might be **poised for expansion**, helped by a seemingly pro-construction Government. However, there is a **complex mix of pent-up demand, caution** and **market uncertainties** in the short to medium term.



[WATCH OUR FILM HERE](#)

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# MACRO ECONOMICS & CONSTRUCTION OUTPUT





# UK ECONOMIC OVERVIEW

UK growth forecasts raised, but budget boost likely to fade after two years



## UK ECONOMY CONTINUES RECOVERY

UK economy gets short-term capital spending boost, but gains may be fleeting



## CPI 2.3% (Oct 2024)

Inflation accelerates sharply as energy prices rise



## UK CONSTRUCTION PMI 54.3 (Oct 2024)

Rate of growth slows but signals solid expansion of total industry activity



## AUTUMN BUDGET

£100bn capital spending injection may fuel input cost inflation



## INTEREST RATE CAUTION

Rate falls to 4.75% but markets temper expectations for rapid rate reductions post-Budget

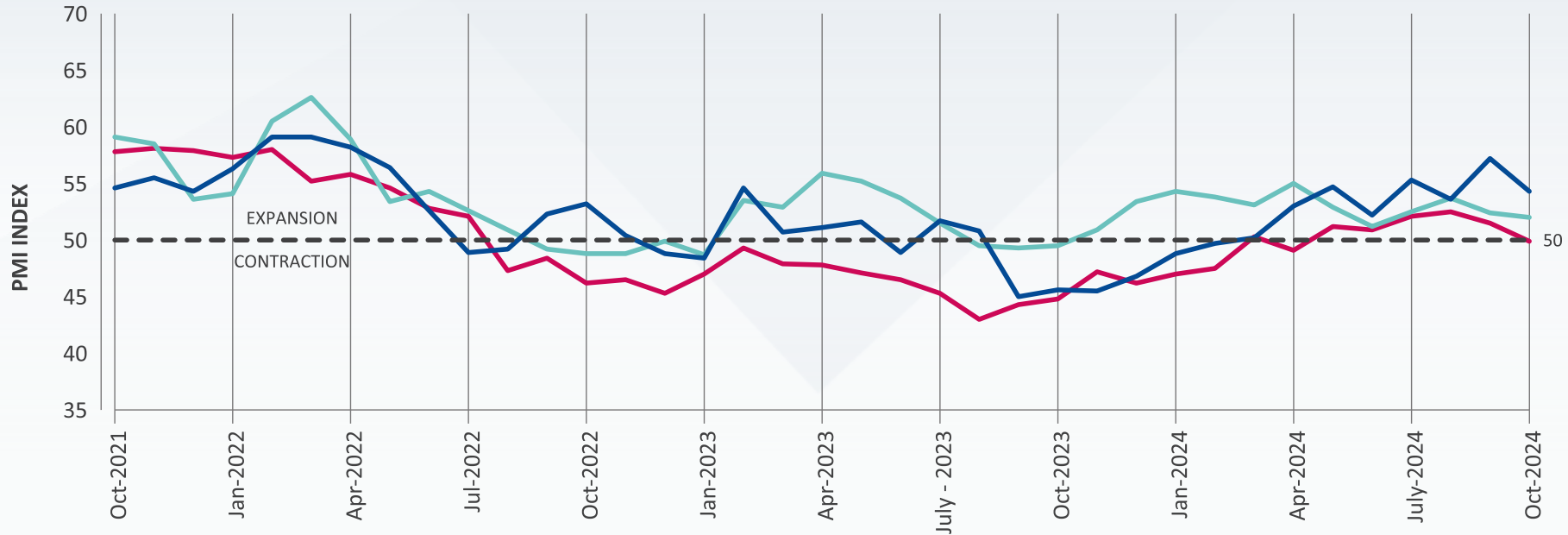


## 4.3% UNEMPLOYMENT RATE

(Jul 24 – Sep 24)

Unemployment rate rises as pay growth in the wider economy slows

# UK CONSTRUCTION PMI



CONSTRUCTION

**54.3**

SERVICES

**52.0**

MANUFACTURING

**49.9**

## Growth slows amid pre-Budget uncertainty, yet firms report robust pipelines and long-term growth plans...

Increased purchasing activity driven by higher workloads and preparation for new projects

Strong order books and sales pipelines, though new work slowed due to pre-Budget uncertainty

Employment growth accelerates, with firms expanding to support long-term growth

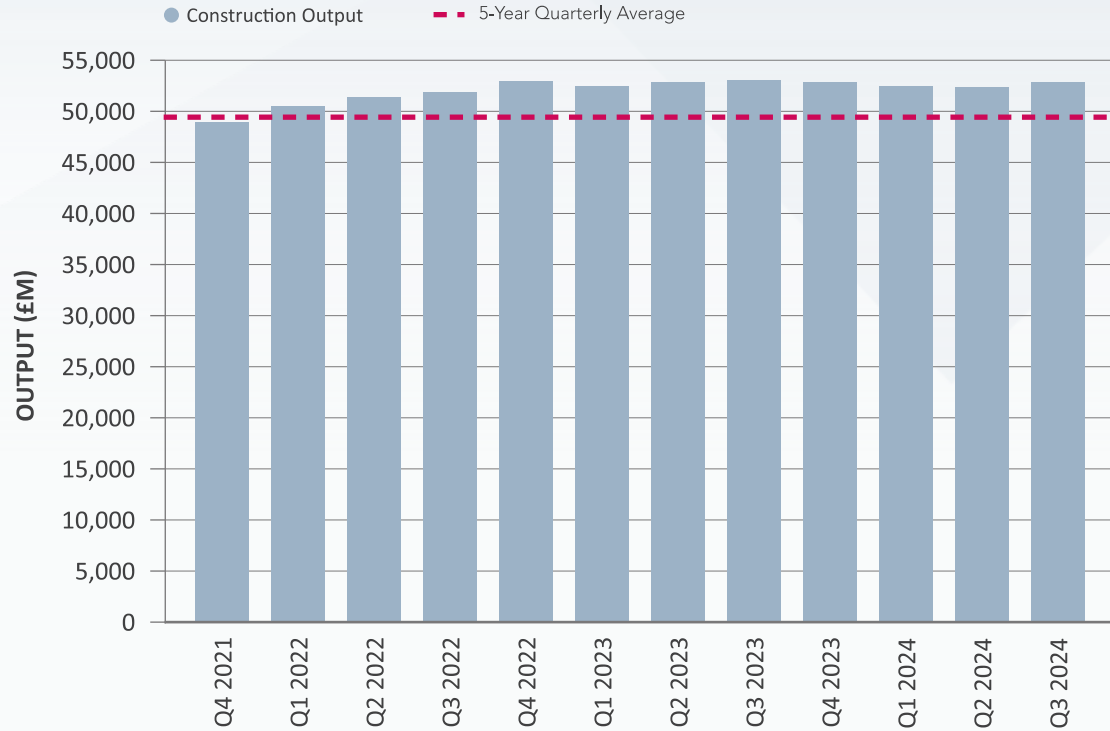
Business optimism eased but nearly half of firms still foresee growth

Source: [S&P Global](#)

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

# UK CONSTRUCTION OUTPUT AND NEW ORDERS (ONS)

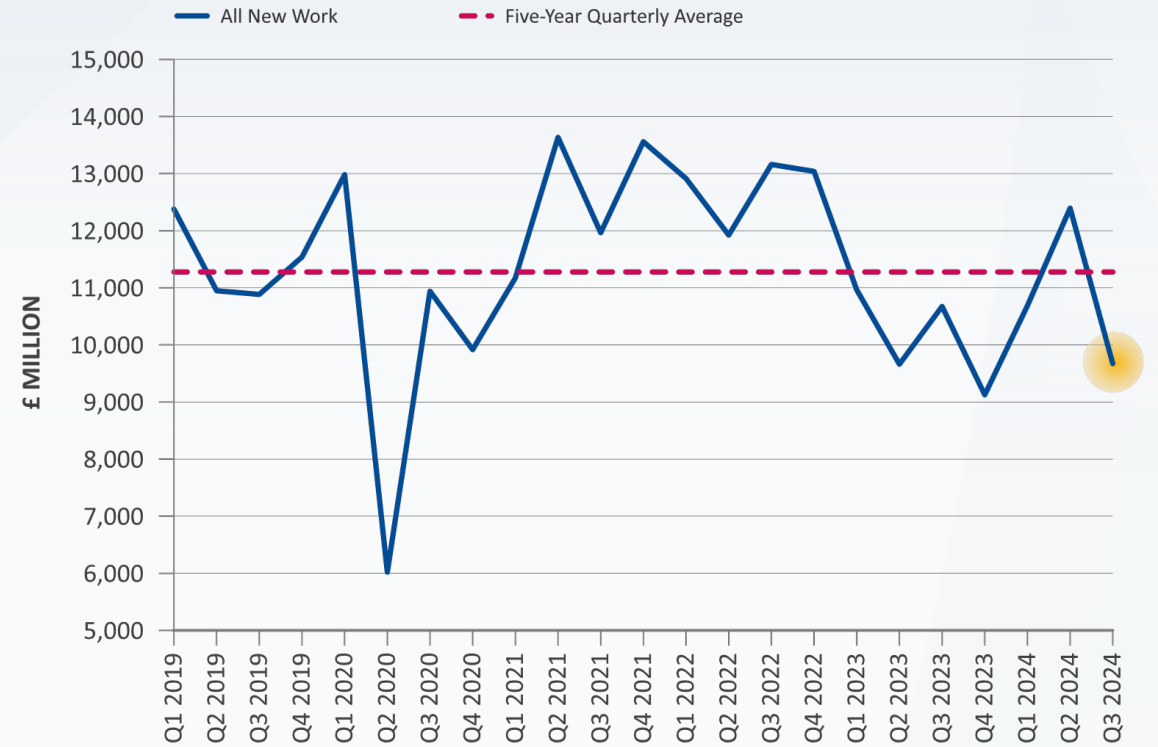
### UK CONSTRUCTION OUTPUT (Q-ON-Q)



**UK construction output rebounds by 0.8% in Q3 2024, outperforming other key economic sectors**

Source: [ONS](#)

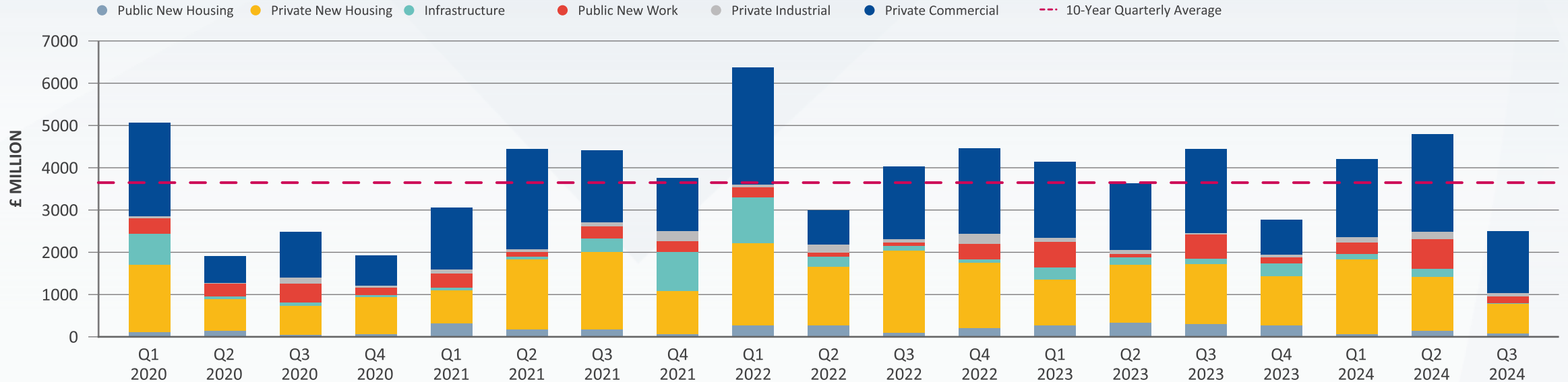
### UK CONSTRUCTION NEW ORDERS (ALL NEW WORK)



**Q3 new orders drop 9.4% in Q3 amid pre-budget tax and spending uncertainty**

# LONDON: NEW ORDERS (ONS)

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



London new orders **fall 48% in Q3 to £2.5bn**, challenging the industry’s forward momentum

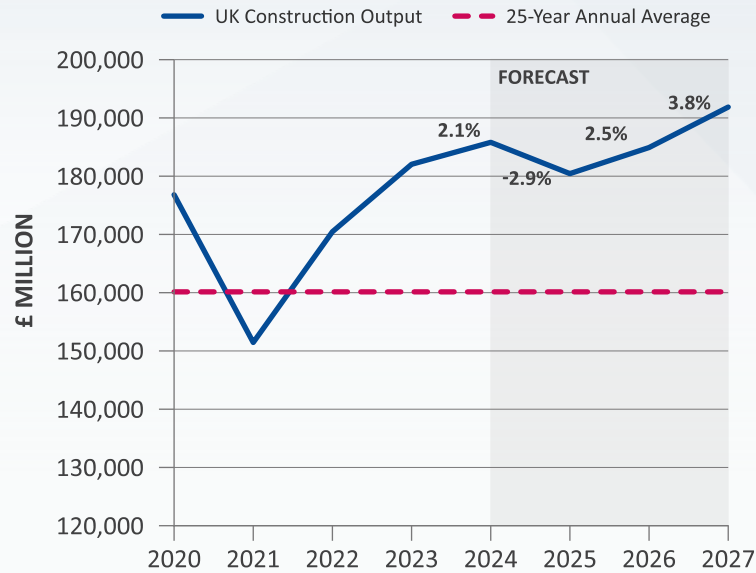
Infrastructure sees **biggest contraction** due to **election-related uncertainty** and **delayed spending**

Private commercial orders **slow** amid anticipated **policy shifts** and **budget announcements**

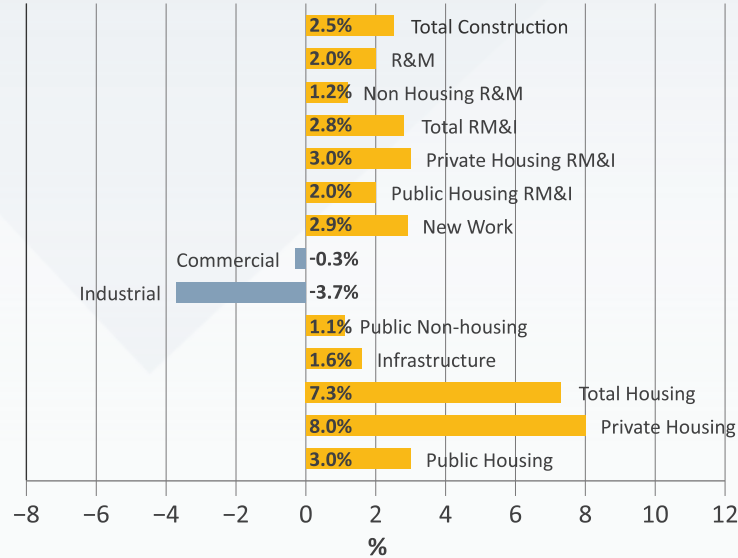
Retrofit activity remains **elevated** as **MEES tighten**, driving demand for **premium energy efficient space**

# CPA CONSTRUCTION INDUSTRY FORECASTS 2025-2026

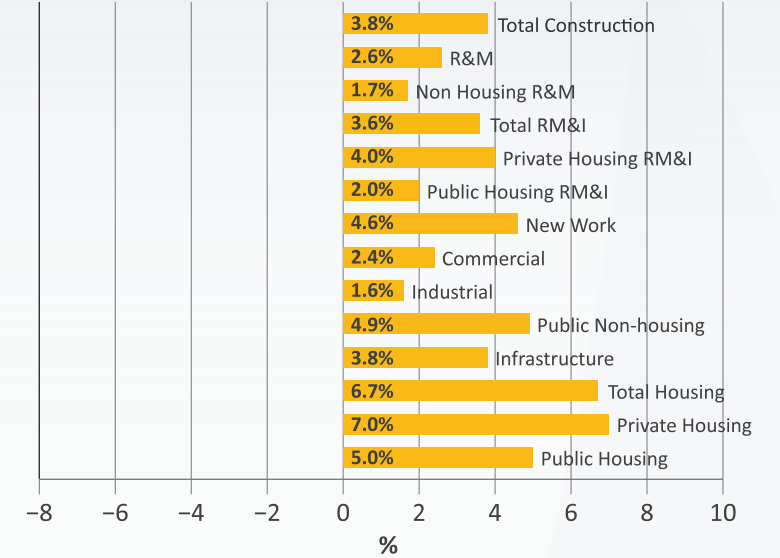
UK CONSTRUCTION OUTPUT: CPA FORECAST



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



CONSTRUCTION OUTPUT FOR 2026 BY SUB-SECTOR: CPA MAIN FORECAST



## CPA upgrades output growth forecasts as 'cautious optimism' returns

### 2025 Outlook

Improving economic prospects

Pro-construction Government

Anticipated lower interest rates and financing costs

Focus on easing planning constraints

Supply chain risk due to insolvencies and ISG's administration

Delays to project starts due to Building Safety Act



02  
**INPUT COST TRENDS –  
MATERIALS, COMMODITIES &  
LABOUR**

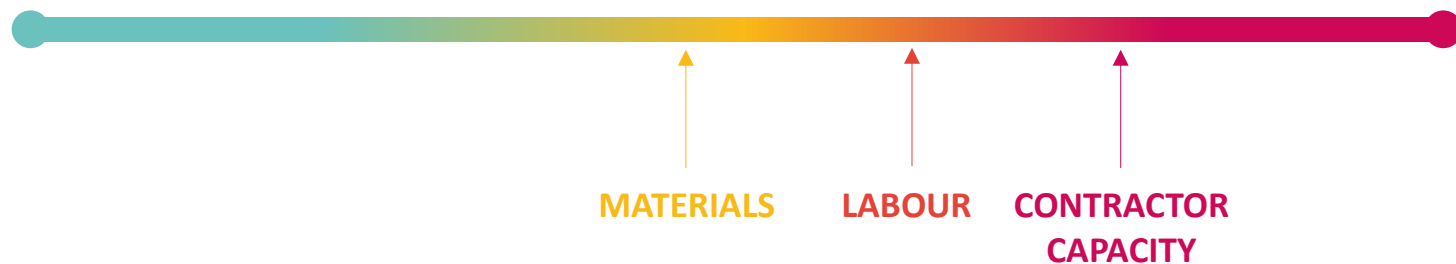
A thick, dark blue curved line starts from the bottom left and sweeps upwards and to the right, ending near the top right corner of the slide. It has a slight gradient and is set against a background of light blue and white geometric shapes.



## INPUT COST DRIVERS: SUMMARY

Low Pressure

High Pressure



### MATERIALS

*Stable but rising demand signals inflation risk*

- Material price inflation has been more predictable and less volatile this year
- However, pressure is building as demand conditions improve and suppliers gain pricing power

### LABOUR

*Labour supply constraints poses an obstacle to growth*

- Labour shortages threaten delays and tender price hikes as firms compete for skilled workers
- NIC/minimum wage increases are driving cost pressures

### CONTRACTOR CAPACITY

*Tightening supply-side capacity*

- Insolvencies to create a delayed ripple effect across the supply chain, reducing market capacity
- Shift in market dynamics, leaving clients with the challenge of making their projects more attractive to selective contractors

# INPUT COSTS: MATERIAL PRICES

DBT: 'ALL WORK' CONSTRUCTION MATERIAL PRICES INDEX, UK



DBT 'ALL WORK' INDEX

**-1.2%** ▼  
(Sep 23 – Sep 24)

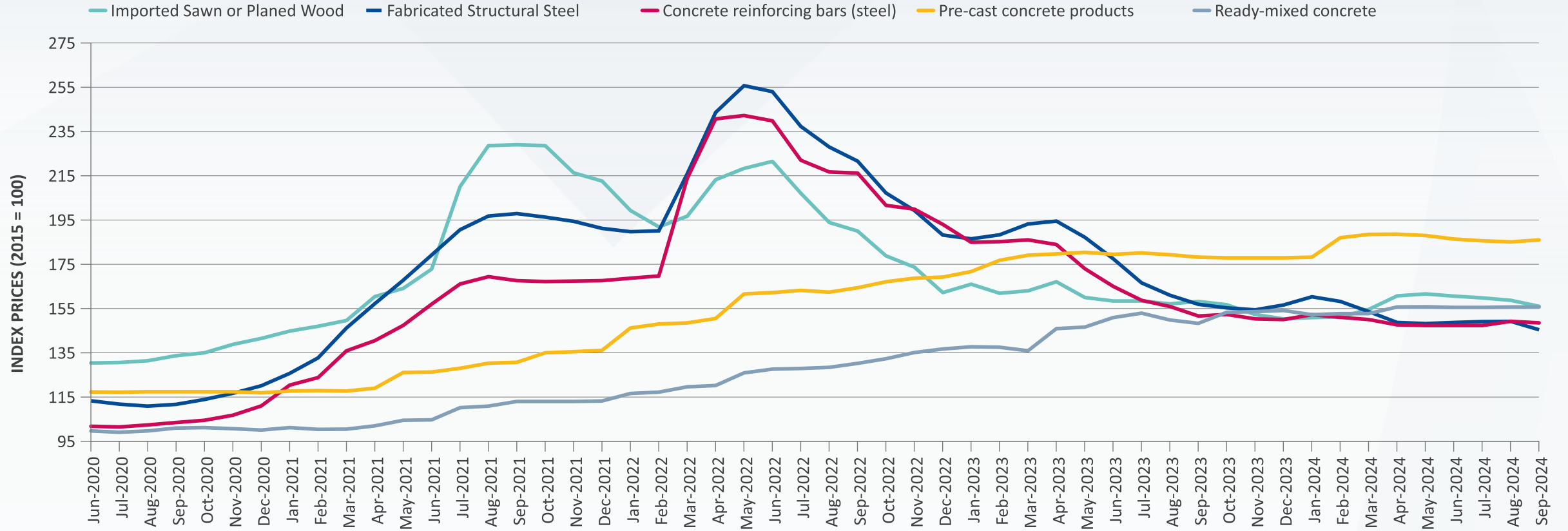
MATERIAL PRICES:

**+38.0%** ▲  
Higher Relative to  
Early 2020 Levels  
(Pre-Pandemic)

Following a period of relative stability, inflationary pressures are expected to build as **upside price risks intensify...**

# INPUT COSTS: MATERIAL PRICES

DBT: PRICE INDICES OF CONSTRUCTION MATERIALS (UK)

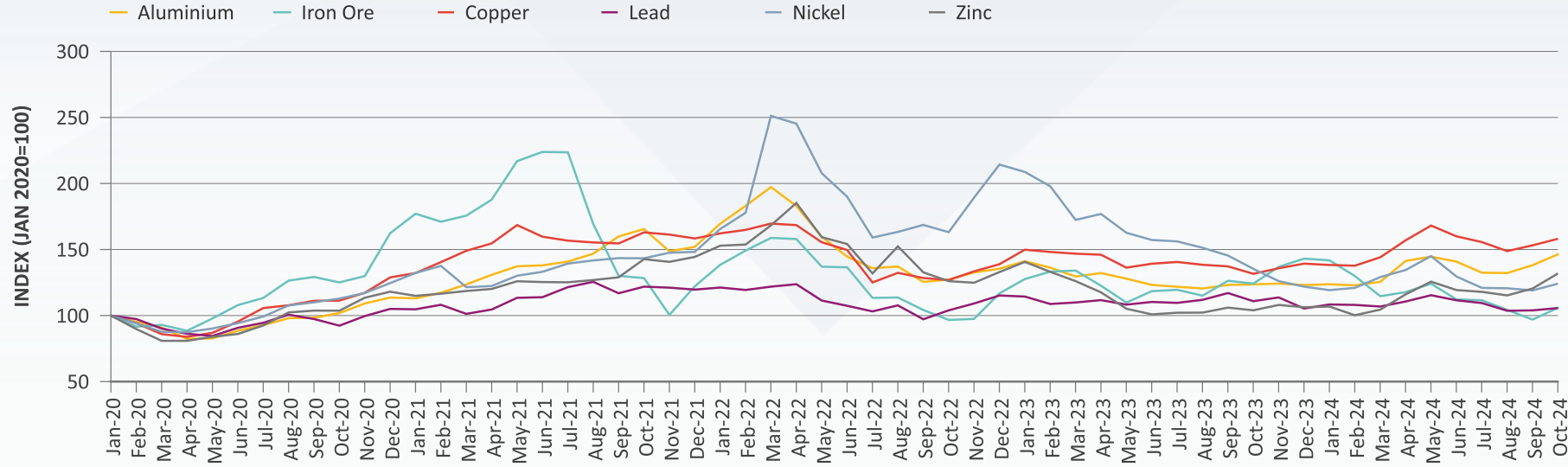


Most product categories experienced more predictable and less volatile price movements in 2024...



# COMMODITY PRICES

WORLD BANK COMMODITY PRICE DATA, METALS AND MINERALS: MONTHLY AVERAGE INDEX



ANNUAL CHANGE  
(to Oct 2024)

Zinc	Lead
<b>+26.8%</b>	<b>-4.7%</b>
Copper	Nickel
<b>+20.1%</b>	<b>-8.3%</b>
Aluminium	Iron Ore
<b>+18.4%</b>	<b>-14.8%</b>

## Chinese stimulus measures drives metals price surge in late September...

Q2/Q3 declines reflect **subdued industrial activity** in major economies

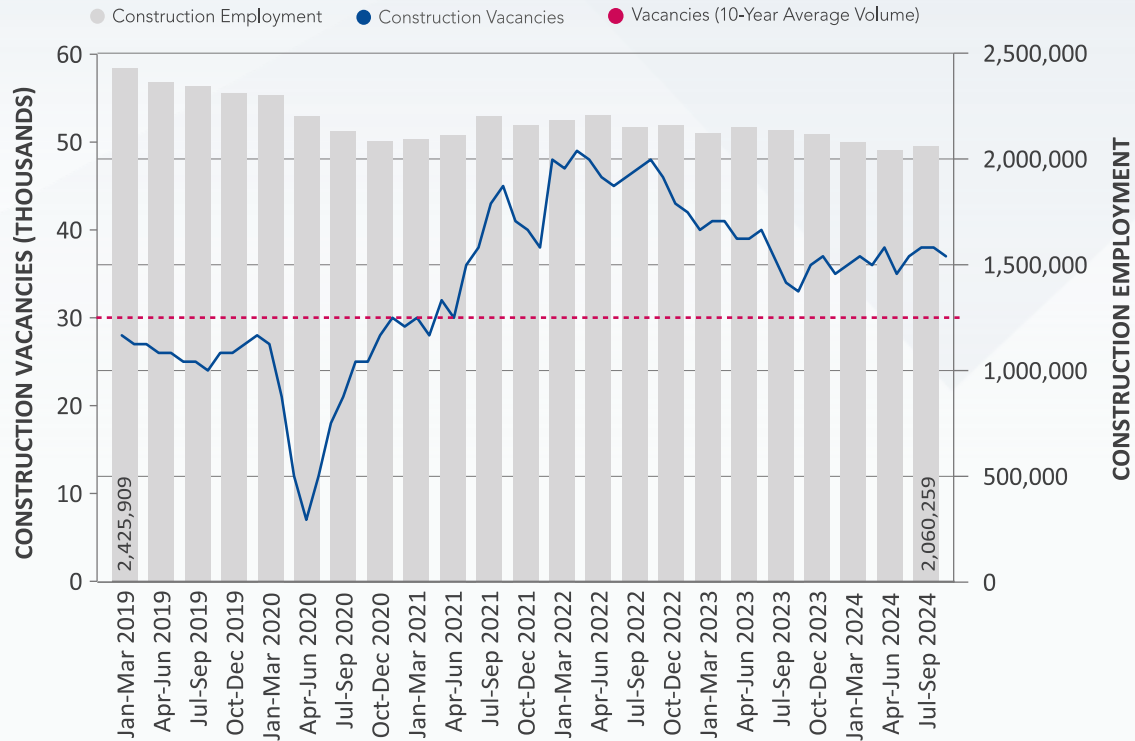
Prices supported by **Chinese stimulus**, benefitting **metal-intensive sectors**

**Tight supply conditions** to keep **base metals prices responsive** to shifts in **global industrial activity**

World Bank projects **stable metals prices in 2025**, before **gradual decline in 2026**

# LABOUR

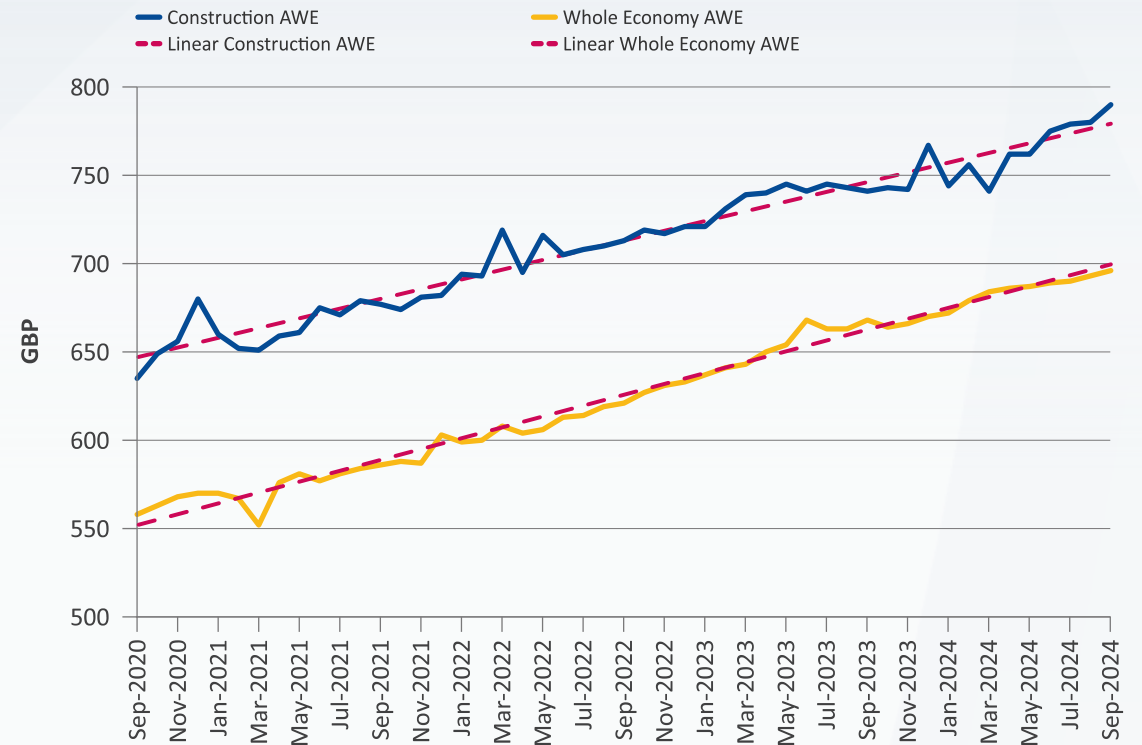
### CONSTRUCTION VACANCIES VS EMPLOYMENT



Vacancies rise with a more optimistic growth outlook, but **employment numbers continue to decline** due to demographic, regulatory and policy-driven challenges

Source: [ONS](#)

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



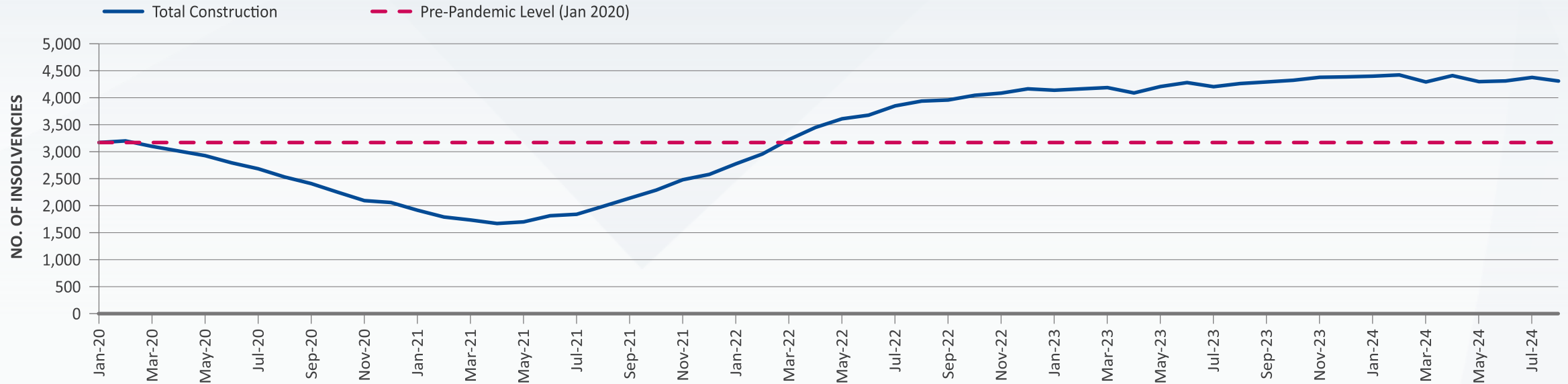
Construction earnings growth strengthens amid **skills shortages and rising demand for labour-intensive refurb work**. Further pressure from NIC rises expected

03

# MARKET TRENDS: INSOLVENCIES, MEP PRESSURES & NEW GOVERNMENT

# RISK MANAGEMENT: CONSTRUCTION INSOLVENCIES

REGISTERED COMPANY INSOLVENCIES (ENGLAND AND WALES): CONSTRUCTION, 12-MONTH TOTAL



While recent data suggests **insolvencies may be peaking**, they remain at elevated levels...

**4,310** construction insolvencies in the year to Aug 2024 – a **1.1%** increase compared to the previous year

Construction insolvencies in Aug 2024 were **38%** higher compared to pre-pandemic levels in January 2020

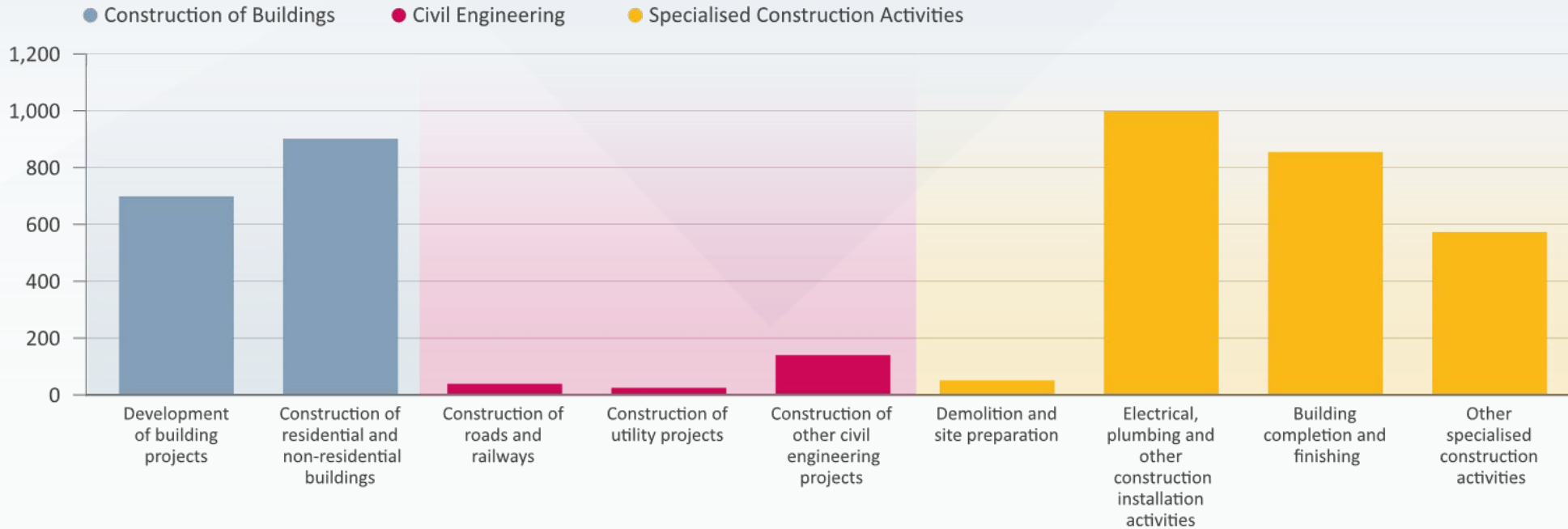
Number of firms in ‘**Critical**’ financial distress **fell 28.5%** in Q3 (Begbies Traynor)

Signs of **insolvencies plateauing** but ISG demise to create lagged ripple effect



# RISK MANAGEMENT: CONSTRUCTION INSOLVENCIES

CONSTRUCTION INSOLVENCIES IN ENGLAND AND WALES BY TYPE: YEAR TO AUGUST 2024



INSOLVENCIES BY TYPE (YEAR TO AUG 2024)

Construction of Buildings

**37%**

Civil Engineering

**5%**

Specialised Construction Activities

**58%**

**Smaller specialised construction firms account for most insolvencies**

**Demolition and groundworks contractors show resilience amid high insolvency rates**

**Main contractors face pressure from fixed-price contracts and delayed payments**

**Civil engineering firms less impacted due to steady revenue from publicly funded projects**

# THE CHANGING LANDSCAPE OF THE M&E MARKET

M&E supply chain contending **with capacity issues** and **strong industry demand** from **certain buoyant sectors...**



## DEMAND LED CHANGE

- More complex, integrated MEP installations - decarbonisation agenda driving requirements
- MEP intensive projects (ie Data Centres and Life Sciences) absorbing market capacity



## SUPPLY LED CHANGE

- Loss of Tier 1 capacity and supplier consolidation impacting the market
- Lead times for specialised MEP equipment plateauing but remain at higher durations



## PRICE IMPACT

- Ongoing pressure on specialist MEP packages
- Enhanced MEP preliminaries to de-risk projects and limited design deliverables
- Raw material price increases continue to put pressure on MEP tender pricing



## 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
- More detailed design to de-risk projects

# AUTUMN 2024 BUDGET: WHAT DOES IT MEAN FOR CONSTRUCTION?

Labour's First Budget delivers a "large, sustained increase in spending, taxation, and borrowing."



## INFRASTRUCTURE & TRANSPORT

- HS2 Extension and Transport Upgrades
- 50% Increase in Local Road Maintenance Budget
- Cost pressure from heightened demand for materials and limited labour resource



## PUBLIC SERVICES: EDUCATION & HEALTH

- Substantial Capital Investment for Schools
- Healthcare Infrastructure Improvements
- Continue with delivery of New Hospitals Programme



## ENERGY & ENVIRONMENT

- Investment in Carbon Capture and Clean Energy
- Expanded Funding for Housing Decarbonisation and Heat Pumps
- Increased material costs and compliance expenses for projects



## TAXATION/WAGES

- Higher employer NICs (15%) and minimum wage increase to fuel labour cost-push inflation
- Significant increase in landfill tax rates
- Higher CGT rates on (non-residential) asset disposals may deter sales and reduce market liquidity

04

# TRENDS IN KEY TRADES





## KEY TRADE ANALYSIS – OVERVIEW

Low Pressure

High Pressure



### COMPETITIVE

- Demolition/Enabling Works
- Earthworks
- Substructure

### BALANCED/STABLE

- Carpentry/Joinery
- Finishes
- Drylining
- Preliminaries
- OH&P
- Steelwork
- Concrete
- Lifts

### HIGHER INFLATION TO COME

- MEP
- Façades

05

# MARKET CONDITIONS



## MARKET CONDITIONS

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

**Rising construction activity** expected as **latent demand is unlocked**

**Gateway 2 bottlenecks** stalling high-rise projects in pre-construction

**Cut-and-carve refurbishments** continue to drive commercial activity

**Tier 2 contractors chasing Tier 1 opportunities**

**Pro-build agenda** may **overload the supply chain**

Impact of **contractor insolvencies** working its way through the market

**Capacity constraints** leading to selective tendering

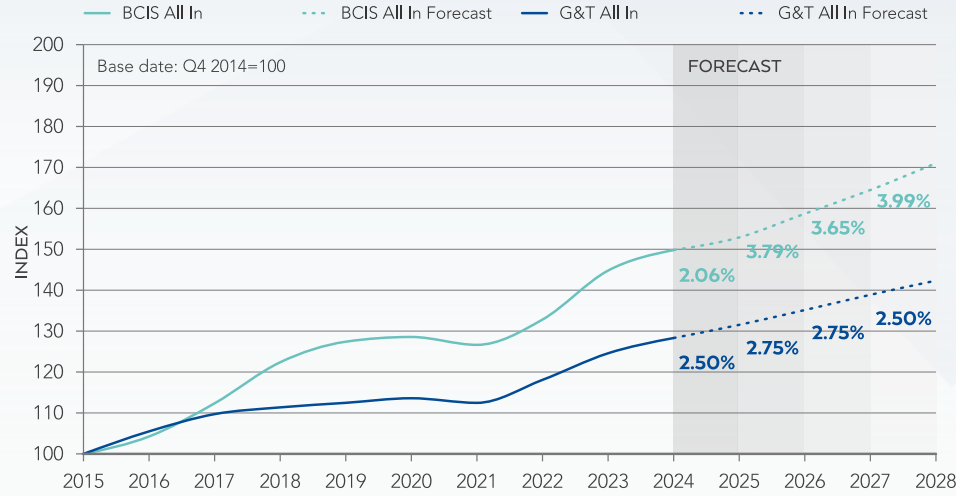
**Labour supply crunch** as **demand for resource intensifies**

READ OUR LATEST [TPI REPORT](#)



# TPI Q4 2024: OVERVIEW

## TENDER PRICE TREND 'ALL UK TPI'



## TENDER PRICE ANNUAL PERCENTAGE CHANGE Q4 2024

% Regional forecasts	2024		2025		2026		2027	
	Now	Last*	Now	Last*	Now	Last*	Now	Last*
Greater London	2.50	2.25	3.00	2.75	3.00	2.75	2.50	2.50
South East	2.50	2.25	3.00	2.75	3.00	2.75	2.50	2.50
South West	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
East (Anglia)	3.50	3.00	3.50	3.00	3.00	2.75	2.75	2.50
Midlands	2.50	2.25	2.75	2.50	3.00	2.75	3.00	3.00
Wales	2.00	2.00	2.25	2.00	2.25	2.25	2.50	2.50
Yorks & Humber	2.00	2.00	2.00	2.50	2.00	2.50	2.00	2.75
North West	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.25
North East	2.00	2.00	2.00	2.00	2.50	2.50	2.50	2.50
Scotland	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50
Northern Ireland	2.50	2.25	2.25	2.00	2.50	2.50	2.50	2.50
<b>UK Weighted Average</b>	<b>2.50</b>	<b>2.25</b>	<b>2.75</b>	<b>2.50</b>	<b>2.75</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>

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

**Last\* 3Q 2024**

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

**2.50%**

**LONDON**  
Tender Price Forecast (2024)

**2.50%**

**Buoyed by positive growth indicators and a pro-construction Government, the UK construction industry appears poised for expansion...**

However, there is a complex mix of pent-up demand, cautious optimism, and ongoing uncertainties in the market. Persistent planning bottlenecks, contractor insolvencies, skills shortages and limited supply chain capacity will test delivery, while rising material prices and labour costs will further pressure tender inflation.

*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.*

# KEY TAKEAWAYS







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

## KEY TAKEAWAYS



**Demand outlook improving but market dynamics remain challenging**



**Tightening supply chain set to drive inflation higher**



**Government's strong capital spending plans and planning policy reform to boost construction**



**Lower interest rates to bring down finance costs and stimulate private sector investment**

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