

UK Construction Market Intelligence Report Q1, 2023





Highlights

1. Rising inflation in interest rates continue.
2. UK brick, steel and concrete prices continue an upward trend.
3. Brexit may be contributing to price inflation.
4. 4,165 Construction firms have become insolvent in the 12 months ending Q1, 2023, of which:
 - 58% - 'Specialist Contractors'
 - 36% - Main Contractors
5. Financial constraints are an increasing issue. An estimated £300m of bad debt within the construction industry. Predicted to rise to £1bn by the start of 2024.
6. Extensive and continuing Public Sector strike action.
7. Continued skilled labour shortages, partly attributable to Brexit.
8. Contractors' profit margins are under pressure with the gap between tender prices and construction prices closing.
9. Uncertainty and cost impact of Government legislation.
 - Building Safety Act 2022



Interest Rates and Inflation

At the end of Q1, the Consumer Price Index (CPI) was at 10.1%. There were signs of inflation beginning to fall. However, this appears to be at a much slower rate when compared with the rest of Europe and North America.

	Q1 Inflation	Q1 Interest rates
UK	10.1%	4.25%

Table 1. UK Inflation and Interest Rates

The OBR has predicted that the UK economy would avoid a technical recession in 2023. A technical recession is defined as two consecutive quarters of economic decline. However, the UK economy is still predicted to shrink by 0.2% this year.

According to the latest IMF Outlook forecast, the UK is to grow at the lowest rate compared to other major economies such as Canada, the US, France, and Germany.



Regulated by

RICS

Highlights

Inflation

Construction Activity

Materials

Labour

Supply Chain

Summary

References

Contact





Construction Activity

According to the Office for National Statistics (ONS) data, construction activity grew 2.4% in February 2023, the highest monthly value since records began in January 2010.

UK construction output continued to rise on a quarterly basis (0.9% from Q4, 2022 to Q1, 2023). This represents the 6th consecutive quarterly rise since Q3, 2021. The Q1, 2023 RICS UK Construction and Infrastructure Monitor suggests that industry workloads increased in Q1, mostly due to continued growth in infrastructure construction.

However, private housing construction declined. According to the National House Building Council (NHBC), the number of new home registrations was down 49% in Q1, 2022 with forecast house building anticipate to fall 17-20% compared to 2022.

The industry is still trying to understand the full implications and requirements of the Building Safety Act, with secondary legislation yet to be released.

Continued regulatory uncertainty could have a significant impact on construction activity. For example, this uncertainty led to Wates pausing a GBP 1.5 billion high-rise development.

Regulatory changes have impacted development construction with costs increasing by up to 15%.

According to the latest RICS UK Construction Monitor, in Q1 the top three factors affecting the industry were:

1. Financial constraints
2. Skills shortages
3. Material costs

Financial constraints have increased continuously over five quarters and are now at the highest since Q1, 2020. This highlights the increasing financial challenges and risks within the industry; cash flow, funding, and credit conditions.

Factors affecting UK Construction Industry Q4 2022 - Q1 2023

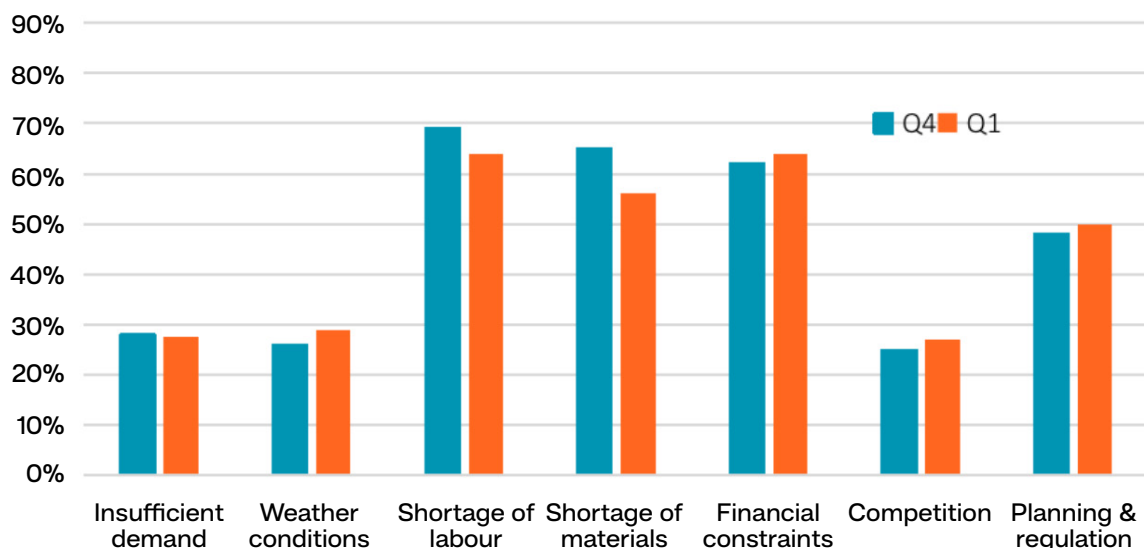


Figure 1. RICS UK Construction Monitor Factors Affecting Construction



The UK Business Confidence index showed an increase in confidence across most sectors in Q1, shown in Figure 2 below with Construction and Property remaining negative.

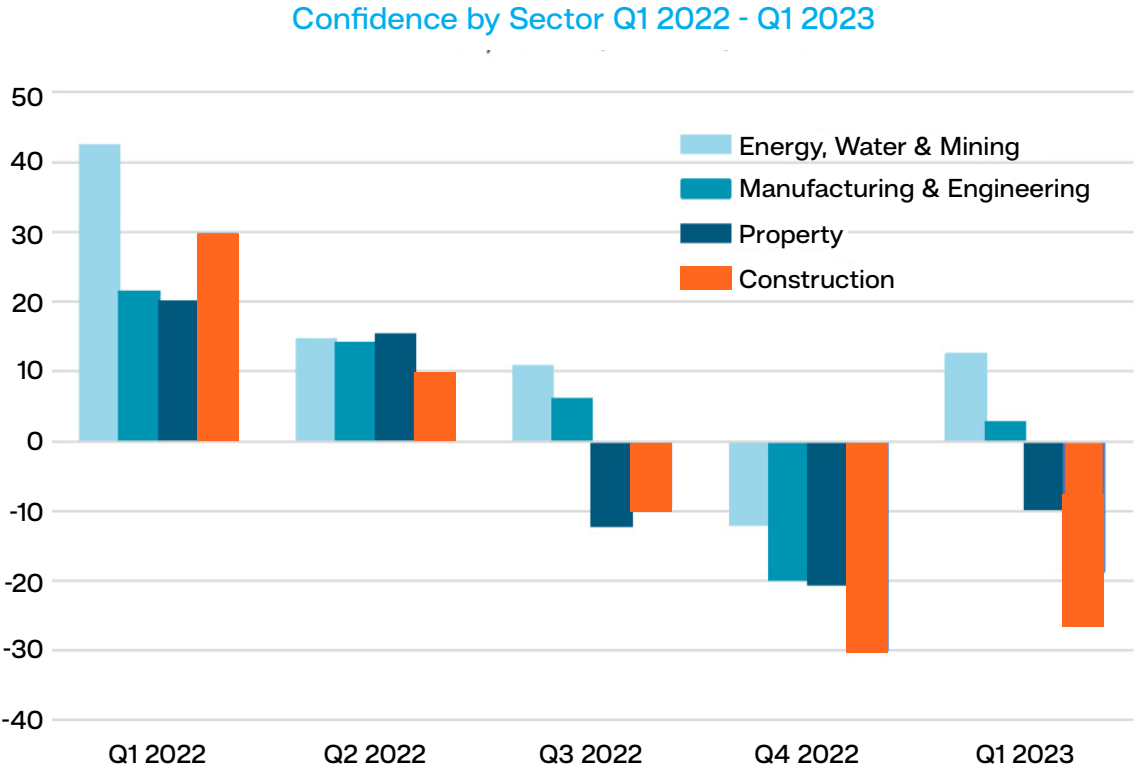


Figure 2. UK Industry Confidence Index Q1 '22 - Q1 2023

According to a recent Gleeds industry survey, 90% of respondents reported that inflation was impacting the viability of future projects.

Insight

- Weak confidence within construction is likely due to:
- a. the impact of rising interest rates impact on funding; and
 - b. slowing demand, especially in housing.



Materials

Q1 prices remained high. The material price index shown in Figure 3 for 'All Work' increased by 8.7% in March 2023 year-on-year, but 42% higher than in Jan 2020.

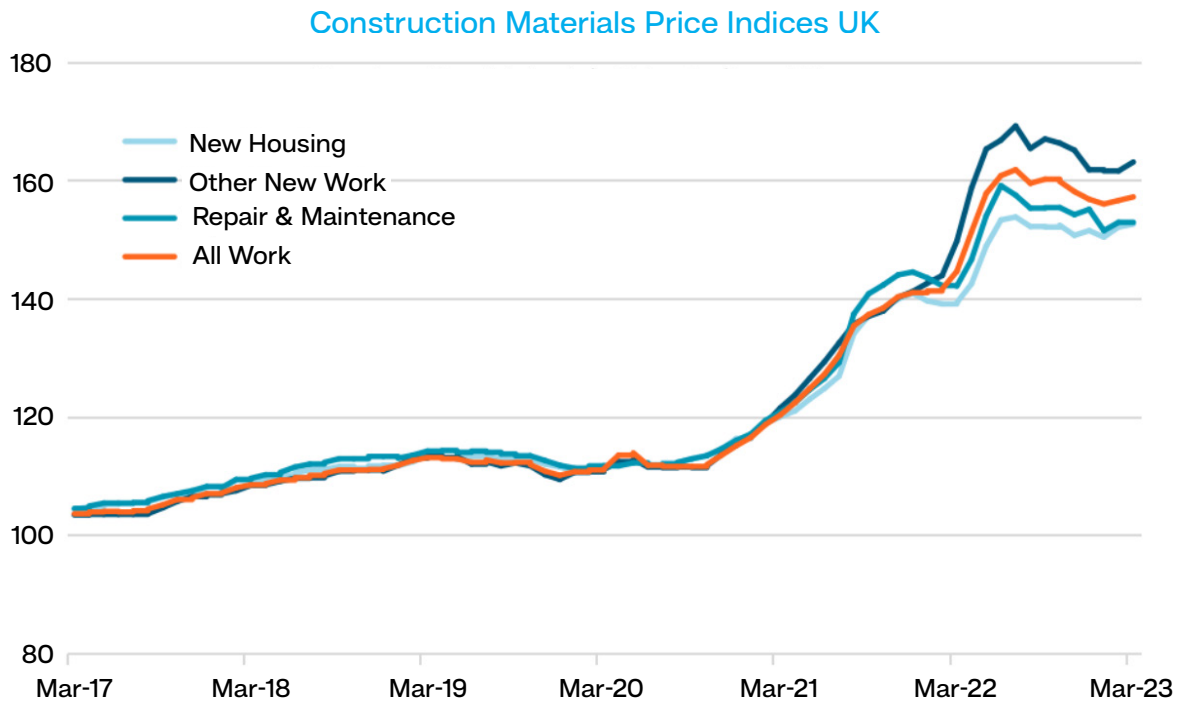


Figure 3. UK Construction Material Price Indices

In Q1, British Steel increased prices by £75/t for structural sections with immediate effect. TATA Steel made a similar increase.

Despite rebar prices falling by 13.6% from historic highs in Q2, 2022 (+134% compared with Jan 2020) they remain 78.8% higher than in January 2020 (pre-pandemic).

Slowing inflation means materials are still rising but at a slower rate: materials were 41% higher in Feb 2023 compared with Feb 2020.

Insulation continues its upward trend due to strong demand for energy-efficient homes and retrofit as well as energy-intensive materials such as aggregates and pre-cast concrete as shown in Figure 4.

According to BEIS UK materials have increased 35% higher than in the EU.

Asphalt sales volumes have fallen by 4.9% in the past two quarters.

The CLC's Product Availability Statement highlights that price inflation remains a major concern. Although prices are not increasing as rapidly as before, they are still significantly higher than 18 months ago, leading to squeezed profit margins.

Q1, 2023 was still the second-worst performing quarter since 2021, with volumes down 8.7% over the past two quarters.

Energy-intensive produced materials prices increased for the fourth consecutive quarter according to the latest MPA Survey but sales volumes increase compared to Q4.



Fastest Construction Material Price Inflation (Increases/ Decreases) - Feb '23

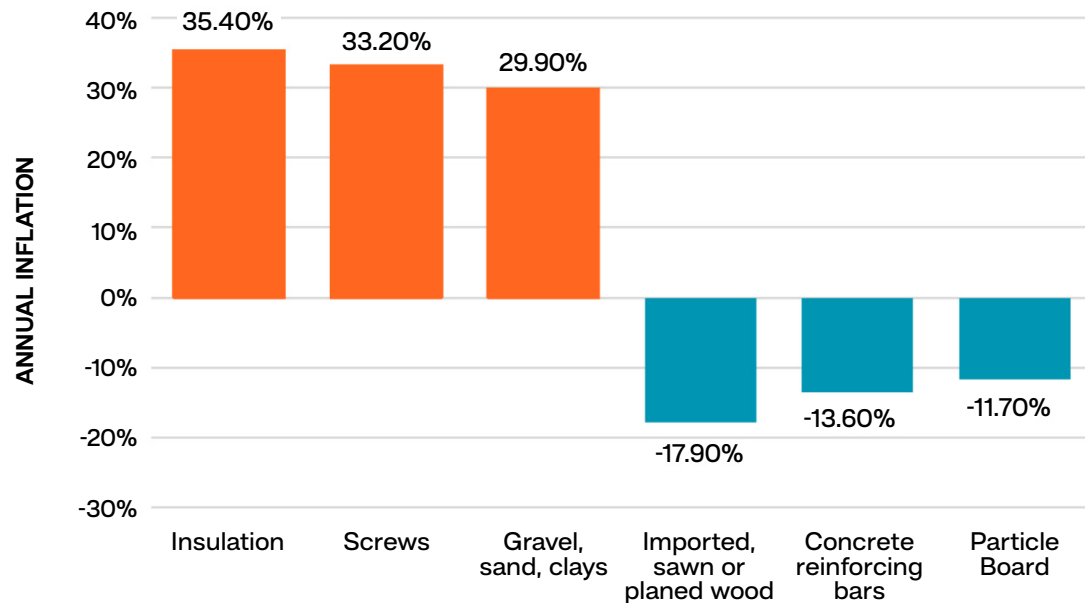


Figure 4. ONS Construction Material Price Inflation - increases / decreases

Sales volumes for ready-mixed concrete rose by 9.8% in Q1, 2023 compared to Q4, 2022 as shown in Figures 5 and 6. Key highlights are:

- mortar sales increased by 6.0%,
- primary aggregates (crushed rock, sand & gravel) by 3.3% and
- asphalt by 1.8%.
- brick sales increased in Q1 but 30% lower than a year ago.

This is after a near year-long decline in demand for these materials throughout 2022. According to the Mineral Products Association (MPA) industry sales survey, which provides time series sales volume data stretching back over 20 years.

The importance of these materials in construction means that the tonnage sold acts as a useful Key Performance Indicator (KPI) to monitor the health of the construction sector.

Insight

A slowdown in mortar sales highlights the effect of a slowdown in residential activity,

- increased manufacturing costs; and
- slowing demand particularly in housebuilding.



MPA Sales volumes 2020 - 2022

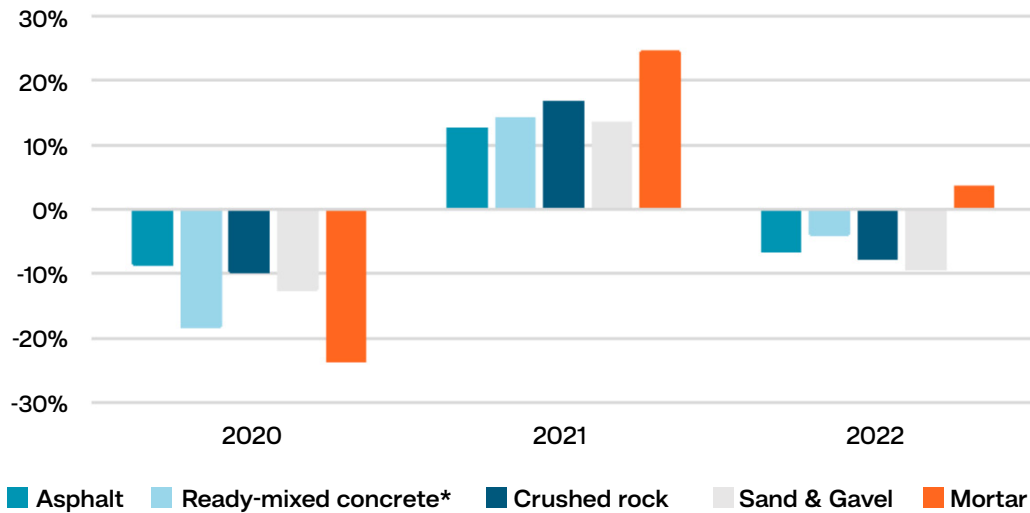


Figure 5. MPA Heavy material sales volumes 2020 - 2022

Sales Volumes Q2 2022 - Q1 2023

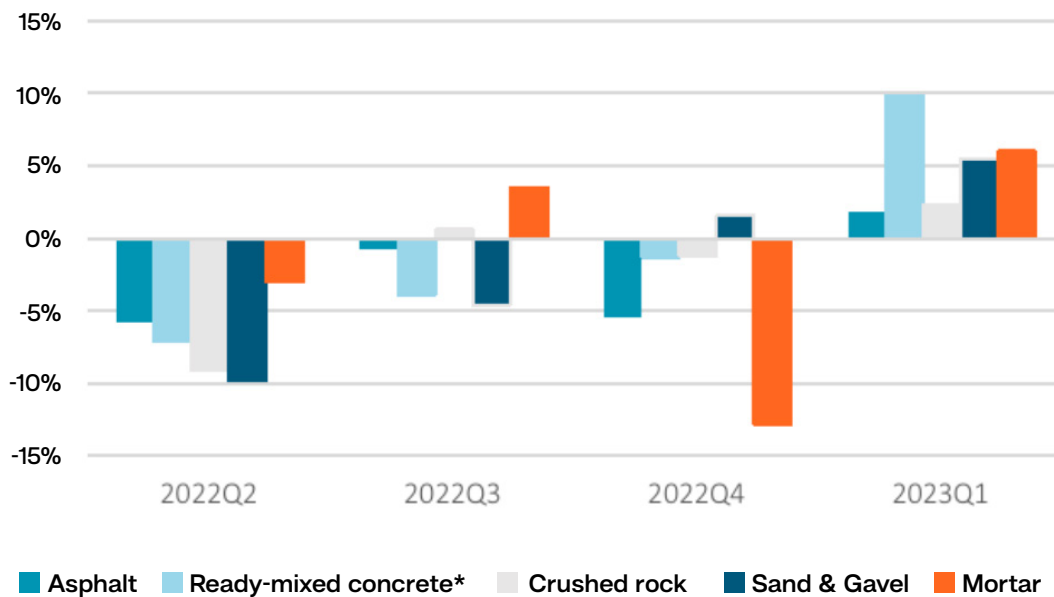


Figure 6. Sales volumes Q2 '22 - Q1 '23

Insight

High energy costs have continued to impact UK manufacturers, making goods more expensive to produce with labour availability affected by Brexit. The decline in demand for these materials may suggest a future decline in construction activity.

Mineral products are essential to any construction project, forming the foundations and structures for roads, railways, housing, commercial and industrial developments. Despite Q1 sales increasing, cost inflation, economic uncertainty, and weak household and business confidence will likely affect all major areas of construction.



Labour

Ongoing public sector strike action is adding further pressure on wages.

According to Q1 CITB Annual Construction Skills Network Report (CSN), 225,000 extra workers (45,000 a year) will be needed to meet UK construction demand between now and 2027.

There were 2.69m workers in UK Construction in Q1 which is 2% fewer than at the start of the Covid pandemic.

Skilled labour costs are forecast to increase by around 7% in aggregate into 2023 reflecting the challenges around recruitment and wage pressures.

The labour and skill shortages are a concern as the UK Government took the unprecedented step of

accepting recommendations from the Migration Advisory Committee for five construction occupations, bricklayers, roofers, carpenters and plasterers, to be added to the 'shortage occupation list' by the summer, enabling them to apply for a skilled worker visa to work in the UK.

The latest ONS data, as shown in Figure 7, shows that construction sector vacancies may have peaked in Q2, 2022.

They have now declined over the last three quarters. However, they remain at some of the highest levels in 20 years.

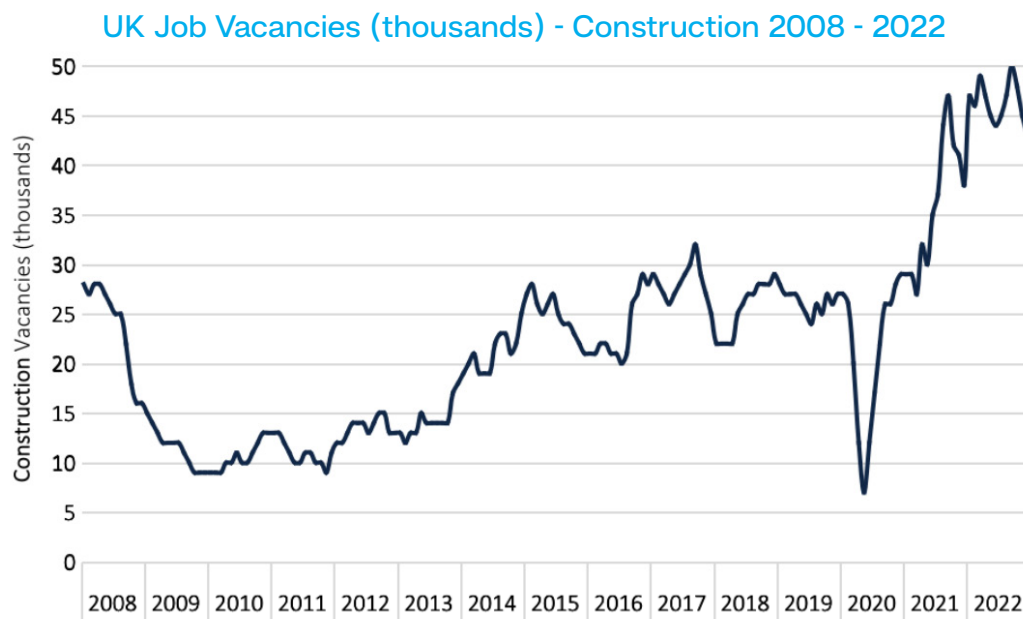


Figure 7. UK Construction Vacancies 2008 - 2022

Insight

Inflation wage pressure has been driven by increases in market demand, on-going strike action and record job vacancies.

The UK construction sector has historically been reliant on foreign workers, particularly those from the EU. Brexit-related restrictions on the movement of foreign workers will likely lead to further wage increases in the construction sector.



Supply Chain

S&P Global CIPS UK Construction PMI data for March appears to be showing improvement in suppliers' delivery times.

Insight

This is likely due an improved supply and demand balance, leading to improved availability of construction products and materials.

442 construction firms went out of business in March 2023. 6.5% higher than a year ago and 67% higher than in January 2020. The split is:

- 58% - 'Specialist Contractors'
- 36% - Main Contractors

The monthly insolvency rates should be viewed in the context of the annual figures for 2022, where 4,148 (Figures 8 and 9) construction companies became insolvent in the past year. This represents the highest number since the 2008 financial crisis.

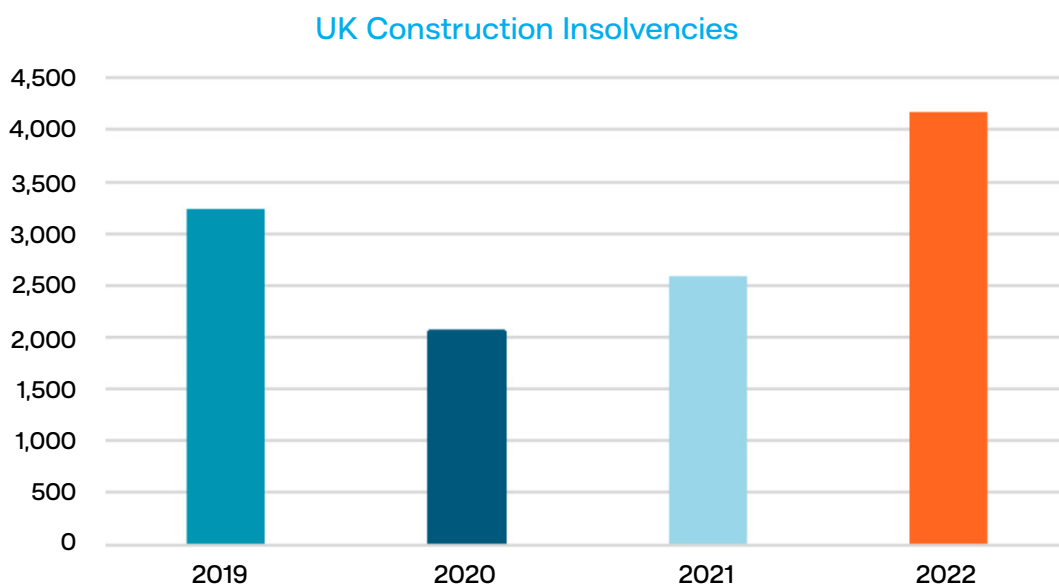


Figure 8. UK Construction Insolvencies

According to a Red Flag report it is estimated that the construction industry currently faces around £300m in bad debt, which could potentially increase to £1bn by early 2024.

Insight

Insolvencies influence market perception with other market challenges to increase supply chain caution. In sectors where multiple construction firms go bust, this can cause concern and imbalance in the market. Inflation and increasing interest rates are particularly affecting housebuilders and SME builders.



UK Construction Insolvencies 2019 - 2023

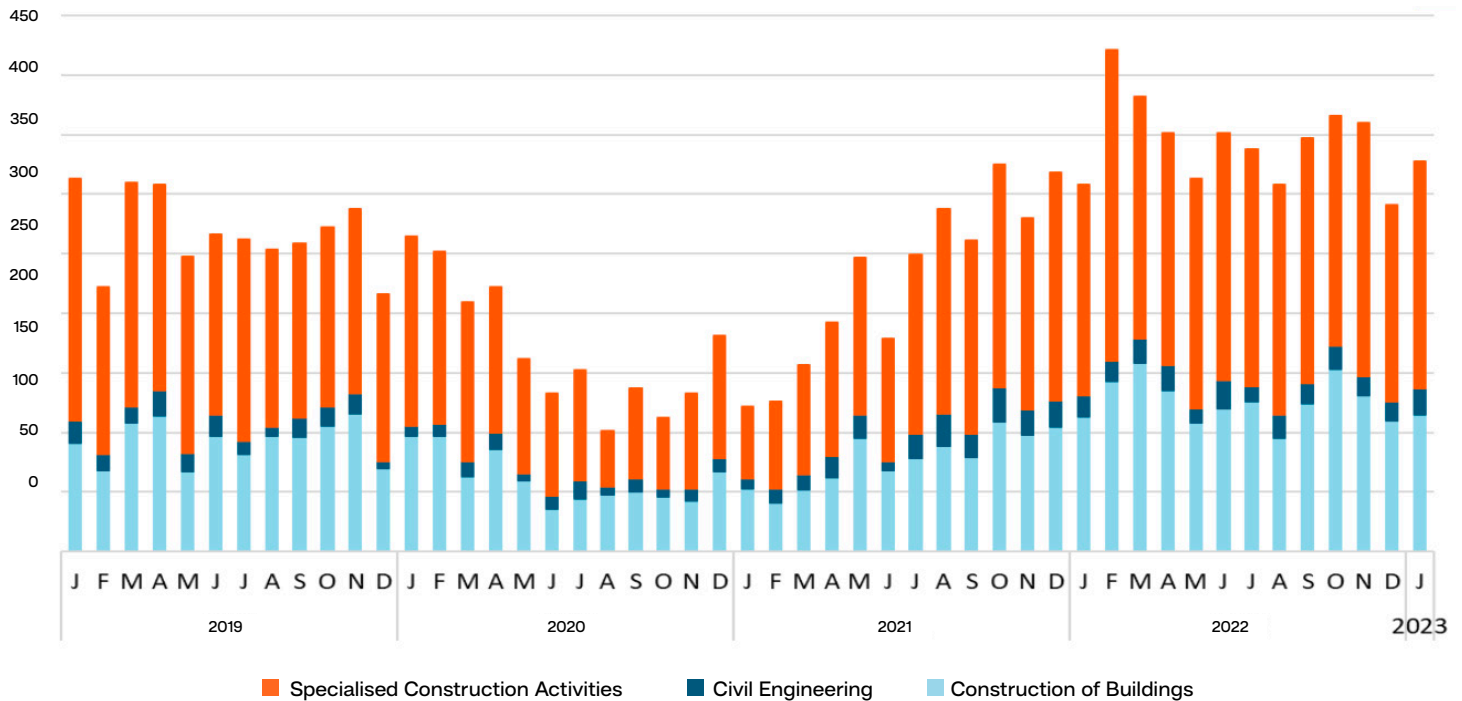


Figure 9. UK Construction Insolvencies 2019 – 2022 by category

According to the latest CLC's Product Availability Statement:

- There is good availability for most building products and boiler backlogs have cleared.
- Semiconductors remain an issue, affecting the delivery of solar photovoltaic equipment and LED lighting.
- Input prices continued to rise in March, with suppliers reportedly attributing this to elevated energy costs and increasing staff wages.

The RICS Q1 UK Construction Monitor states that rising interest rates are expected to affect contractors' cash flows, putting additional strain on supply chains. Throughout the pandemic, many contractors had to take on more debt.

The construction sector continues to face difficulties in securing certain trades. RICS Survey data suggests that this is especially true for groundworkers, bricklayers, steel fixers, cladding fixers, and mechanical and electrical installers.

Insight

High inflation and increasing interest rates are a concern as construction companies often operate on low margins, so are sensitive to higher borrowing costs. Rising interest rates will also likely affect tenders, with higher financing costs and their impact on project viability assessments and subsequent approval decisions.

Skills shortages and a declining construction workforce are likely to affect contractors' ability to deliver targets for housebuilding, the transition to net zero carbon and infrastructure.



Summary & A Look Ahead

The UK's outlook for the second quarter is expected to improve as inflation decreases. However, several challenges will persist.

Higher interest rates will restrict finances and pose a threat to project viability, affecting lending, contractors' profit margins, and credit.

The ongoing Ukraine Conflict remains a significant influence and despite energy prices stabilising any escalation could cause further increases towards the end of the year.

Changes in legislation may also impact construction costs and existing schemes.

These factors, including the Ukraine Conflict, will continue to present major challenges. While reduced volatility in commodities prices and lower fuel costs will help control inflation, it remains high and diminishes consumer purchasing power.

Labour costs are expected to rise due to ongoing industrial action and shortages across all industry levels.

Brexit will likely continue to impact labour resources and the availability of skilled workers.

Furthermore, climate change will increasingly affect insurers due to growing volatility.



Chris Reeves

BA (Hons), PGDip, RICS Mediator, MCI Arb, FRICS
Head of Quantity Surveying,
CCS International

Research Note

GRS's Quantity Surveying Division plays a crucial role in providing market knowledge to support our adjusting team. Our research methodology for collecting construction material pricing and indicators combines primary and secondary research.

Primary Research:

Conducted quarterly with stakeholders, including manufacturers and suppliers/distributors of the target materials.

Focuses on gathering market information on recent prices and projections for the upcoming quarter and the remainder of the year.

Secondary Research:

Involves a comprehensive assessment of secondary sources.

Examines data on materials and labour prices.

Evaluates underlying demand and supply trends that impact market prices.

Our sources for secondary research include but are not limited to organisations and references such as:

The World Bank

- The International Monetary Fund (IMF)
- National statistics offices, including the UK's Office for National Statistics (ONS)
- Industry-specific associations and publications like BCIS



Chris Reeves BA (Hons), PgDip,
MCIArb, RICS Mediator, FRICS
Head of Quantity Surveying,

A: Suite 504, Dawson House,
5 Jewry Street, London,
EC3N 2EX
T: +44 (0) 7825 276 291
E: creeves@globalrisksolutions.com
W: www.GlobalRiskSolutions.com



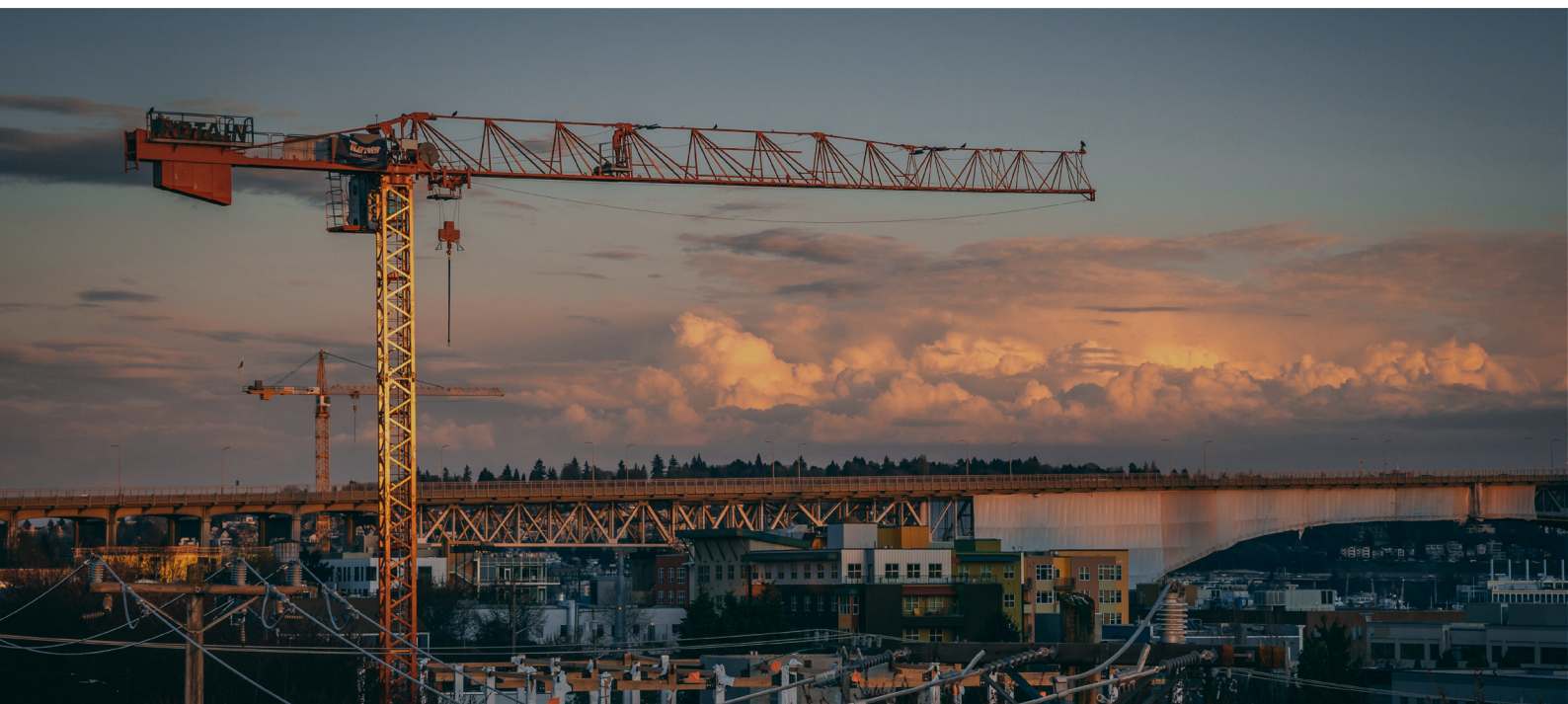
Adam Humphrey LL.B., DipLP, MA,
MBA, FCII, FCILA, MCIArb, CIRM, AMAE,
CEDR Mediator, FUED-ELAE, FIFAA
Chief Executive Officer,

A: Suite 504, Dawson House,
5 Jewry Street, London,
EC3N 2EX
T: +44 (0) 7545 166 210
E: ahumphrey@globalrisksolutions.com
W: www.GlobalRiskSolutions.com



Reubin Iqbal BEng (Hons), Grad Dip
Law, ACII, ACILA
Head of Construction & Engineering,

A: Suite 504, Dawson House,
5 Jewry Street, London,
EC3N 2EX
T: +44 (0) 7442 925 503
E: riqbal@globalrisksolutions.com
W: www.GlobalRiskSolutions.com



Legal notice / Disclaimer: GRS wrote this report to inform readers generally on construction activity and wider market matters. It conveys opinions based on its research and data sources that were correct at the time of writing. It is intended for general information purposes only, and while every effort has been made to ensure the accuracy of the material in this document, neither GRS nor any of its directors, officers, employees, agents or other persons acting on their behalf:

- a) makes any warranty, express or implied; or
- b) assumes any liability concerning the use of the information or methods contained in this report to any person or party.