



SUMMER 2023 / PREPARED BY CHRIS JONES

# MARKET AND COST COMMENTARY

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Since our last update, the economy has managed to avoid the expected recession however, there continues to be a myriad of pressures hampering growth and affecting the industry.

## UK ECONOMY

Consumer Price Inflation (CPI) has slowly cooled from a peak of 11.1% in October 2022 to 6.8% in July, which is an improvement but still some way off from the Government's target of 2%, which isn't forecast to hit until Q2 2025.

The Bank of England forecast CPI to fall to around 5% by the end of 2023.

Interest rates were raised by 0.25% in August by the BOE to 5.25%, with a further rise forecast over the coming months to a potential peak of 6%. The continued rise in the cost of borrowing is having a marked effect on industry output and new project starts.

## CONSTRUCTION

The latest Glenigan review details the effect of economic pressure on project outputs noting a 33% fall in main contract awards compared with 2022 and a 33% decline in project starts against 2022 levels.

Glenigan further notes that work commencing on site is 10% down in Q2 against Q1 2023, which suggests the month-on-month trend is further decreasing work commencement as the year progresses. This is further backed up by a noted decline of 24% in main contract awards in Q2 in comparison to Q1 2023.

Planning approvals for projects over £100m declined by 36% in the quarter and 37% compared to the same period of 2022. Approval for projects under £100m decreased by 6% in the quarter and stood only 3% lower than in 2022, suggesting there is some confidence in lower-value projects against the major project permissions.

On a sector level, residential performed strongly in the period rising 21% in Q2 against Q1 bolstered mainly by private housing however, it was 26% lower overall in comparison to Q2 2022.

The health sector also performed strongly, growing 23% from Q1 to Q2 in project starts for projects under £100m, this was 25% lower than 2022. Major projects of over £100m in value were also up 6% in the quarter.

Other sectors did not perform as well as residential and health, and generally, all noted significant decline on a quarterly and yearly comparison basis.

The commercial sector noted a significant on-quarter decrease of 54% and was also 45% down on the previous year. Interestingly, commercial planning approvals grew 19% in comparison to the same period in 2022, which was underpinned by a 77% increase in major project planning approvals from the preceding year.

Industrial performed equally poorly with a decrease of 51% on project starts in comparison to 2022 and 24% from Q1 to Q2 but also saw growth in project planning approvals, which showed a 33% increase on-quarter and 13% against the same time last year.

Growth in both commercial and industrial planning approvals may suggest there is a significant pipeline coming through, which should improve project start performance assuming the approved projects proceed to construction work phases.

Other sectors, such as residential and hotel and leisure, declined in project starts both on a quarterly and yearly basis, with retail also suffering a significant decline in planning approvals.

## LABOUR AND WAGES

Both the availability and the increasing costs of labour remain an issue for the industry, with BCIS labour cost index increasing by 4.9% from the end of Q4 2022 to the end of Q1 2023 and the ONS Weekly Average Earnings Index: Construction up to 6.3% in Q1 2023 from 5.8% in Q4 2022.

Recently, the Construction Industry Joint Council (CIJC) agreed an immediate 6% pay increase for workers operating under the agreement, which rises to 7.59% in January 2023. The agreement also includes an immediate rise for the lowest labour rate by 8%.

Availability of labour fell due to total employment in the industry dropping by 2.5% in the year to date against a 0.5% increase over the 12 months of 2022.

BCIS Contractors Tender Climate Survey found that 56% of their respondents confirmed they found it difficult to secure labour in 2023, with further concerns around suitable available staff with the necessary skills and experience.

In the spring budget, the government added five construction labour categories (bricklayers/masons; roofers, tilers and slaters; plasterers and construction & building trades) to the Shortage Occupation List (SOL), which enables foreign workers to apply for a skilled worker visa in these categories, in a bid to improve the skills shortage.



# MATERIALS AND TENDER PRICING

Generally, the cost of materials has levelled off with the BCIS Materials Cost Index forecasting prices to grow by 2% from Q2 2023 to Q2 2024 which although still an increase is well below the peak of 23.5% in Q2 2022.

Building costs rose by c. 8% from Q1 2022 to Q1 2023 however, the forecast is for this to reduce to c. 3.5% from Q2 2023 to Q2 2024, with the easing of materials pricing offsetting an increase in labour costs as noted above.

Tender pricing is forecast to rise by 2.4% from Q2 2023 to Q2 2024, which is slower than the forecast building cost increases and is reflective of the slowdown in project starts and contract awards, meaning appetite and keenness to tender in the market has grown from mid to late 2022.

BCIS Tender Price Panel Survey reported that in Q2 2022, appetite to tender was strongly leaning towards being between 'not getting anyone to tender' and 'desired number of suitable tenderers after searching' whereas in Q2 2023 this had shifted to between 'desired number of suitable tenderers after searching' and 'contractors are very eager to tender' demonstrating a move from contractor's being more selective in what they were prepared to tender for to a more open stance to tendering opportunities.

Appetite to tender on a scale from 1 to 5	1 Cannot get anyone to tender	2	3 Desired number of suitable tenderers found after searching	4	5 Contractors are very eager to tender
3Q2021	0%	15%	62%	23%	0%
4Q2021	0%	17%	42%	33%	8%
1Q2022	0%	17%	58%	17%	8%
2Q2022	0%	39%	46%	15%	0%
3Q2022	0%	8%	67%	25%	0%
4Q2022	0%	0%	64%	36%	0%
1Q2023	0%	0%	58%	42%	0%
2Q2023	0% —	25% ▲	25% ▼	42% —	8% ▲

CREDIT: BCIS

The panel also noted a wider acceptance of single-stage tendering and contractors being more active in business development activity.

The Construction Leadership Council (CLC) reported good availability of the majority of building materials now, with availability generally back to pre-Covid levels.



## PBC GUIDANCE

There are ongoing and significant challenges in the industry currently, and it is therefore essential for the success of a project to consider the correct method of procurement, careful contractor selection and supply chain management, with a robust and well-managed programme for the works and consistent and accurate monitoring and reporting of project progress.

PBC can provide assistance across a number of services to ensure the best outcome for our clients, so please do get in touch to discuss your project requirements in greater detail.