



Shaping public
construction

SCF Market Intelligence

Q3 2021



Introduction



As part of SCF's commitment to collaboration and transparency, every quarter, SCF Main Contractors gather market intelligence from the construction industry from their trade supply chains.

With the market experiencing unprecedented volatility and cost pressures for labour, materials and products, it is now more crucial than ever that public sector clients develop a deeper understanding of the market conditions when procuring their projects, to ensure the best possible outcomes as budgets are squeezed ever tighter.

To this end, SCF market intelligence analyses data across 10 key trade packages. Data is collected across four cities within the south of the UK. The analysis identifies regional market trends and forecasts for the following year by commenting on changes in tender workload, number of employees, building costs and material & labour availability.

SCF shares this information with its clients to highlight key areas of risk that may impact on project delivery. SCF Main Contractors and Clients can use this information to predict pressures and opportunities in the market, to make decisions about material specification, construction methodology, off-site or automated construction techniques and project planning and programming, ensuring the best possible decision making to deliver maximum value to our clients.

This data, combined with SCF's integrated team approach, maximises the benefits of the two-stage open book process, ensuring predictable, high-quality outcomes for our clients and their communities.

Trades

- Carpentry and Joinery
- Tower Cranes
- Groundworks
- Windows
- Curtain Walling
- Concrete Frames
- Brickwork
- Mechanical and Electrical
- Dry Lining
- Steelwork

Get in touch...

To discuss the SCF procurement process or a particular project you have in mind, please contact our Operations leads.



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Tender Workload

As the UK market continues to rebound from the pandemic, SCF Main Contractors have identified an increasing demand for construction trades, with an average increase of 6% in tender workload across all trades when compared to the previous quarter.

Central Government has continued to drive workload through the Build Back Better Agenda, via the following funding streams:

- £100 billion of capital investments 2021-2022
- £12 billion of project funding through the 10 Point Plan for a Green Industrial Revolution
- UK Shared Prosperity Fund and the £4.8 bn UK wide Levelling Up Fund

In support of frequent market activity, during Q3 SCF Main Contractors identified tender workload to be 9% greater than this time last year.

Construction trades with the greatest annual increase in tender workload include:

- Steelwork (16%)
- Groundwork (14%)
- Dry Lining (12%)
- Tower Crane (11%)

In trend with the rest of 2021, rapid spend through the Infrastructure and Private Housing sector has primarily led the Covid-19 recovery during Q3.

SCF Main Contractors have identified the following trades to have the greatest increase in tender workload over Q3 when compared to the previous quarter.

- Tower Crane (14%)
- Dry Lining (9%)
- Concrete Frame (8%)
- Steelwork (7%)

However, the ONS has identified Construction Output to have slowed throughout Q2 & Q3. Between March and August total output had fallen by almost 2%. It is believed that this is due to increased building costs and material lead times restricting output amongst the supply chain. This will be particularly prevalent amongst SMEs with limited buying power. Highlighting this issue was a 10% reduction in output in Private Housing Repair and Maintenance and while this is not the worst performing sector, it impacts an incredibly large proportion of smaller firms.



“Engage with the market early. Utilise soft market tests and bidders’ days to generate appetite for your scheme from Main Contractors. Importantly set realistic dates for your procurement and hit those dates wherever possible.”

“As recommended by the Construction Playbook, share your pipeline and upcoming projects with the market. Boost visibility and interest in your project, allow contractors to align their resources with your project to ensure the best levels of interest and competition for your scheme.”

Kingsley Clarke, Operations Lead

Tender Workload (% change since Q2 2021)





Employment

As construction activity has continued to resume during Q3, the rate of employment within the industry has also increased in order to sustain this high demand.

- As a result, SCF Main Contractors have identified an average 1.5% increase in the number of employees across all trades in Q3 when compared to the previous quarter.

The following trades have been identified to have the greatest increase in employment throughout Q3 alone:

- Concrete Frame (7%)
- Carpentry & Joinery (3%)
- Steelwork (1%)
- Brickwork (1%)

A continued skills shortage has long been an industry wide issue for the construction sector. However, a further spike in workload during the pandemic recovery has resulted in the UK experiencing an excessive skill shortage with vacancies rising to their highest recorded level since 2001. ONS data also shows that weekly earnings have started to pick-up, which is a worrying sign for contractors given material cost rises.

Unfortunately, this shortage has been amplified by Brexit and the impact on the EU workforce. As the UK has approached the deadline for the EU Settlement Scheme, the industry has reported a reduction of EU workforce, which has been particularly prevalent in areas surrounding London.

A reduction in EU workforce has also intensified reduced capacity for the haulage of construction materials. To add to these challenges, throughout July and August, supply chains were heavily impacted by Covid-19 isolation guidelines, with whole workforces having to isolate due to being “pinged” by the NHS app.

However, when compared to the previous year, our Q3 SCF data demonstrates a vast amount of variation in regard to changes in employment, both within trades and across regions. With definitive labour trends yet to be observed in the SCF data, this demonstrates the extreme volatility within the current market over the past year and emphasises how long-term risks in securing workforce can make forecasting and early fixed pricing increasingly challenging for the supply chain. In addition, the survey nature of the SCF data set also captures the variation within individual businesses and how they are faring throughout these uncertain times.

“Through mandatory apprentices and compulsory Employment and Skills Plans on every project, SCF Main Contractors are doing their part to tackle the industry wide skills shortage. To support these efforts, clients should look to engage Main Contractors and the supply chain early. This will enable sufficient engagement with local people and ensure as many opportunities as possible are created for new entrants to the industry.”

“Consider whether you can increase your own talent pool and provide new opportunities for young people in your local communities by making use of the Department for Work and Pensions’ Kickstart Scheme, this enables employers to apply for funding to create

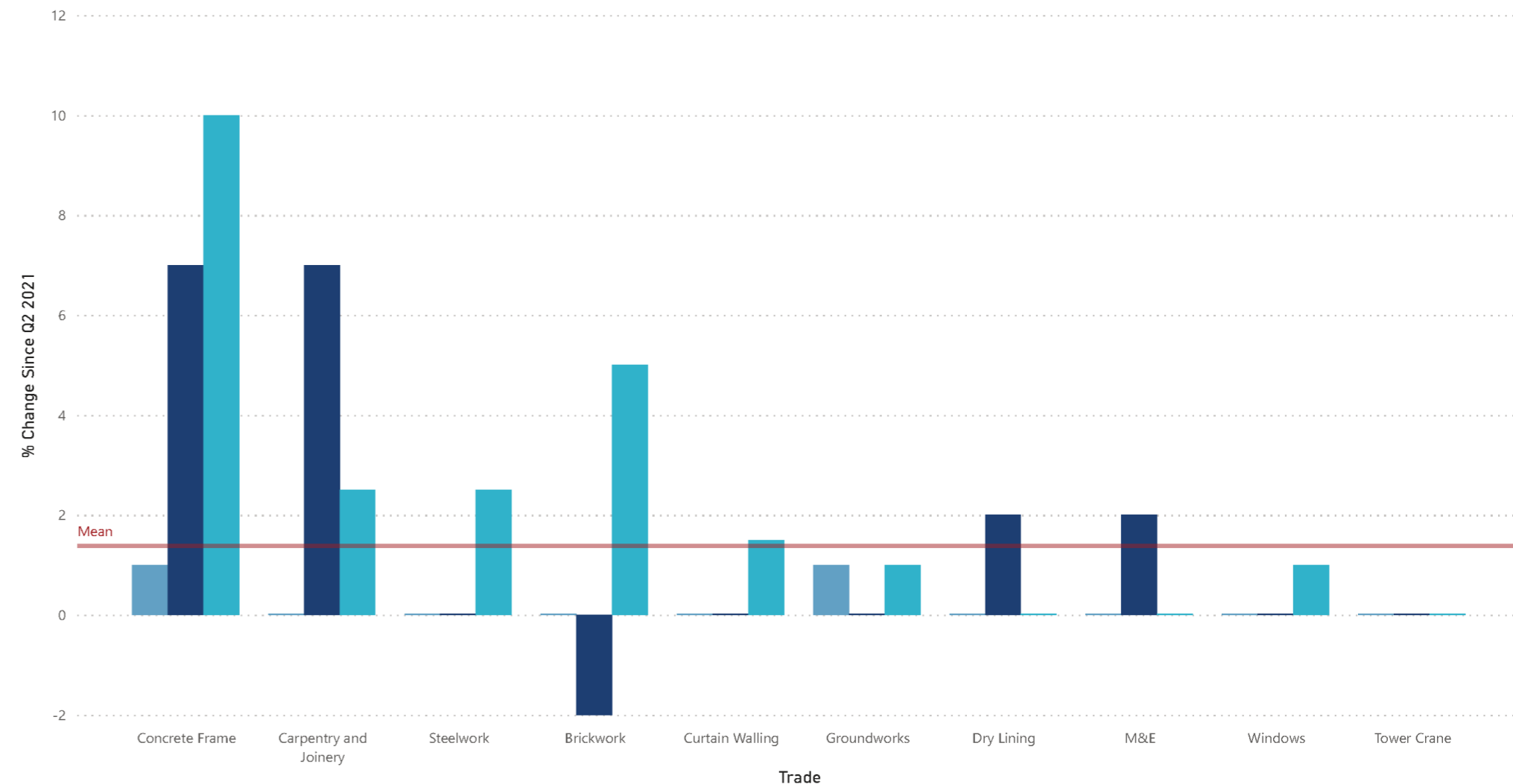
jobs for 16 to 24-year-olds on Universal Credit. In greater support of the pandemic recovery, Central Government has now extended the deadline for applications to the 17th of December 2021, so act quickly to take advantage of this scheme.”



James Wright,
Senior Framework Manager

Change in number of employees (% change since Q2 2021)

SCF (Regions) ● London ● Southeast ● Southwest





Building Cost

Throughout Q1 and Q2, the construction industry has been impacted by a combination of market factors that have resulted in a continued increase in building cost.

Contributing factors include:

- High demand and limited supply
- Global scarcity of raw materials and products, derived from the pandemic
- Challenges in sourcing labour, amplified by Brexit, the “Pingdemic”, and the UK Furlough Scheme

However, throughout Q3 the construction industry has experienced additional cumulative pressures, such as challenges in transportation and energy costs, that have truly formed the “perfect storm” for market volatility and building cost increases. SCF’s Main Contractors have described the market volatility and the rate of price increase as ‘truly unprecedented’.

- For Q3 alone, our Main Contractor’s supply chains have reported an average building cost increase of 12% across all trades. This has been due to a combination of inflation rates across numerous products and materials.

SCF Main Contractors have identified the following trades to have the greatest increase in building cost during Q3 when compared to the previous quarter:

- Steelwork (17%)
- Carpentry & Joinery (16%)
- Curtain Walling & Dry Lining (14%)
- Windows (13%)

Furthermore, manufacturers of a wide range of products & materials are notifying the supply chain of further price increases derived from the energy & transport crisis currently experienced within the UK and wider Europe.

For example, in response to the mounting price of gas and transportation, at the end of September British Steel released a temporary surcharge notifying of a £30 per tonne price increase in order to recover costs. £25 per tonne was due to energy inflation with £5 per tonne derived from the inflation of HGV services.

- The building cost of Steelwork in Q3 increased by 17% alone when compared to the previous quarter and this now sits a 38% greater than this time last year.

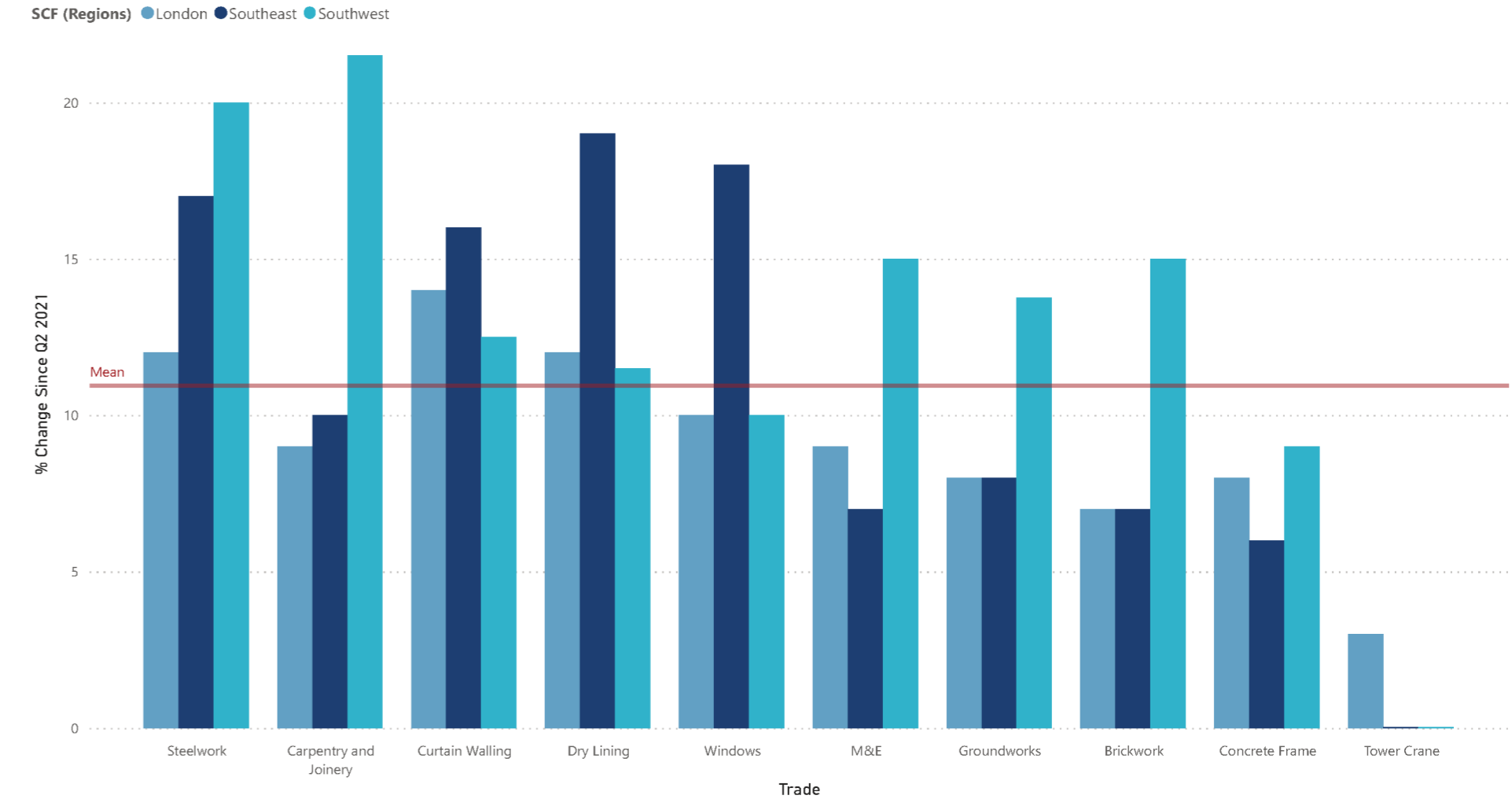
The price of some raw materials, specifically metals, has continued to impact on the building costs of numerous trades and products.

As result, SCF Main Contractors identified the following trades with the greatest annual increase in building cost:

- Steelwork (38%)
- Dry Lining (18%)
- M&E (16%)
- Carpentry & Joinery (15%)

With the current unprecedented market volatility, the supply chain has expressed hesitancy in committing to forecasting building costs over long periods of time. As a result, this has been reflected within the supply chain’s ability to fix prices. SCF Main Contractors have shared their experiences of some prices being fixed for as little as 24 hours.

Change in Building cost (% change since Q2 2021)



“Utilise early engagement with your Main Contractor, this way you can work together to ensure that design solutions incorporate current market pressures before detailed design. For SCF projects, our Main Contractors are committed to sharing early advice, even prior to appointment.”

“A transparent approach to project budgets, risk allocation and pricing, will ensure an environment in which market risks can be effectively managed and mitigated, reducing uncertainty in procurement, and increasing certainty on costs.”

Adam Sanford, Operations Lead

Material Availability



Like the rest of 2021, challenges in material availability have continued to be a key industry issue throughout Q3.

- During Q3 alone, SCF Main Contractors identified material & labour lead times to increase by an average of 3.5 weeks across all trades.

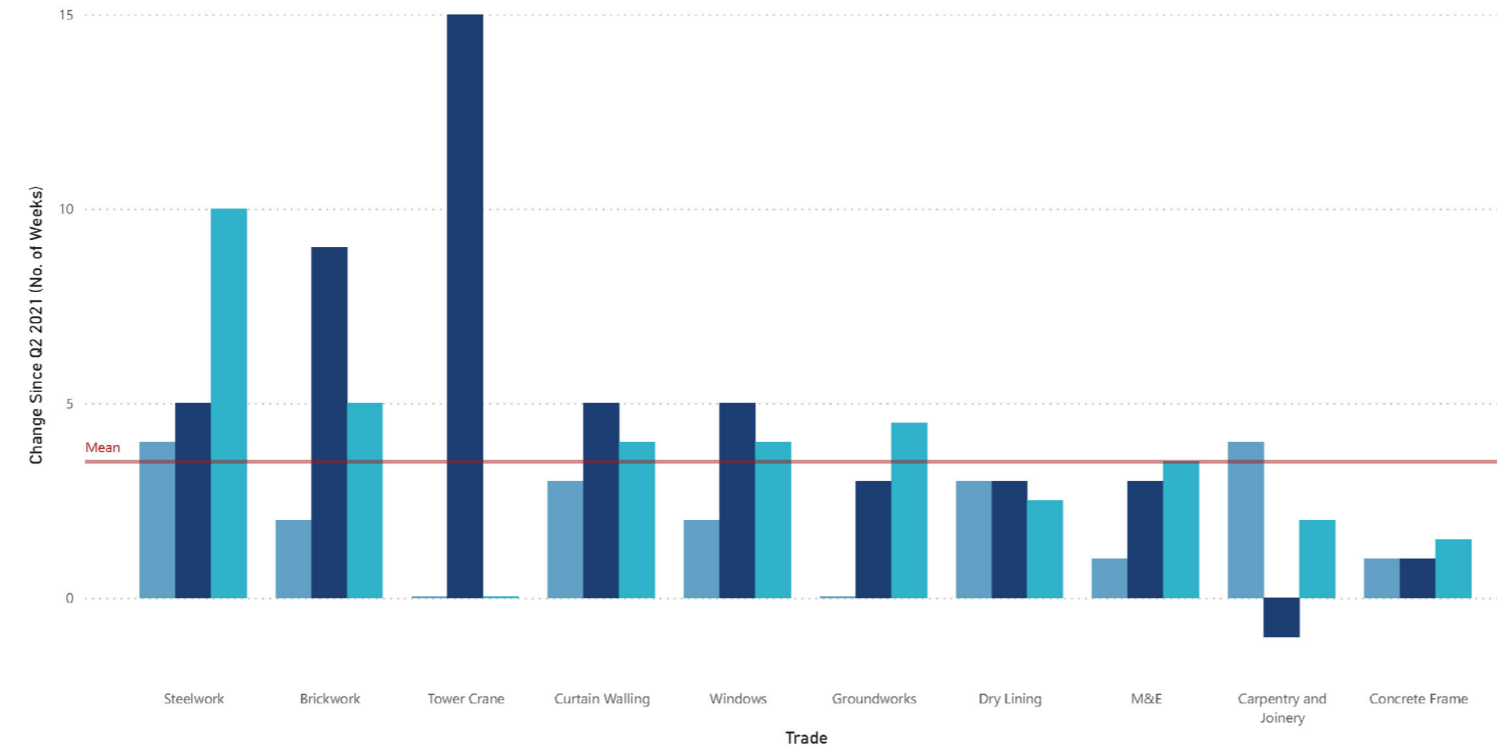
SCF Main Contractors have identified the following trades to have the greatest increase in material and labour lead time during Q3 when compared to the previous quarter:

- Steelwork (additional 7 weeks)
- Brickwork and Tower Crane (additional 5 weeks)
- Curtain Walling & Windows (additional 4 weeks)

Change in material availability (% change since Q2 2021)

Material & Labour Availability

SCF (Regions) ● London ● Southeast ● Southwest



Throughout Q3, the sourcing of semiconductors has been challenging for a vast range of industries, including construction. A key factor resulting in this shortage is the closing of global chip factories throughout lockdown; however, shortages of semiconductors have been on the horizon for many years due to the rapid demand of electrical goods.

Transportation Challenges



Over the course of Q3, the lack of HGV drivers derived from a reduction in European workforce has heavily impacted on material distribution, with extreme reports from the Construction Leadership Council of suppliers requesting builders' merchants to collect their own orders. It is expected that extreme regional locations, such as the Southwest & Scotland, are to be most vulnerable to transport challenges.

The Department for Transport has been heavily involved with attempting to provide short-term and long-standing solutions for the haulage sector. 5,000 HGV drivers have been added to temporary visas schemes and nearly 1 million letters have been sent to drivers with an HGV licence encouraging return to the sector.

Throughout Q3, the misplacement of global shipping containers continued to impact upon material availability in the UK. For example, ports in Shanghai, Rotterdam and Felixstowe have experienced a backlog of shipping containers waiting to unload. One of the world's largest freight forwarders Kuehne + Nagel, estimates that nearly 584 container ships are currently delayed outside of ports.

Adding to transportation's woes, the cost of petrol has risen sharply, recently hitting an all-time record. As the global economy has recovered, so has the price of Brent crude oil and it now stands above US\$85 per barrel. This is the highest it has been since 2014 and this has fed through into domestic fuel prices, adding to the cost of transporting materials as well as driving to and from work.

SCF Main Contractors have identified the following trades to have the greatest increase in material and labour lead time during Q3 when compared to the previous year:

- Steelwork (additional 7 weeks)
- Brickwork, Dry Lining and Tower Crane (additional 4 weeks)
- Curtain Walling, Groundworks & Windows (additional 3 weeks)



"SCF Main Contractors suggest that where possible avoid fixing specification at planning. This can limit your options in sourcing alternate materials over the course of your project."

"Consider early orders and pre-manufactured building elements of key materials on your critical path. This will support with timely completion and delivery."

James Wright,
Senior Framework Manager



Looking ahead

Tender Workload

As the Build Back Better agenda further develops and associated funding streams are allocated, SCF Main Contractors anticipate tender workload to increase by an average of 8% across all trades by Q3 2022.

The trades with the greatest forecasted increase in tender workload for Q3 2022 include:

- Curtain Walling (13%)
- Steelwork (12%)
- Carpentry & Joinery (11%)



[Click here to see Tender Workload forecast](#)

Employment

In response to the anticipated increase in tender workload, SCF Main Contractors forecast employment to increase by an average of 6% across all trades by Q3 2022.

With COP26 taking place during November, outcomes from the conference are likely to result in a greater demand for green jobs throughout 2022. As a result, trades such as those that target the retrofitting of energy efficiency measures in buildings are expected to be in high demand.

The trades with the greatest forecasted increase in the number of employees include:

- Windows (14%)
- Curtain Walling (13%)
- Carpentry & Joinery (13%)
- Groundworks (12%)



[Click here to see Employment forecast](#)

Material Availability

SCF Main Contractors forecast material & labour lead times to increase by an average of 3 weeks across all trades by Q3 2022. As the Christmas season draws near, the global logistics sector is to come under even greater pressure than at present.

The trades with the greatest forecasted change in material & labour availability for Q3 2022 include:

- Brickwork (additional 10 weeks)
- Curtain Walling & Windows (additional 5 weeks)
- Carpentry & Joinery (additional 4 weeks)
- Groundworks (additional 3 weeks)



[Click here to see Material and Labour Availability forecast](#)

Building Cost

SCF Main Contractors forecast building costs to increase by an average of 2% across all trades by Q3 2022.

The trades with the greatest forecasted increase in building costs for Q3 2022 include:

- Carpentry & Joinery (10%)
- Curtain Walling & Windows (3%)
- Groundworks (3%)
- M&E (3%)



[Click here to see Building Cost forecast](#)

SCF Consult Reflective Note



Raw prices are expected to reach greater stability at some point over the next 12 months. SCF Main Contractors have warned that even though the price of timber is beginning to stabilise, the impact this has on supply chain pricing may be lagged and this will take time to filter through the supply chain. However, while some commodity prices are easing, others, in particular gas and oil have risen considerably since the summer. Given the timing of our survey the impact of these increases will only have started to be felt. Just when some may have thought the worst is over, a new set of problems come into effect. If it is a cold winter, then energy prices could surge further and, in some cases, manufacturers may need to temporarily close. Were this to happen, it would only worsen the problem of material shortages.

Whether the price of construction materials comes back down and how quickly they do is also of concern. In our last report, we mentioned the Bank of England were expecting inflation to peak a bit above 3% at the end of this year. They have now revised this up to topping out at above 4% as well as being likely to stay above their 2% target for noticeably longer. In part these revisions are due to higher energy prices, but it is also because the supply bottlenecks are easing at a slower rate than previously hoped. A common theme in the survey was volatility and a difficulty in setting prices. While bottlenecks remain and uncertainty persists, these problems will continue.

This year's biggest challenge has been with materials, both due to prices' incessant ascent and from shortages. However, next year's main problem may be labour costs. Vacancies have been at record levels since the spring and there are growing signs this is resulting in higher earnings. With the furlough scheme coming to an end in September, a return to the labour market of almost 100,000 workers may help dampen some inflationary pressures. Nonetheless, despite comfortably covering the number of vacancies, skills mismatches may mean not everyone can easily find jobs. SCF Main Contractors have shared that over the course of Q3 suppliers have been able to absorb increases in labour costs, however SCF Main Contractors warn that with high volumes of work available in the market, this is less likely to continue throughout the course of 2022.

With these elevated risks, the issue of who holds them becomes even more relevant. Always a tricky problem for construction projects, avoiding the all too often solution of the one least suitable bearing the risk is even more essential. Instead, all risks need to be appropriately identified and assessed with those best placed to manage them taking responsibility. This is in line with the Construction Playbook, which highlights the importance of good risk management being key to delivering "value for money and successful outcomes".



Energy

An Insight into the Energy Market

With energy prices on the rise, it's more important than ever to understand why energy markets can be so volatile. They react to a wide range of price drivers, as well as underlying macro-economic factors, all of which are interconnected globally. For instance, what happens in Asia or North America will influence the supply of coal and overall demand.

Key Price Drivers:

1. Demand: industrial activity, heating in winter, cooling in summer, new usage such as electric vehicle, electrification of transport.
2. Supply: coal, gas / LNG, nuclear output, wind / solar, import / export via interconnectors between countries.
3. Weather & Climate Change: floods, droughts, heatwaves etc will all impact on supply & demand.
4. Regulatory Environment: COP26, national energy policies, carbon related schemes.
5. Infrastructures: planned and unplanned maintenance, workers strike etc.
6. Carbon: carbon has now become a key topic which influences wholesale energy markets in Europe.

2021 Market Conditions

The extraordinary, and in some cases all time high prices, are the result of a perfect storm of bullish drivers:

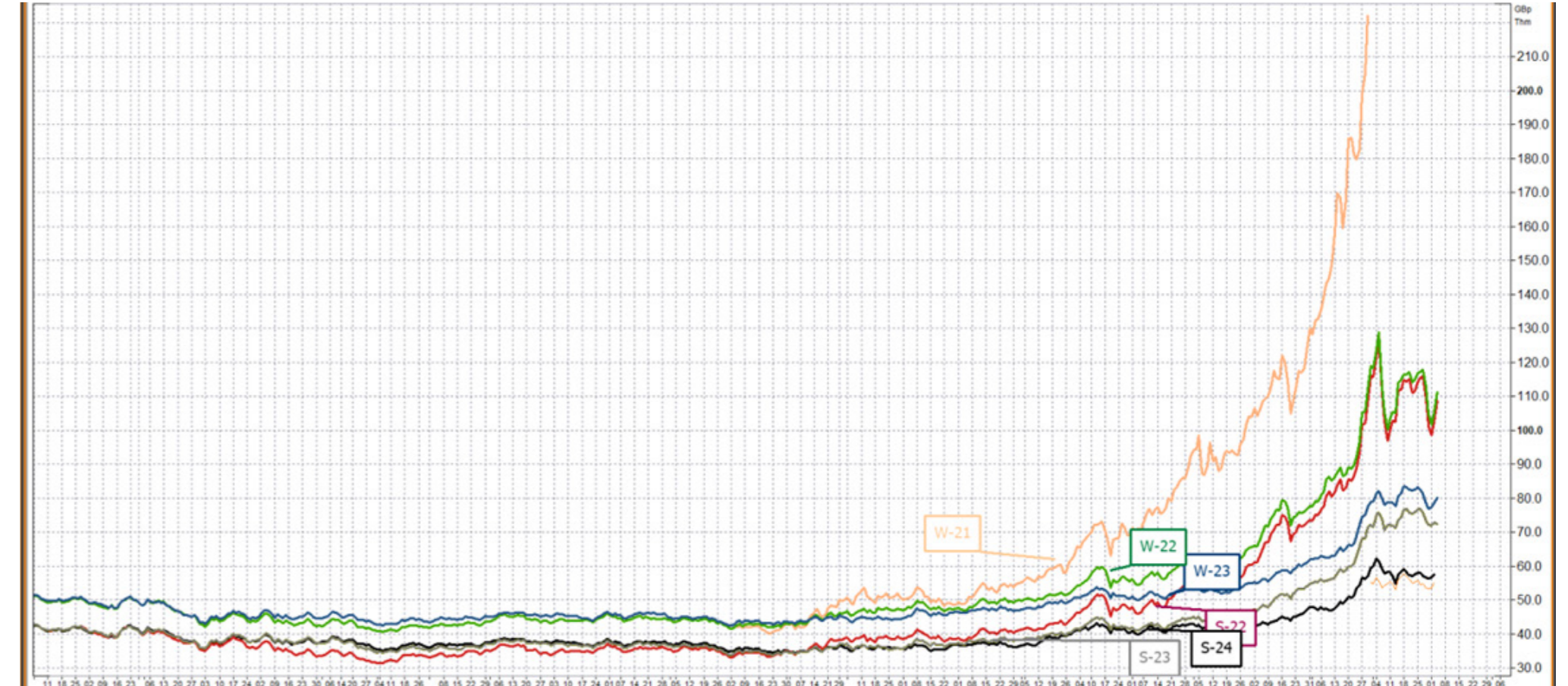
Winter 2020/21 has been particularly long and cold which has depleted European gas storage which is a key factor for prices during the period. In addition, Russia has started to reduce its gas deliveries into Europe to the minimum contracted capacity. This has resulted in a further reduction of seasonal (spring & summer) storage replenishment.

At the same time, the carbon market, initially designed to cap emissions amongst very large users and suppliers in Europe, is now a target of financial investors (pension funds & banks) for investment diversification and speculation.

Carbon price has increased from 5€/t in 2018 to 25€/t in 2020; to now around the 60€/t mark. This is a 1,100% increase in 3 years! Carbon prices have had a direct impact on the wholesale market given the higher reliance on coal and gas this year with less wind & sun output throughout 2021.

The post initial waves of the Covid period has seen a significant economic rebound in Asia. This has led to pressure on gas/LNG demand exacerbated by coal supply issues from Australia to South-East Asia, putting additional pressure on LNG prices diverted from EU to China and even Brazil starved of rain in recent months (60% of power generation come from hydroelectric power stations in Brazil, supply to a large part of the continent).

Monthly Change in UK Gas Index (GBp/therm)



Looking Forwards into 2022

Over the coming months in Europe the winter weather, as well as Russian gas supply to Europe, will heavily drive price direction. Looking at the short to medium term, policy decisions related to interest rates and inflation control, new Covid waves and resolution of supply chain issues and commodity supply will be the key factors of price direction.



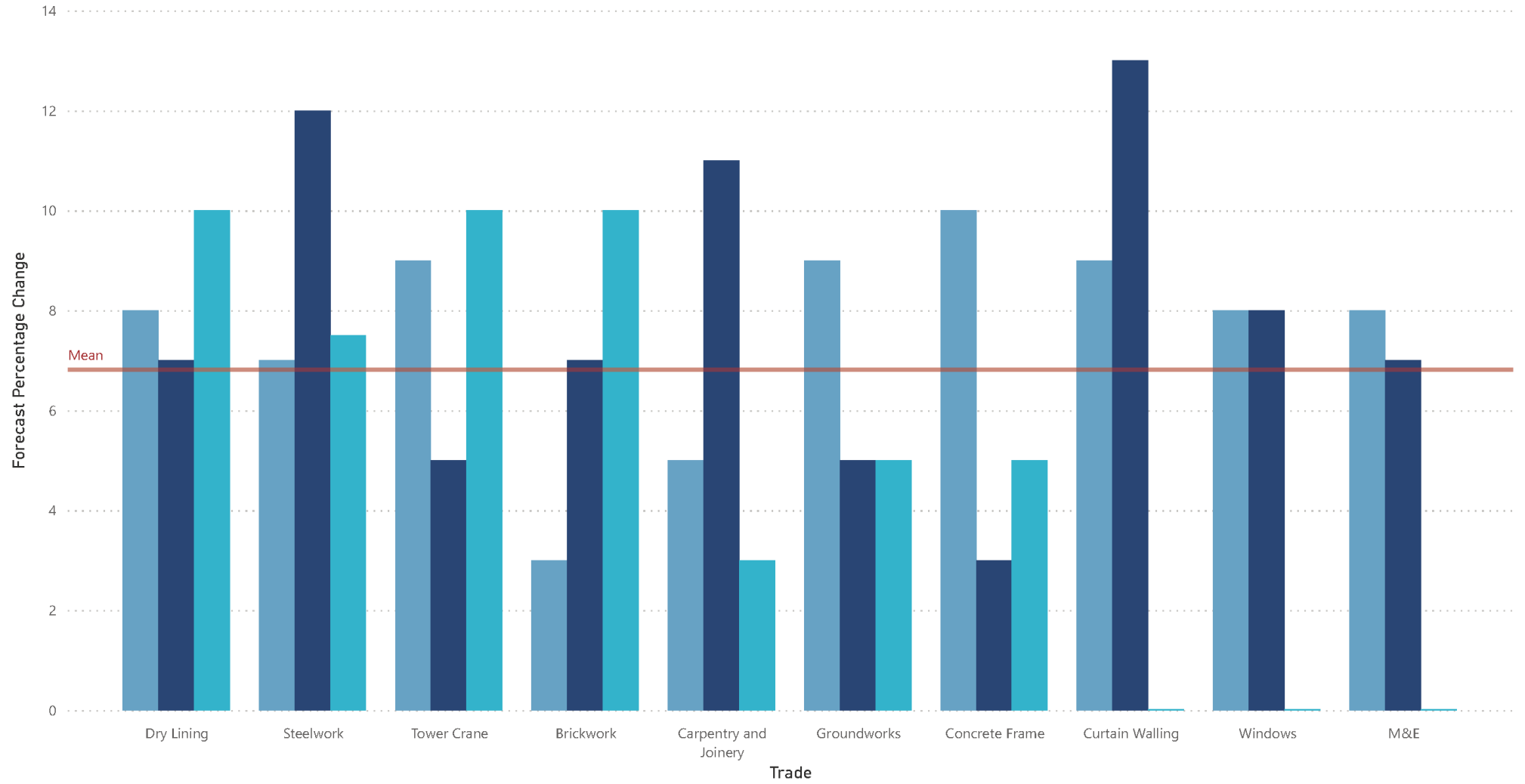
“The graph above outlines the magnitude of price increase regarding gas in the UK throughout 2021. As the climate agenda progresses, the need for greater energy resilience and a transition from a fossil-fuel based economy is evermore significant. With COP26 taking place, resulting actions will confirm the carbon agenda as a key driver for many public sector clients.”

Emma Bull, Senior Framework Manager

“There has never been a better opportunity for Clients to work with Main Contractors to identify options for carbon reduction within their projects. Through the use of Life Cycle Assessments and the SCF Net Zero Carbon Tool, SCF Main Contractors can review embodied carbon and provide suggestions for low carbon alternatives.”

Tender Workload Q3 2022 Forecast

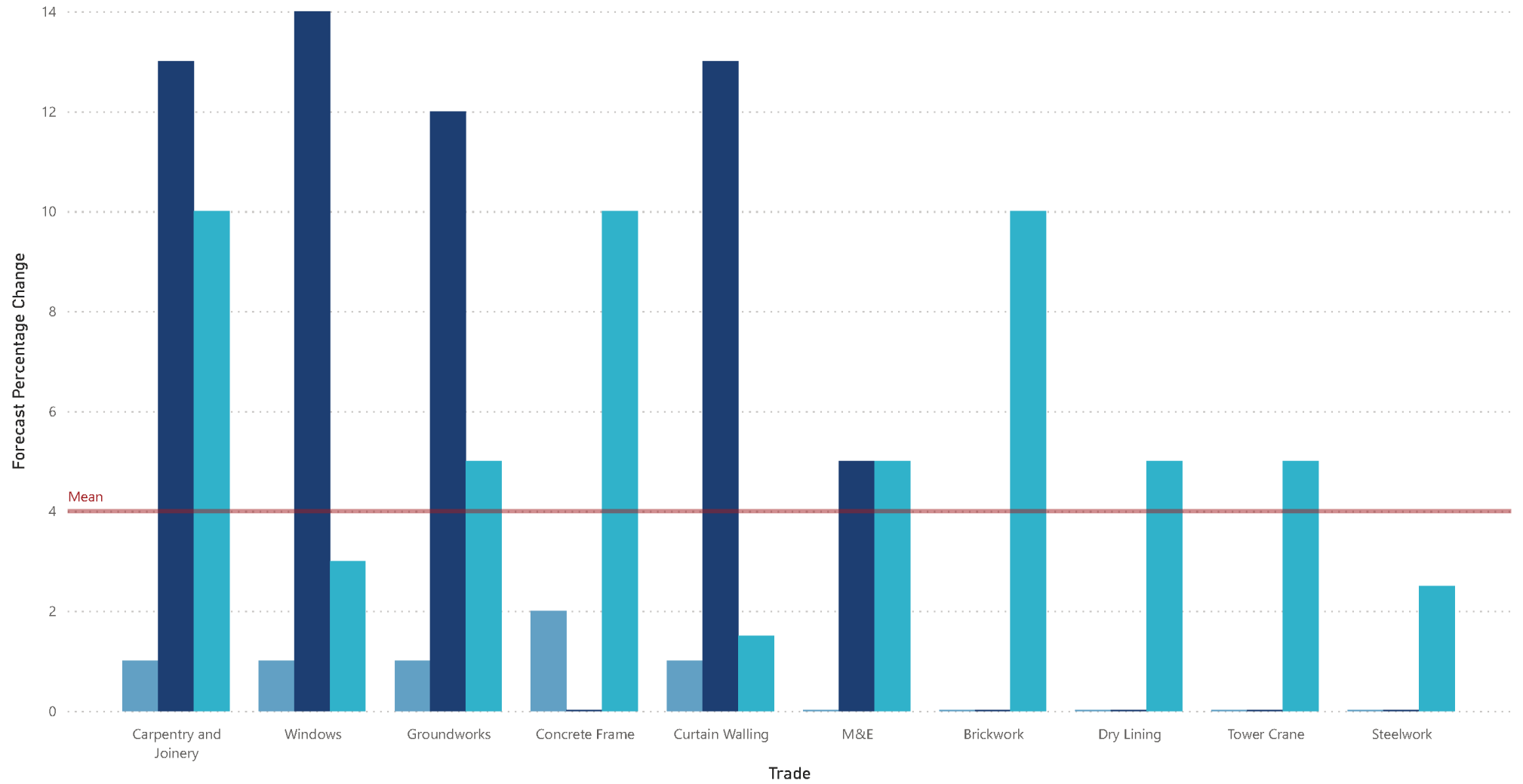
SCF (Regions) ● London ● Southeast ● Southwest



Go back to Looking ahead

Employment Q3 2022 Forecast

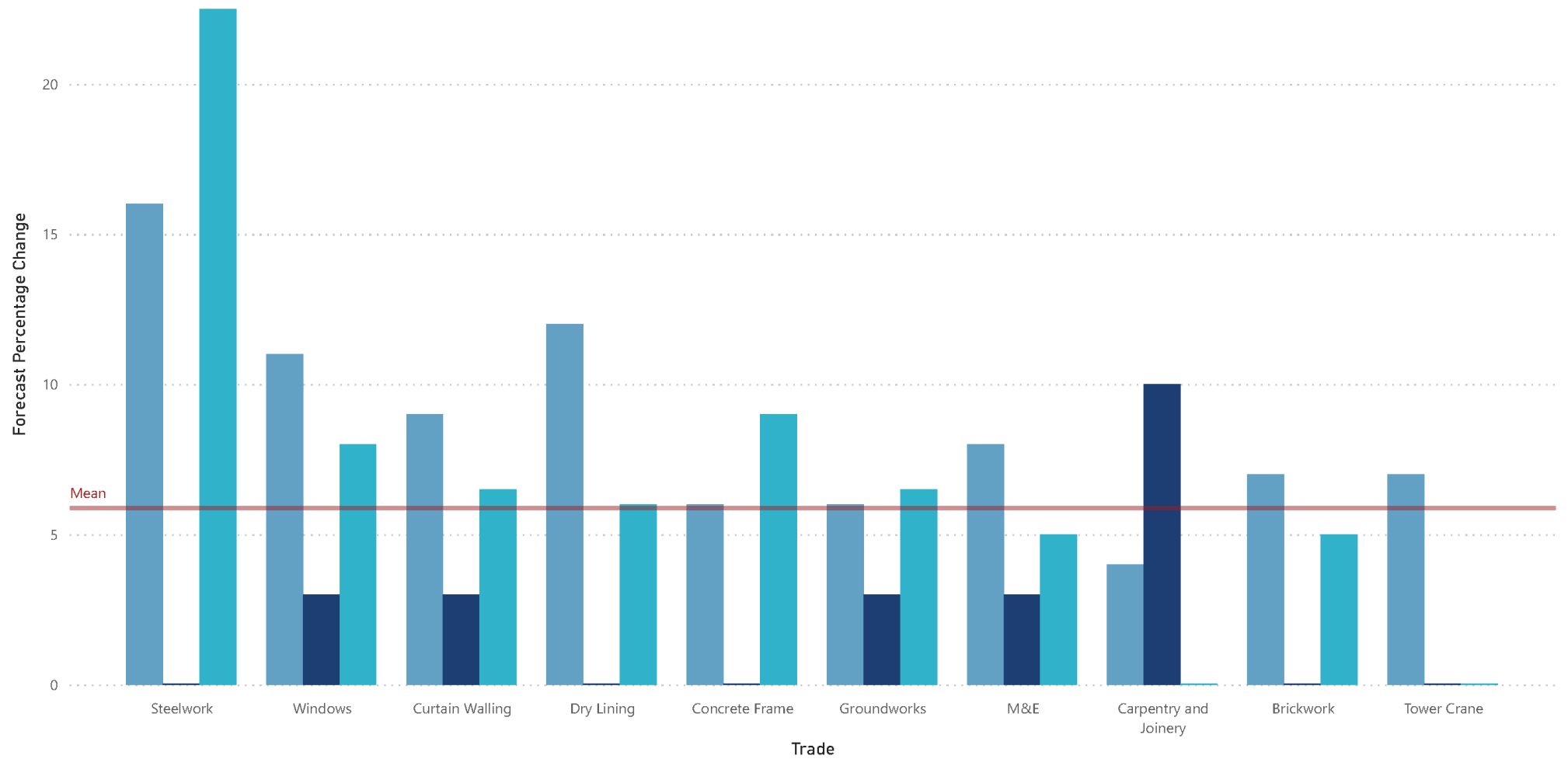
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Go back to Looking ahead

Building Cost Q3 2022 Forecast

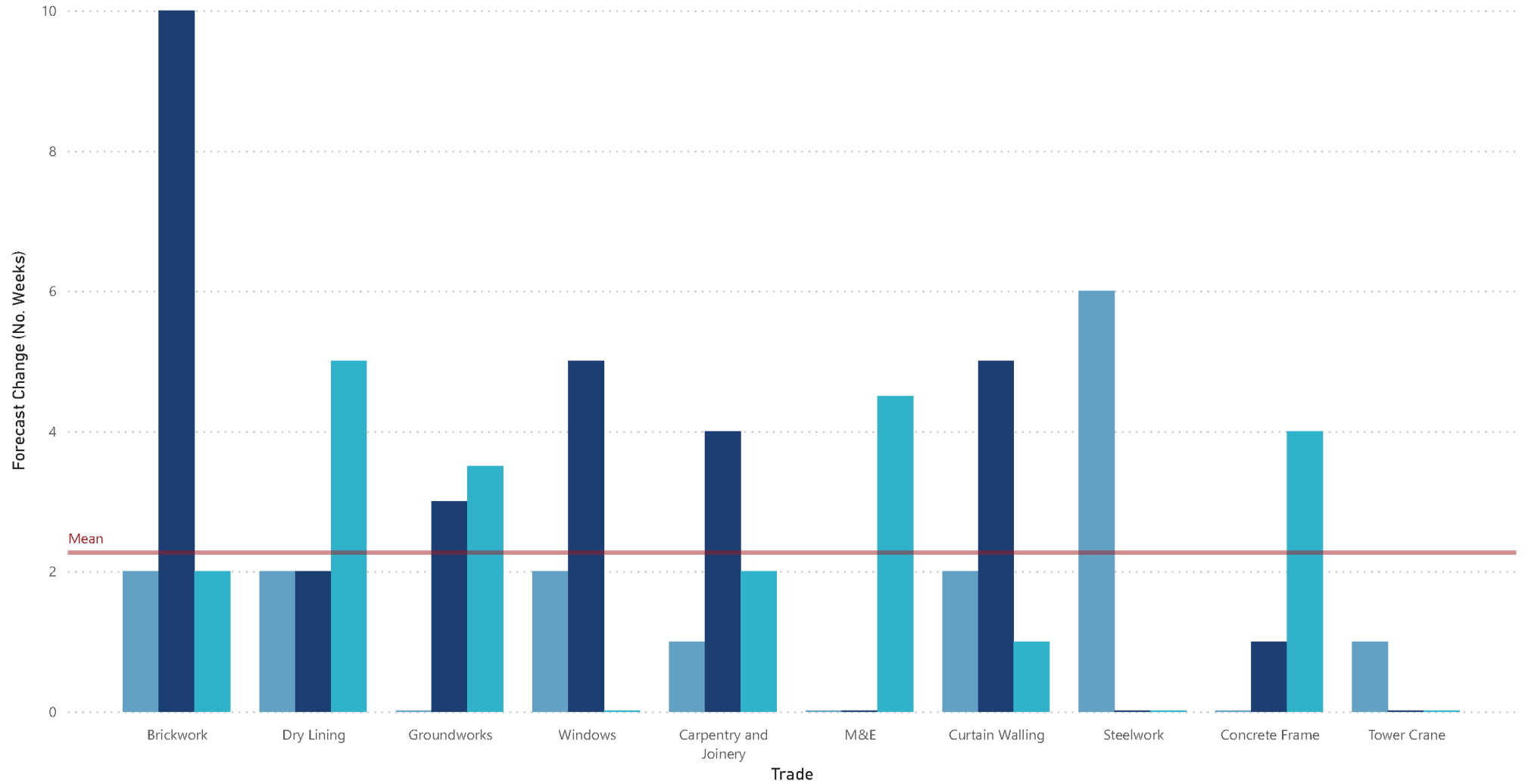
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Go back to Looking ahead

Material Availability Q3 2022 Forecast

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Go back to Looking ahead