



Southern Construction  
Framework

# SCF Market Intelligence Q3 2022

We produce quarterly market intelligence reports based on data from our main contractors and their supply chain.

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# Introduction

## Q3 Market Intelligence Report



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

With high energy and labour prices, it is no surprise that building costs have continued to climb throughout Q3. Additional challenges derived from the cost-of-living crisis and political uncertainty, have yet again put stress on the construction market.

As a result, with volatile conditions it remains crucial for public sector clients to develop a deeper understanding of the current market conditions when procuring their projects. This will ensure the best possible cost and time outcomes as budgets come under ever-increasing stress.

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. When compared with other indices, this survey provides a unique outlook for clients by identifying the perspective of those trades directly involved with construction providing a real-time representation of market trends.

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.

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

### 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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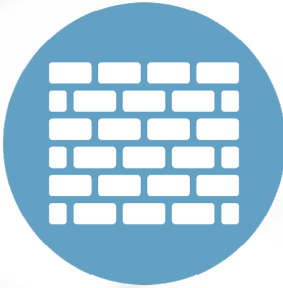


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## Trades featured



Carpentry & Joinery



Brickwork



Curtain Walling



Dry Lining



Groundworks



Concrete Frames



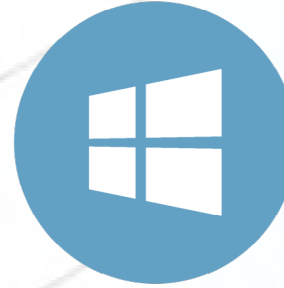
Mechanical & Electrical



Steelwork



Tower Cranes



Windows



# Tender Workload

SCF Main Contractors and their trade supply chains have continued to experience an increase in tender workload throughout Q3, with a 4% increase during the quarter alone. This now stands 4% greater than this same time last year, which already boasted high levels when compared with pre-pandemic data.

The trades identified with the greatest quarterly increase include:

- Curtain Walling 8%
- M&E 7%
- Windows 6%
- Carpentry & Joinery 6%

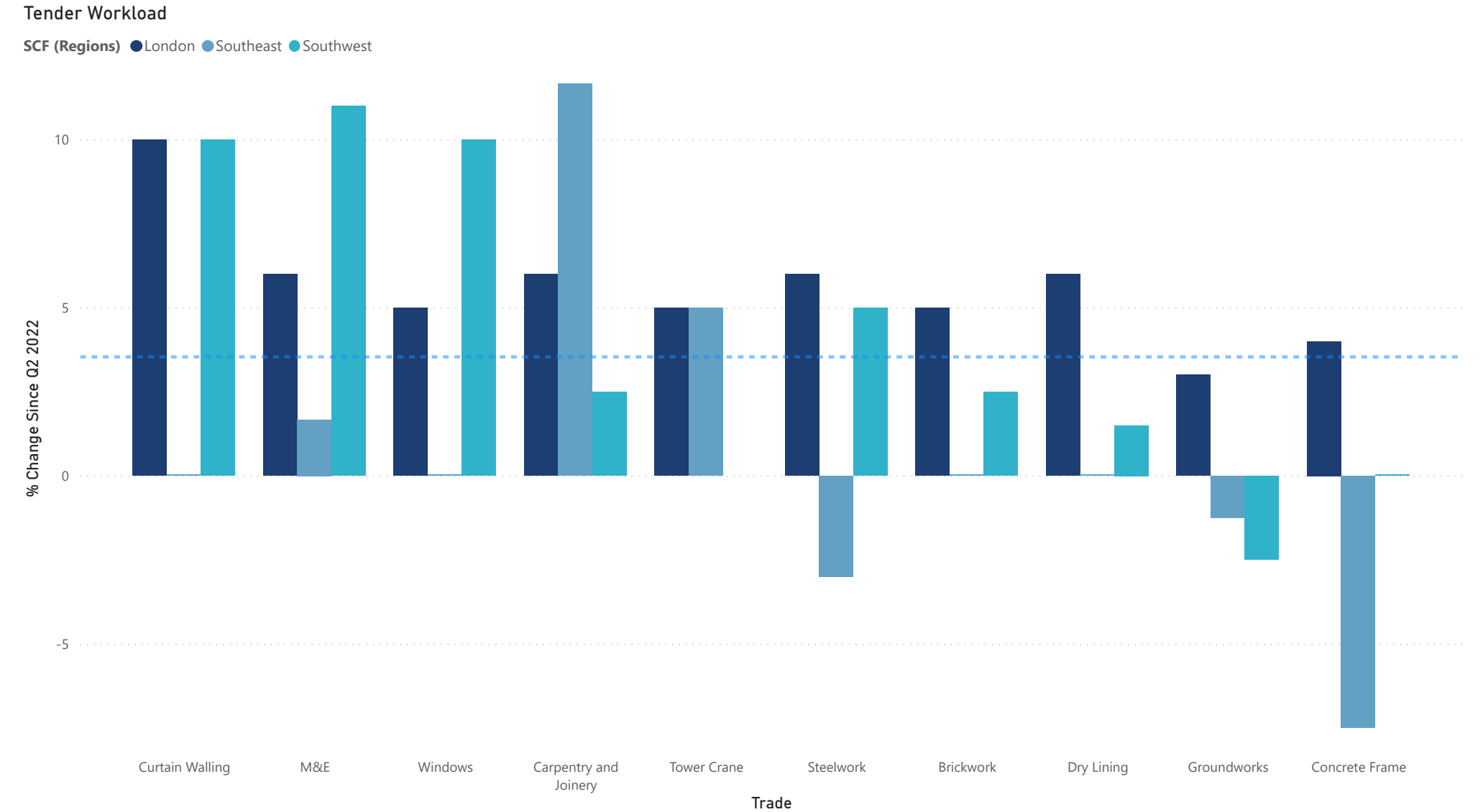
Although SCF data identifies an increase in tender workload, with the wider economy under increasing stress and a potential recession looming, future pipeline is uncertain. As a result, at present the supply chain may be looking to fill their order books in attempt to weather the economic challenges over the coming months. SCF Main Contractors have too reported an increase in their own bidding activity.

However, alike Q2, with volatile conditions suppliers will likely gravitate towards opportunities with a high certainty of programme and progression to site. Clients should aim to utilise early contractor engagement to collaboratively plan and consider material costs and construction methodologies prior to detail design to best mitigate against risks.

Analysis from other industry bodies, such as Glenigan, have identified sectors such as Private Commercial and Private Industrial to have remained resilient throughout Q3 with planning approvals increasing. On the other hand, sectors heavily impacted by the rising cost of living such as Private Residential and Repair & Maintenance have declined in the value of work starting on-site when compared with this time last year.

“With a strong pipeline, the return period for pricing from the supply chain can be longer than expected and as a result it is important to include sufficient time within procurement programmes. As recommended by the Construction Playbook, share your pipeline and upcoming projects with the market. Boost visibility and interest in your project, allow contractors and their supply chain to align their resources with your scheme to ensure the best levels of interest and competition.”

## Quarterly Change in Tender Workload





# Employment

SCF Main Contractors and their trade supply chains have observed an increase in the number of employees throughout Q3, with an average 1% increase during Q3 alone. This is similar to the rate observed this time last year, with a minimal average increase of 0.5% across all trades.

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

- Dry Lining 4%
- Windows 3%
- Curtain Walling 3%

However, it is important to note that the result from this survey depicts the total change in the number of employees amongst the supply chain each quarter, and as a result this will not necessarily capture the complex dynamic between recruitment and the loss of workers currently experienced in the industry.

A shortage of skilled labour in the construction sector has been well documented for many years with an aging workforce being a long-term industry challenge, nevertheless, impacts of Brexit and Covid-19 have exaggerated this shortage.

However, SCF Main Contractors have identified the rising cost of labour to be of particular concern during Q3 and it is expected to remain of concern over the coming months. With construction trades, such as Dry Lining & Bricklaying, being in such high demand due to the strong pipeline established during the pandemic recovery, SCF Main Contractors warn that the ease of retaining labour on site is increasingly challenging. The extent that rising labour costs currently feed into tender prices is unknown, however, with the cost of living continuing to rise, it is likely that workers will be looking for pay rises over the coming months and this is expected to feed into building cost.

SCF Main Contractors use a procurement portal, Local Supply Chain, to source work packages. They have access to over 27,000 suppliers listed on the database, providing a resilient and diverse supply chain community that can be used to robustly engage local suppliers. Clients and consultants should aim to collaboratively agree the procurement strategy and engage with the process alongside the main contractor.

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.

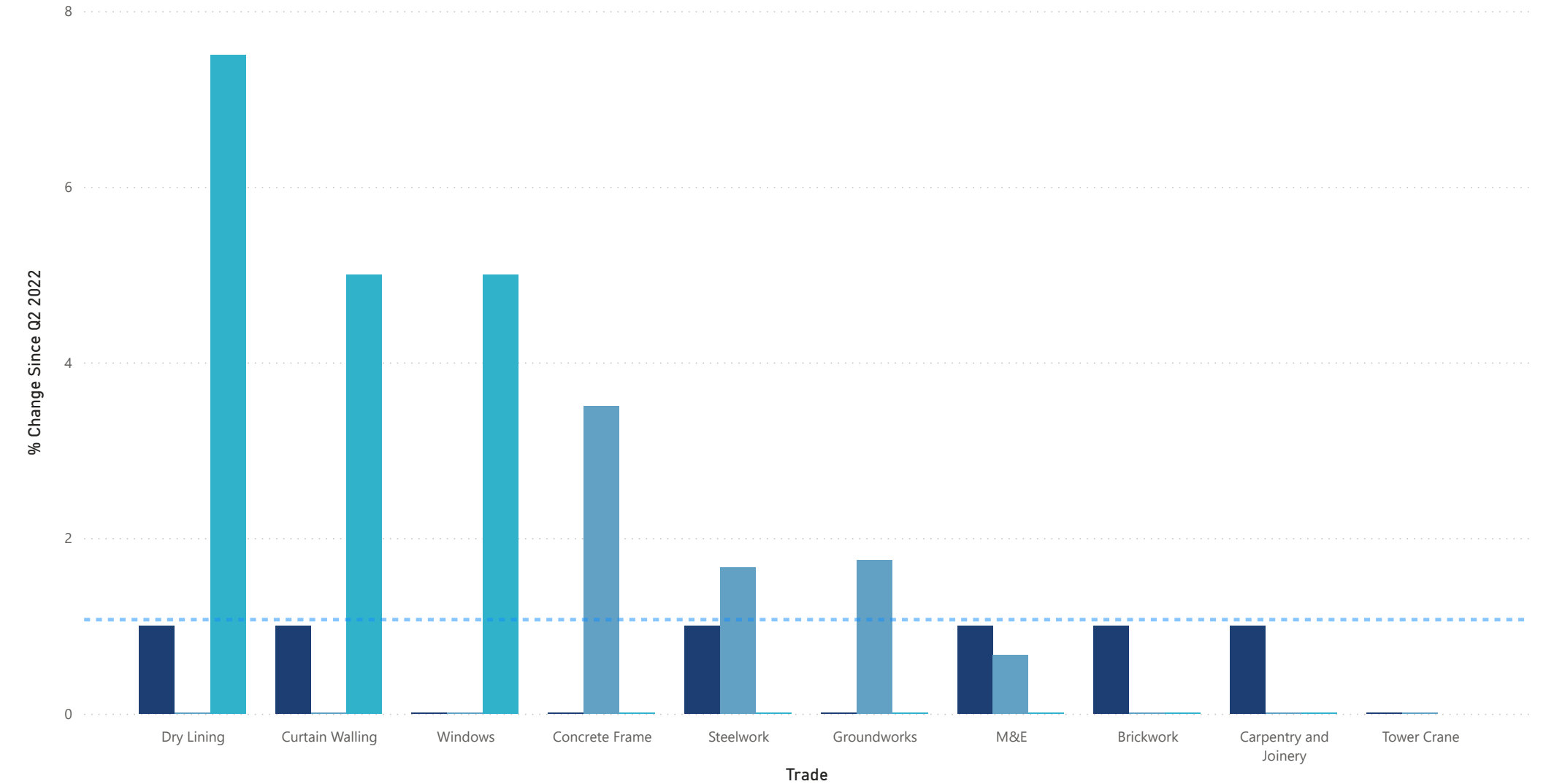


**Adam Sanford**  
Operations Lead

## Quarterly Change in Number of Employees

Number of Employees

SCF (Regions) ● London ● Southeast ● Southwest





# Building Cost

Comparable to Q2, SCF Main Contractors and their trade supply chains have continued to experience increased building costs throughout Q3, with a 12% increase during Q3 alone. This now stands 16% greater than this same time last year.

The trades with the greatest quarterly increase in building cost include:

- Curtain Walling 20%
- Windows 20%
- Steelwork 16%
- Dry Lining 13%

With material availability much stabilised over recent months, SCF Main Contractors inform that uplift in building cost is heavily derived from surges in energy, fuel, and labour costs. In a similar picture to last quarter, products with a high energy intensity during manufacturing, such as glass, cement, bricks, ceramics, and steel have been vulnerable to cost uplift.

For example, British Steel informed of an additional increase of £150 per tonne on structural steel in September with immediate effect on new orders. This was cited as being due to the “extreme energy prices” and the “direct impact upon steelmaking”.

SCF Main Contractors warn that current market conditions will likely give rise to an increase in supply chain insolvencies over the coming months. In response to a national reduction in spending and an increasingly competitive market, companies may be forced to reduce margins in order to secure work over the coming year.

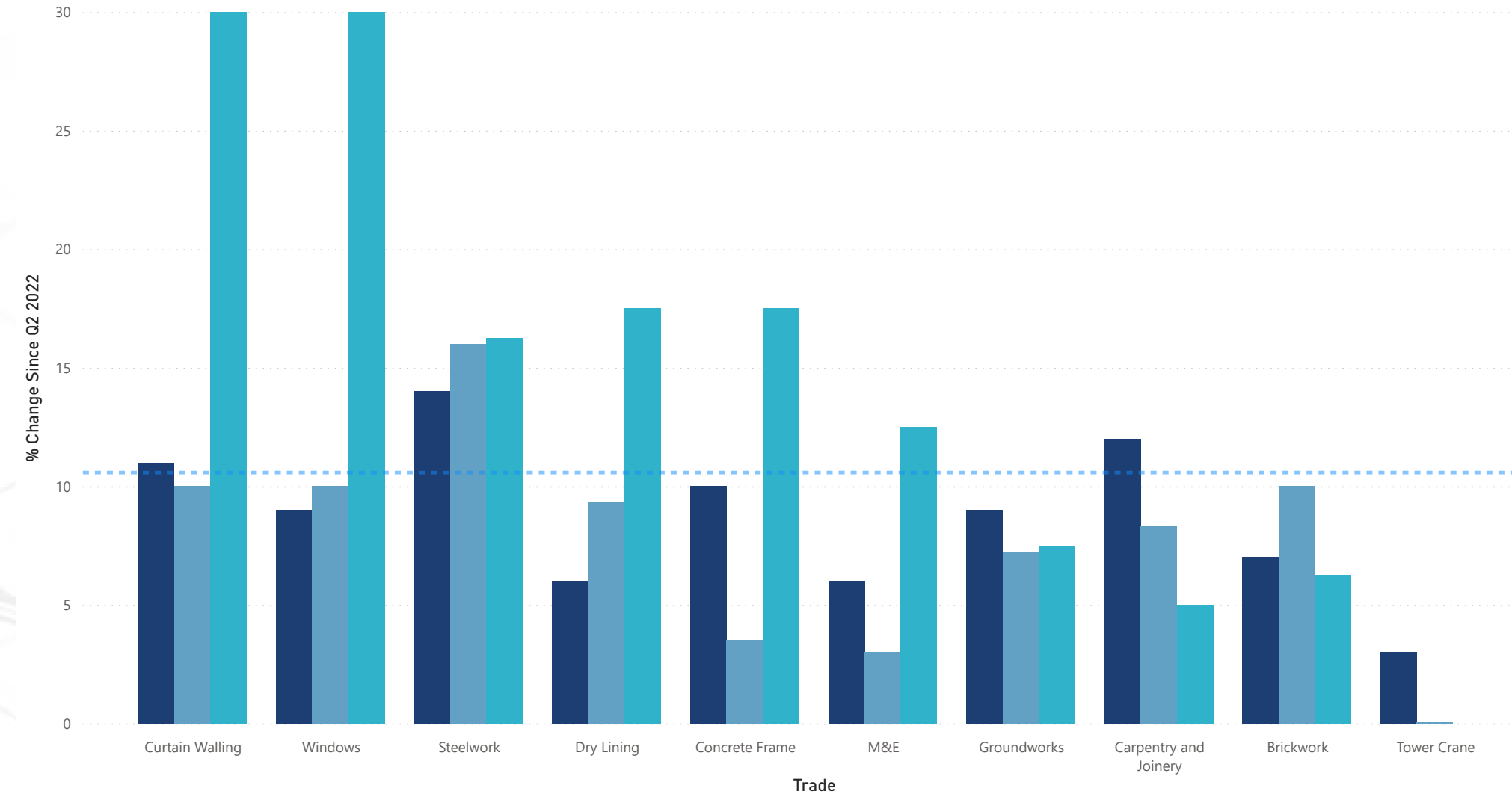
However, on a more positive note, SCF Main Contractors share that although building cost continues to rise, the visibility into material price increases has much improved when compared to last year. As a result, with this added foresight, project teams are in a much better place to manage these increases.

*“The need for prompt payment throughout the supply chain has never been so prevalent. With SME’s being vulnerable to cashflow challenges, it is more important than ever for the appropriate allocation of risk. Take a look at the [SCF Fair Payment Charter](#) for more information on SCF’s commitment to fair payment.”*

## Quarterly Change in Building Cost

Building Cost

SCF (Regions) ● London ● Southeast ● Southwest



# Material Availability

On average, SCF Main Contractors and their trade supply chains have identified a 2 week increase in material lead time throughout Q3, this is currently 1 week greater than this same time last year.

While the average lead in time across all trades is up by 2 weeks, this is skewed significantly by an average 6 week lead in time identified for Concrete Frame. Withholding this skew in the data, trade supply chains suggest that the availability of other materials is much improved when compared with the previous quarter. On average 9 out of the 10 surveyed trades have observed material availability to have only decreased by an average of 1 week or less during Q3.

These observations are in line with that of the Construction Leadership Council (CLC) who have noted the “best material availability the market has seen in two years”. However, the CLC has identified products such as semi-conductors and gas boilers to continue to be impacted by long lead in times.

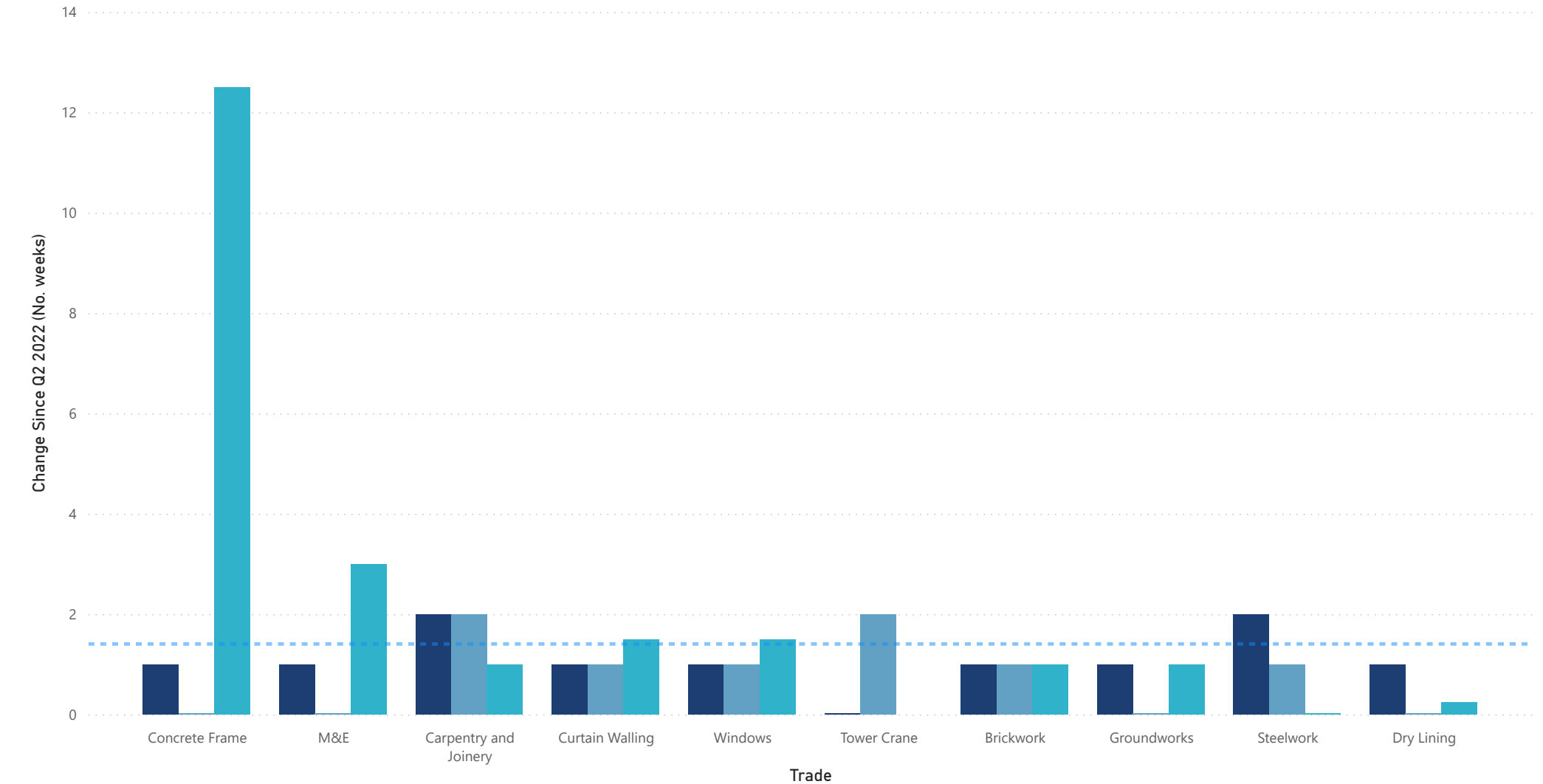
SCF Main Contractors inform that insight into elongated lead time is much improved and provides the opportunity to incorporate into construction programmes more readily.

“SCF Main Contractors suggest that where possible clients should aim to specify performance rather than products. Fixing products at planning can limit your options in sourcing alternate materials with availability and cost benefits 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 delivery.”

## Quarterly Change in Material & Labour Availability

### Material Lead Time

SCF (Regions) ● London ● Southeast ● Southwest





# Looking ahead: 2023 Forecast

The SCF survey depicts life from the view of the supply chain and captures how individual businesses are faring throughout these challenging times. With considerable economic and political uncertainty, trade supply chains have found it particularly difficult to forecast what life will look like at this same time next year. To this end, SCF Main Contractors and their trade supply chains have forecasted the following market conditions over the next 12 months.

## Tender Workload

SCF Main Contractors and their trade supply chain forecast an average increase of 3% in tender workload when compared with this same time next year. However, with many political uncertainties and fears of a recession, it is increasingly challenging to depict the direction of long-term pipeline with confidence.

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

- Dry Lining 7%
- Tower Crane 7%
- M&E 5%

However, it is worth noting that with future budgets becoming under increasing stress, clients may turn to value management tools to define and deliver best value for their projects. Wider agendas, such as carbon reduction, maybe brought to the forefront of project delivery in attempt to drive improvements in productivity, resource efficiency, waste minimisation and operation across the whole life of assets.

## Material Availability

SCF Main Contractors and their trade supply chain forecast an average increase of + 1 week in material lead time when compared with this same time next year.

The trades with the greatest forecast in material lead time include:

- Concrete Frame + 6 weeks
- Carpentry & Joinery + 3 weeks
- M&E +1 week

## Building Cost

SCF Main Contractors and their trade supply chain forecast an average increase of 8% in building cost when compared with this same time next year.

The trades with the greatest forecasted increase in building cost include:

- Curtain Walling 16%
- Windows 15%
- Brickwork 9%
- M&E 8%

## Employment

SCF Main Contractors and their trade supply chain forecast an average increase of 7% in the number of employees when compared with this same time next year.

The trades with the greatest forecasted increase in employment include:

- Dry Lining 20%
- Steelwork 12%
- Concrete Frame 11%



# SCF Consult - Reflective Note



While for the moment, the market seems resilient there are growing concerns that the challenges discussed over the past year are going to hit construction hard in 2023. With interest rates rising, material cost inflation is still an issue and no end to the labour shortages that followed Covid-19, all the signs point to a very difficult year. The latest publication from the Treasury's collection of forecasts has GDP declining 0.3% next year and in such a scenario we would expect construction output to fall by more. Cutting back on capital expenditure is usually one of the first things to happen in a recession.

The August Statement has now been pushed back until the middle of November, but it seems clear that government budgets will be cut. If this is similar to the austerity Budgets in the early 2010s, this will have an inordinate impact on local authorities. However, this may not be enough to persuade contractors to bid for any scheme. Higher costs are making many contractors careful about the sort of projects they pursue, either due to caution on the type of procurement method or doubts about a project's feasibility. While lead times on materials are coming down and visibility on price rises significantly improving, challenges remain.

Given these issues, it is not surprising that SCF Main Contractors are concerned of rising insolvencies. Insolvencies in the industry are at very high levels, and with September 2021 when most of the protection to companies ended, it is no longer a simple case that this is due to coming out of Covid-19. In Q3, insolvencies were marginally down on the first two quarters of the year, but they were still at their highest level since the first quarter of 2012 which is when the records began. That insolvencies are so high, even with output in the industry 6.1% higher than 12 months ago, does indicate a weakness in balance sheets and doesn't bode well if there is a major downturn. As well as the need for prompt payment, it is as important as ever to fully understand the entire supply chain, performing thorough due diligence on all those involved in projects.

