



Market Intelligence

Q2 2023

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Introduction

As part of SCF's commitment to collaboration and transparency, every quarter, SCF Main Contractors gather market intelligence from the construction industry directly through their trade supply chains. Data for this report has been formed from over 80 subcontractors from across the south of the UK.

Consultants from SCF Consult share valuable insight towards their monitoring of the construction market and provide supporting commentary on the returned data.

Over the last three years, market conditions have been highly volatile, but as the conversation shifts towards recovery, it remains crucial for public sector clients to develop a deeper understanding of current market conditions when procuring their projects. This will ensure the best possible cost and time outcomes as budgets come under ever-increasing stress; whilst ensuring maximum interest from the market.

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 indication 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, Consultants 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.



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Tender Workload

According to trade supply chains, during Q2 tender workload increased by an average of 2% across all trades when compared with the previous quarter. Although 2% may seem relatively conservative, subcontractors have been reporting a cumulative increase for each quarter over the last 3 years, with a reported 4% rise when compared with the same period from last year.

This suggests a relatively strong pipeline of work within the industry. However, it is important to note that although tender workload is relatively high, the rate upon which projects successfully enter contract and start on site has been slower when compared with previous years. Anecdotal evidence from trade supply chains report that delays to construction start dates is not uncommon as preconstruction programmes are frequently elongated due to cost pressures.

Some subcontractors have reported that although their volume of tender workload has increased, the average value of work is now lower. This likely reflects the challenge of getting high value projects to site, due to the extent of inflationary pressures when compared with lower value works.

As a result, it is of no surprise that trade supply chains have been increasingly selective over the tender opportunities they choose to pursue. With many subcontractors adopting a risk adverse approach, SCF Main Contractors have reported that the buildability of schemes is an important factor for subcontractors when selecting bid opportunities.

The trades with the greatest change in tender workload this quarter includes:

- Concrete Frame 7%
- Steelwork 5%
- Carpentry & Joinery 4%
- Windows -3%

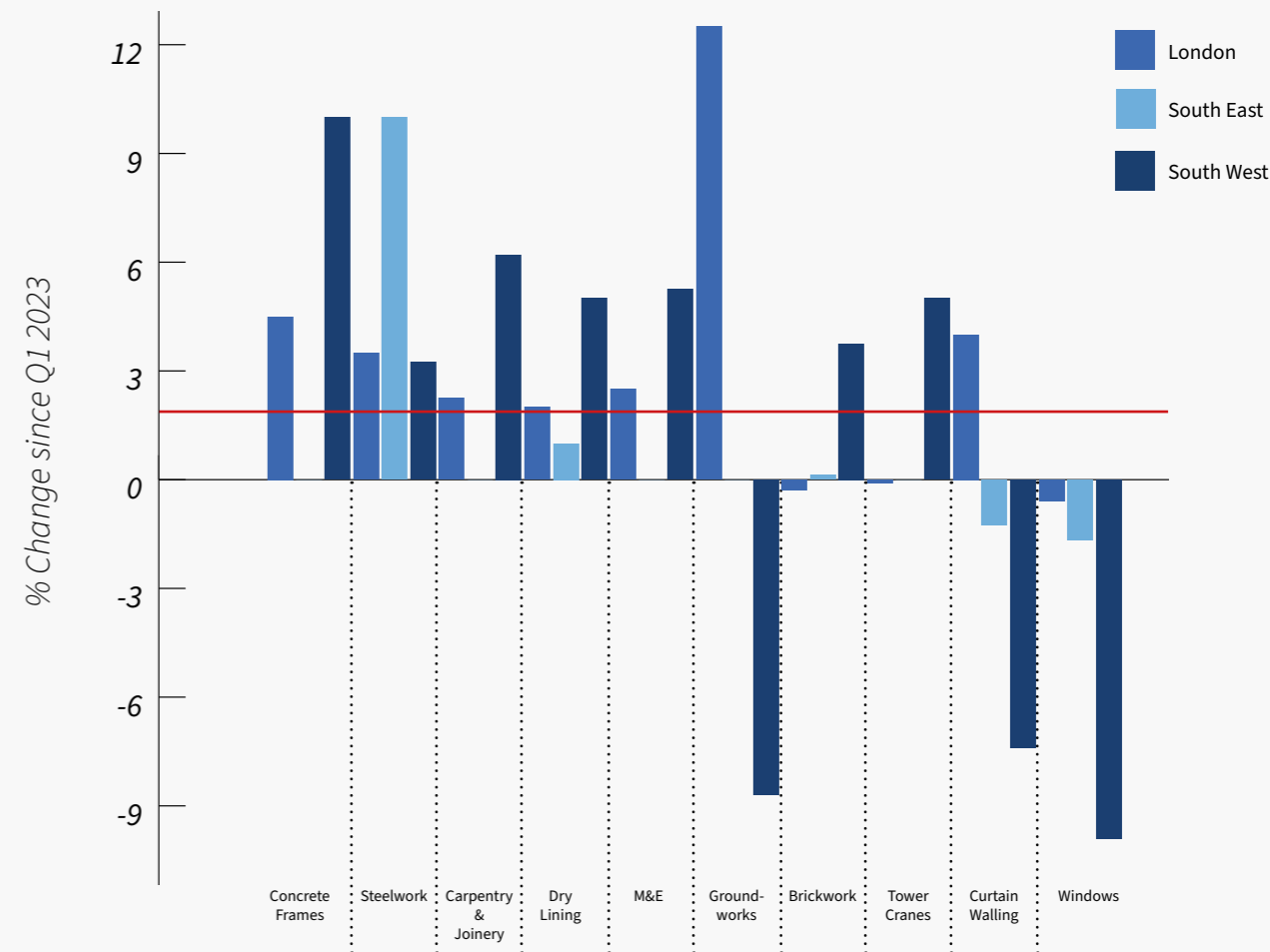
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With high volumes of tender workload, subcontractors are drawn to opportunities with good buildability, clients should look to engage with the market as early as possible, before planning, to ensure flexibility of materials and construction methodology, to ensure supply and minimise delay in securing the necessary components in a timely and cost-effective manner.

Engage with the market early to maximise market engagement. 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 – delays can have a large impact on a contractor's capacity to bid your project.

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Tender Workload



Employment

Over this last quarter, the number of employees from trade supply chains increased by an average of 1% across all trades.

The trades with the greatest increase in employment during Q2 include:

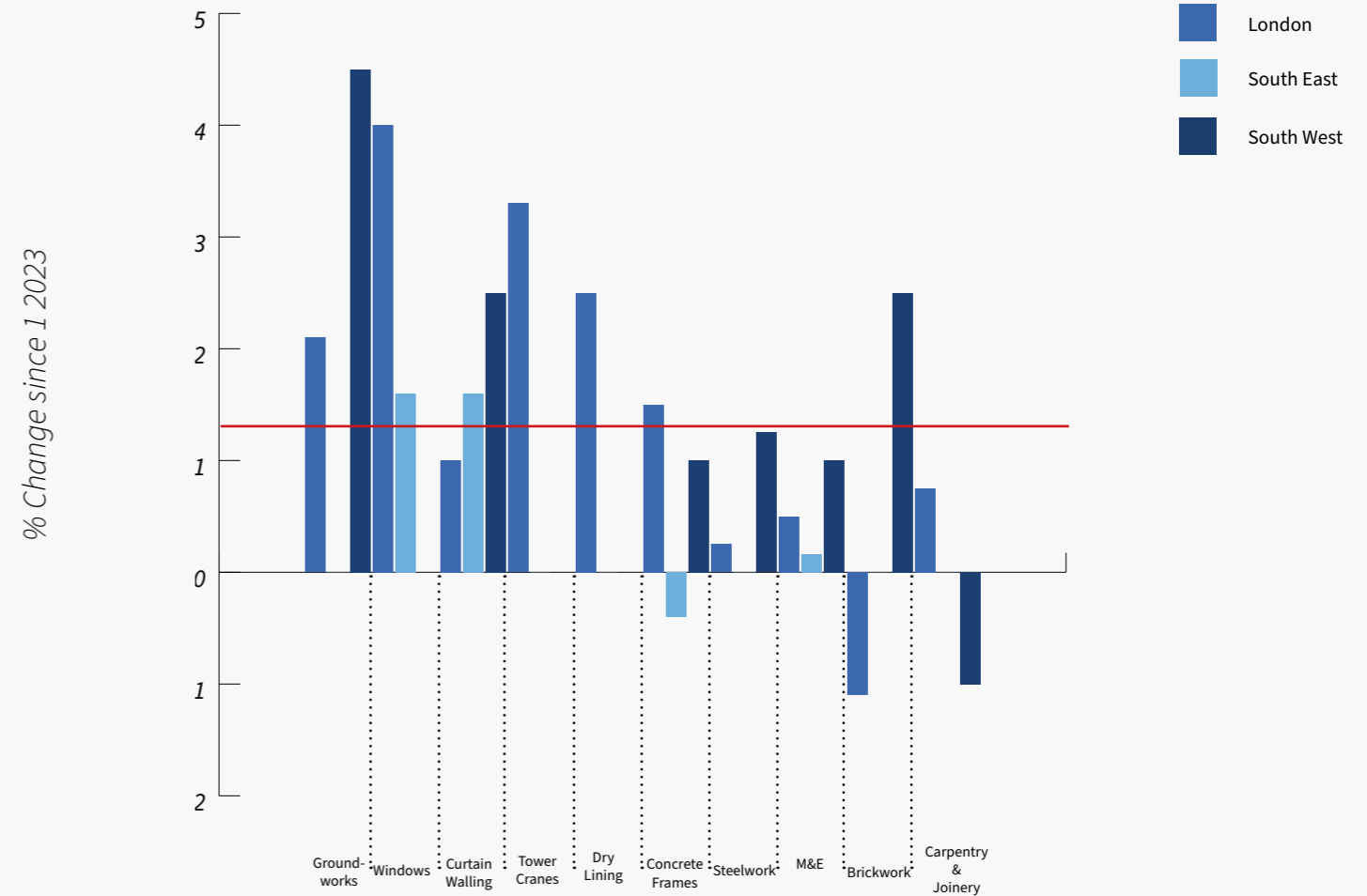
- Groundworks 3%
- Windows 2%
- Curtain Walling 2%
- Tower Crane 2%

The construction industry has long experienced a skills shortage, which has been exacerbated by the pandemic and Brexit. As a result, on the 17th of July a change in immigration rules was presented to parliament, with the following skilled trades being proposed by the Migrant Advisory Committee as requiring a lower visa application fee to better attract immigration workforce: Bricklayers & Masons, Roofers, Carpenter & Joiners, Construction and Building Trades and Plasterers.

Due to a rising number of insolvencies, many subcontractors are not currently looking to expand their business but rather achieve stability. This may explain why a change in the number of employees has only increased by 2% when compared with the same quarter of the previous year, regardless of an ongoing shortage of skilled trades.

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Never has it been more important to engage your local supply chain to ensure they have adequate resources to support your scheme. Better still, if you can be open about future opportunities with your supply chain it will give them confidence to invest in new starters including apprentices to help address long term shortages in key trades. Every SCF project will include a CITB Employment and Skills Plan, suppliers will reach out to local education providers to deliver training opportunities on your project to address this shortage and to provide opportunities for good quality local employment.
 SCF Main Contractors are committed to hosting Meet-the-Buyers on SCF projects. The framework’s unique use of a subcontract procurement portal, Local Supply Chain, provides access to a national database of subcontractors, which can be used to host targeted supply chain events for the most challenging trade packages.
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Employment



Building Cost

During Q2, building cost increased by an average of 3% when compared to the previous quarter. An on-going increase is primarily due to inflationary pressures derived from rising utilities and labour costs.

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

- M&E 5%
- Dry Lining 4%
- Curtain Walling 4%
- Groundworks 4%

However, SCF Main Contractors have reported that foresight into changes to material prices has improved and as a result subcontractors are now prepared to fix material prices for longer when compared with the volatility experienced during the pandemic.

On the other hand, the ability to fix labour costs still remains a challenge within the industry. A rise in the cost-of-living has resulted in workers requesting an increase in wages, which in turn has created a highly competitive culture surrounding skilled labour. Trade supply chains have shared anecdotal evidence of competitive behaviours, and an increase in staff turnover, to be increasingly prevalent.

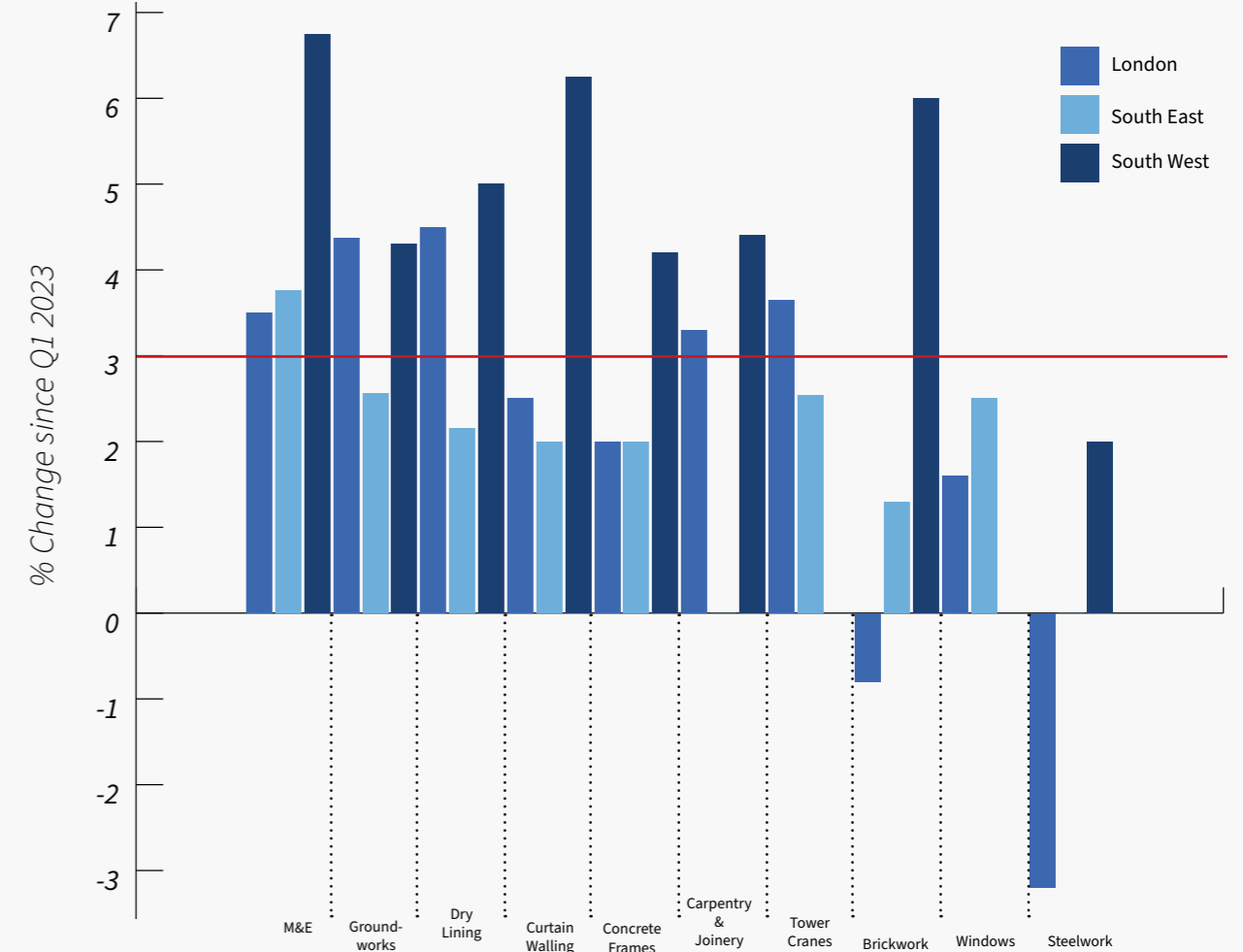
The number of administrations within the construction industry are high, the Government's Insolvency Service measured 4,165 firms becoming insolvent in the last 12 months to the 31st of March. With past volatile conditions, many subcontractors have found themselves being caught out by fixed priced contracts and uncertain market movement. In addition, the limited availability of financing options has made subcontractors, particular SMEs, increasingly vulnerable to cash flow challenges and resulting insolvencies.

As a result, SCF Main Contractors aim to sustain open and transparent communication with the supply chain to best understand workload and manage engagement in a holistic manner.



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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. Consider the use of project bank accounts to ensure prompt cash flow to your wider supply chain, include this in your market engagement exercises to maximise benefit.
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Building Cost



Material Availability

During Q2, material lead time increased by an average of +0.5 weeks across all trades.

The trades with the greatest quarterly change in material lead time include:

- Carpentry & Joinery +2 weeks
- Windows +1 week
- Curtain Walling +1 week

SCF Main Contractors suggest that long lead times for materials has now become the “new normal” for the industry, and as a result, although lead times have not necessarily recovered since the pandemic, the supply chain have adapted to these changes. Material lead time was on average +1 week greater during Q2 when compared with the same quarter of the previous year.



This aligns with observations from the Construction Leadership Council, which have identified material availability to be “good” across the UK.

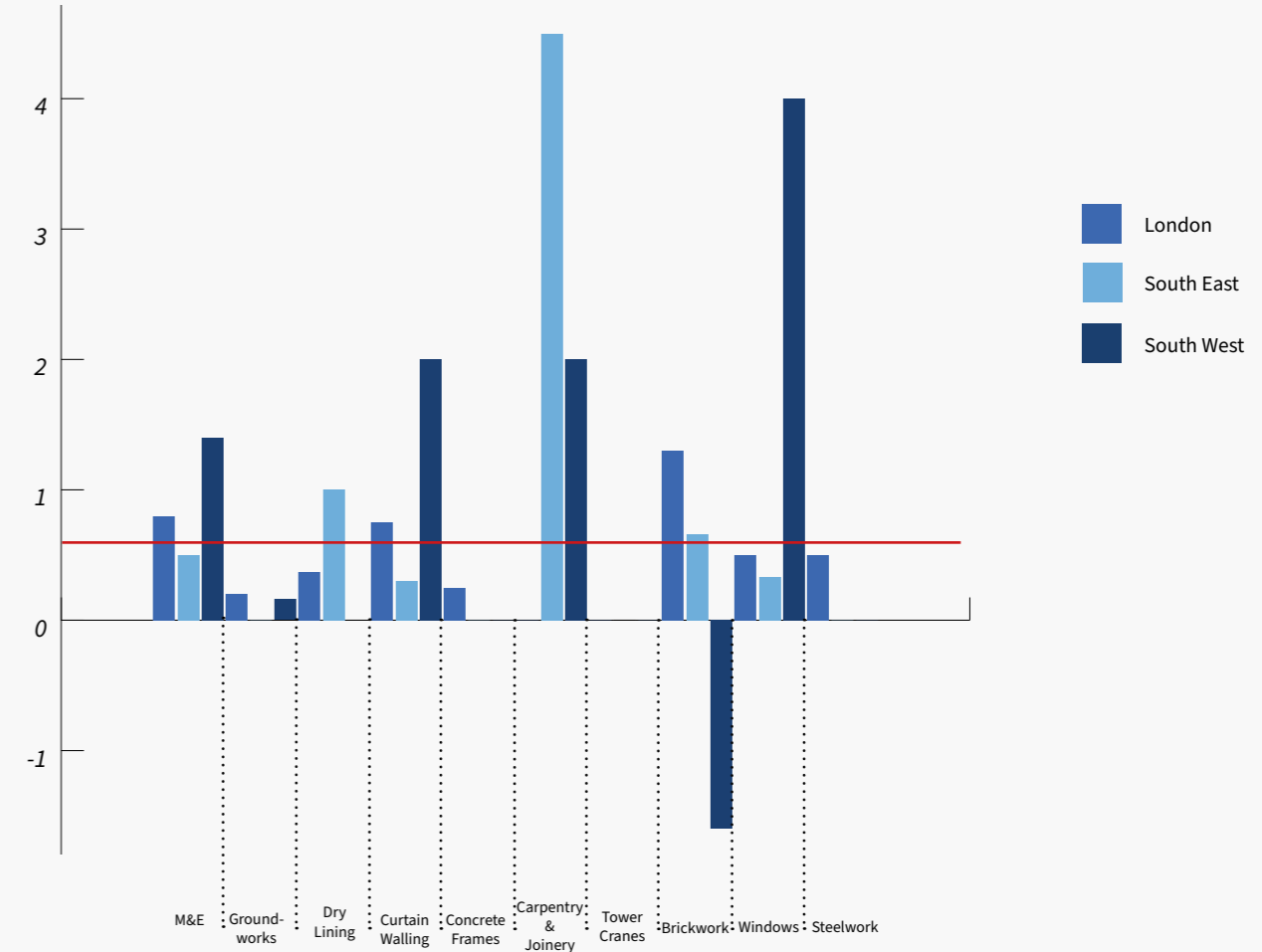
“ Consider early orders and pre-manufactured building elements of key materials on your critical path. This will support with timely completion and delivery.

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.

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Material Availability

% Change since Q1 2023



Looking ahead: Forecast Q3 2023

Tender Workload

SCF Main Contractors and their trade supply chain forecast tender workload to be on average 4% greater by Q2 2024.

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

- Concrete Frame 6%
- Groundworks 6%
- Windows 5%
- Brickwork 4%

Employment

Subcontractors believe that a change in the number of employees across all trades will be on average 3% greater by Q2 2024. The trades with the greatest anticipated increase in employment include:

- Groundworks 4%
- M&E 4%
- Concrete Frame 4%
- Brickwork 3%

Building Cost

SCF Main Contractors and their trade supply chain forecast building cost to be 4% greater by Q2 2024. The trades with the greatest anticipated increase in building cost are:

- Carpentry & Joinery 6%
- Brickwork 5%
- M&E 5%
- Concrete Frame 4%

In addition, subcontractors have warned that changes to the locations and tariffs of low emission zones will start to impact upon building cost going forward. All non-compliant vehicles across all London Boroughs will be expected to pay a daily charge of £12.50 from the 29th of August.

Material Availability

SCF Main Contractors and their trade supply chain forecast material lead time to be on average 1 week greater by Q2 2024. The trades with the greatest anticipated increase in material lead time are:

- Tower Crane +4 weeks
- Carpentry & Joinery +2 weeks
- Curtain Walling + 1 week

SCF Consult - Reflective Note

One of the biggest problems facing the construction industry is what is happening to the residential market. Housing output has fallen significantly so far this year, and with the sector making up around 40% of new work, this slump is dragging the wider industry down with it. With interest rates continuing to rise and forecasts of further falls to house prices as borrowers struggle to meet affordability checks, housebuilders will continue cutting back. While causing new stresses to an already hard-pressed sector, for some contractors it may create opportunities. Results from the July S&P Global / CIPS UK Construction PMI discussed how competition amongst suppliers was starting to rise, leading to favourable price negotiations. As housebuilding's challenges worsen, such competition is only likely to increase. In particular, those subcontractors who currently obtain most of their revenue from the sector may start to look to other sectors, including SCF projects.

Looking ahead...

Excluding the pandemic, new orders for Q2 were their weakest in over a decade. While there is always volatility within quarterly data, for nearly all of the sectors, the latest figures reported steep drops compared to their averages over the past year. Such a decline suggests the widely discussed macroeconomic headwinds are now having a significant impact and holding back new projects. For the public sector, despite new orders dropping by a third, previous quarters have been strong. This is likely to keep workloads healthy in this sector for some time, but going forward new tendering opportunities may be weaker. Higher interest rates are hurting the government's finances, and with the recent surge in the cost of building, local authority budgets are also going less far.

Latest data from the Department for Business and Trade's 'all work construction material price index' showed material prices falling 1.3% in June, and they are now 2% lower than a year ago. Yet despite there being pressure on construction materials, expecting build costs to come down is for the moment likely to be wishful thinking. Not only do labour costs continue to soar, but any drop in material prices might, either not feed through the supply chain, or take a long time to do so. As we have mentioned, insolvencies are near record highs, and subcontractors will want to improve margins if possible. Similarly, there can be considerable lags between material prices falling and clients benefitting, and with products still up 12% since January 2022, that there is now deflation on a 12-month basis may count for little. While output falling should help bring labour costs under control, and put more pressure on material prices, moderate build cost inflation is still the most likely result over the next year. This view is supported by the BCIS who are forecasting build cost inflation of 3.2% between Q2 2023 and the second quarter of 2024.