Southern Construction Framework

Market Intelligence

Q3 2023

w. southernconstructionframework.gov.uk

e. info@scfframeworks.org.uk

Contents

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.

Our intelligence analyses data across 10 key trade packages from across the south of the UK, identifying regional market trends and forecasts for the following year.

Professional consultants from the SCF Consult framework also share their valuable monitoring of the construction market and provide supporting commentary on the returned data.

Data for this report has been formed from over 130 subcontractors from across the south of the UK, providing a real-time indication of market trends from those directly involved with construction.

We share this information with our 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.

Foreword

For the first time since the pandemic, our dataset is starting to show signs of tender workload slowing, suggesting high inflation and high interest rates are beginning to impact upon spend within the industry.

The rate of increase in building cost has slowed as material prices stabilise resulting in a more predictable market. However, with building cost still on the rise our data suggests labour inflation persists, likely offsetting any potential cost benefits for projects in the near future.

With insolvencies at a high level, trades have reported a selective approach to tendering, and many businesses gravitate towards opportunities of low risk with affordable design and favourable payment terms, emphasising the importance for project teams to consider this within their decision-making to best optimise interest within trade packages.

However, the extent of insolvencies and pressures on fine margins will contribute to the risk profile of projects and clients should be aware of the impact as subcontractors look to recover cost.

Adam Sanford
Operations Lead
South East and London
e. adam.sanford@hants.gov.uk

Kingsley Clarke
Operations Lead
South West
e. kingsley.clarke@devon.gov.uk

Tender Workload

During Q3 tender workload increased by an average of 2.5% across all trades. Although this may seem relatively conservative, it is worth noting that our dataset demonstrates a significant cumulative increase in tender workload over the past three years.

Quarter	Annual Increase in Tender Workload
Q3 (23)	2.5%
Q3 (22)	3.5%
Q3 (21)	8.5%

As a result, a 2.5% increase on top of an already high level provides context on just how busy supply chains are in tendering at present. The trades with the greatest average increase in tender workload during Q3 include:

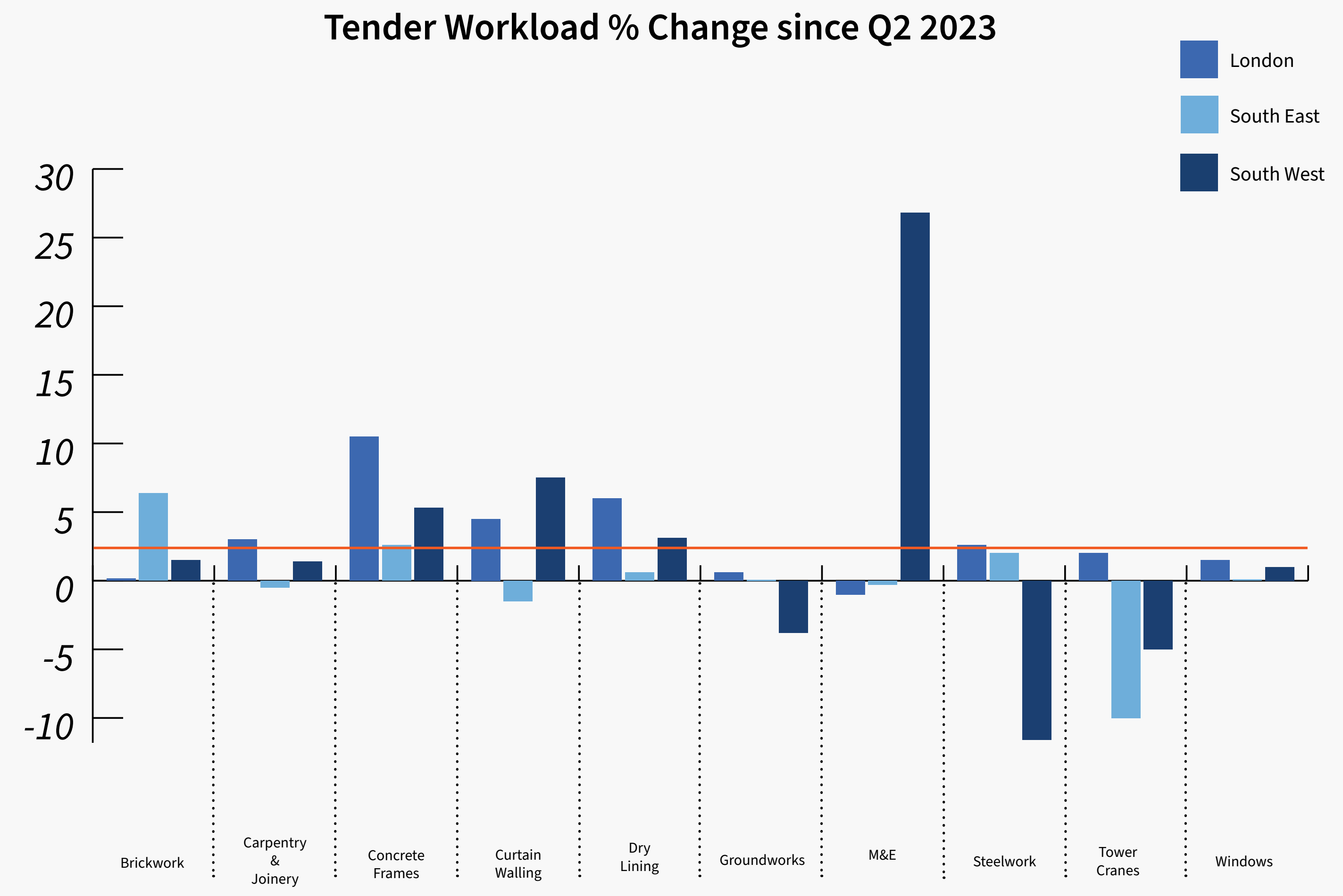
- M&E 15%
- Concrete Frame 6%
- Curtain Walling 5%

Nevertheless, this moderate increase does suggest a slowing rate of workload within the industry when compared with the influx of opportunities received directly following the recovery of the pandemic, with even some trades starting to report a decrease in volume. It is worth noting, tower crane and groundworks are trade packages typically ordered earlier in construction programmes, and may act as indicator for other trades in our analysis.

- Tower Crane -4%
- Steelwork -3%
- Groundworks -2%

Trade supply chain, such as Dry Lining, have reported a high number of new orders this quarter due to the volume of tender enquiries received from earlier in the year, with public sector opportunities being a strong contributor, but warn that these opportunities are starting to slow.

Our reported increase in tender workload may not solely reflect actual turnover but act as an indicator for the market becoming more competitive and as a result more prices being sought. The impacts of high inflation and high interest rates are now affecting tender workload across the industry.



Tender Workload continued

Consult

While bidding for new projects is becoming more competitive, work currently taking place in the non-housing public sector appears less of a problem according to official figures. These show a strong first two quarters of the year, with output increasing 2.1% and 4.6% respectively. Similarly, over the first eight months of the year, the sector has outgrown all others.

Alike previous quarters, contractors warn of elongated preconstruction programmes as cost pressures are managed, suggesting that although tender workload is high, the rate upon which projects progress into contract has been increasingly drawn out.

Consult

Data from the ONS shows that all new work has barely grown this year. Yet while in the eight months to August, it was just 0.8% higher than in the first eight months of 2022, this masks what is happening within the sectors. When comparing these two periods, the only sector where output has fallen is housing. Private new housing is down 7.6% over this time, including drops of 6% in Q1 and 3.4% in Q2. As the largest sector within construction, its weakness is enough to create significant wider problems. By contrast, over the past three months, the best performing sector is infrastructure. While the problems around HS2 are well known, for the time being, the sector is faring well.

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.

Adrienne Turner
Framework Manager

With a high number of insolvencies in the industry, it has never been so important to consider cash flow through the supply chain. Take a look at the SCF Fair Payment Charter to see further detail on our commitment to fair payment - click here

James Wright
Senior Framework Manager

BCIS and The Insolvency Service identified a 35% increase in insolvencies in August 23 when compared with 2019, highlighting the impact of fine margins coming under increasing pressure due to past volatility, high material costs, and fixed price contracts.

Subcontractors have reported a selective approach to tendering, and many businesses gravitate towards opportunities of low risk with affordable design and favourable payment terms. As a result, it is increasingly important for project teams to consider this within their decision-making to best optimise interest within trade packages. Accounts of industry debate has taken place over recent weeks, triggered by reports of demanded discounts from supply chain contracts putting suppliers in a challenging situation when margins are already under pressure.

Employment

Throughout Q3, employment across trades has been relatively conservative with an average increase of 0.5% in the number of employees.

The trades with the greatest change in employee numbers includes:

- Dry Lining +3%
- Concrete Frame +1%
- Groundworks +1%
- Windows -1%

However, the range in employment has been diverse across different firms, trades, and locations demonstrating the diversity in health across different businesses and their changing approach to long-term planning.

With supply chain health coming under increasing pressure there may be a reluctance from the supply chain to invest and expand their business but rather target recovery and stability during these challenging times. This may have a detrimental impact on an already well-established skills shortage and as a result the visibility of pipeline to the industry is becoming increasingly important. An insight to future workload will help encourage investment from supply chain into the much-needed engagement and upskilling of young persons into the industry, as well supporting long-term business planning.

However, when compared with the previous year employment increased by an average of 2.5% suggesting that new orders derived from previous high volumes of tender workload has resulted in the need for more staff to deliver the works.

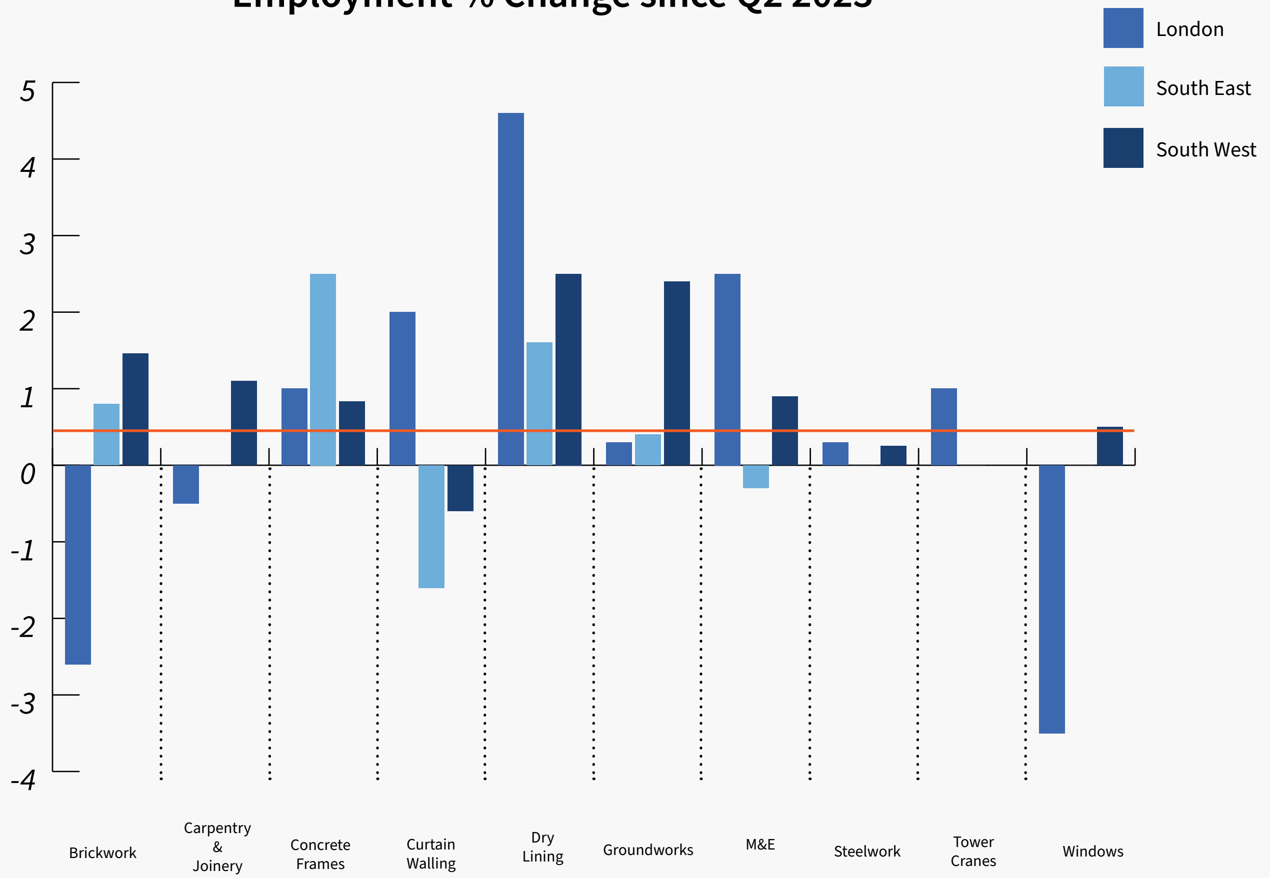
Through mandatory apprentices and compulsory Employment and Skills Plans on every project, SCF Main Contractors are doing their part to tackle the industry wide skills shortage. To support these efforts, clients should look to engage Main Contractors and the supply chain early. This will enable sufficient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

Gabby Stevens
Assistant Framework Manager

We publish our pipeline on our subcontract tendering portal to help boost visibility and support the supply chain in managing workload. For further information, click here.

Janara Singh
Assistant Framework Manager

Employment % Change since Q2 2023



Building Cost

This quarter, building cost increased by an average of 2% across all trades. The trades with the greatest increase include:

- M&E 4%
- Concrete Frame 3%
- Dry Lining 3%
- Groundworks 2%

The average uplift reported during Q3 is relatively moderate when compared with the extent of increase we have become accustomed to during the recovery from the pandemic. This is likely driven by material prices stabilising and, in some cases, reducing during 2023.

Quarter	Annual Increase in Building Cost
Q3 (23)	7%
Q3 (22)	16%
Q3 (21)	15%

Many trades have shared that they are now back to only receiving one annual price increase from manufacturers, when compared with the multiple price notifications received the previous years. The reduction of material cost has been well evidenced through the drop in metal commodity prices. This may explain why an average reduction of 1% was observed for steelwork within our dataset, with the cost components of the package being heavily dependent on raw material.

However, building cost was still 7% greater during Q3 when compared with the same period of last year, suggesting that although the predictability of building cost is much improved, projects with outdated cost plans may still be under pressure.

SCF Main Contractors and their trade supply chains have reported that the continuing increase of labour costs is one of the main causes for the average 2% increase during Q3. Even though the wider UK market has fared better than some have expected, cost of living is still high and wage inflation has been persistent throughout the year. On the whole, the impact of the labour market continues to offset any benefits secured from a drop in material prices.

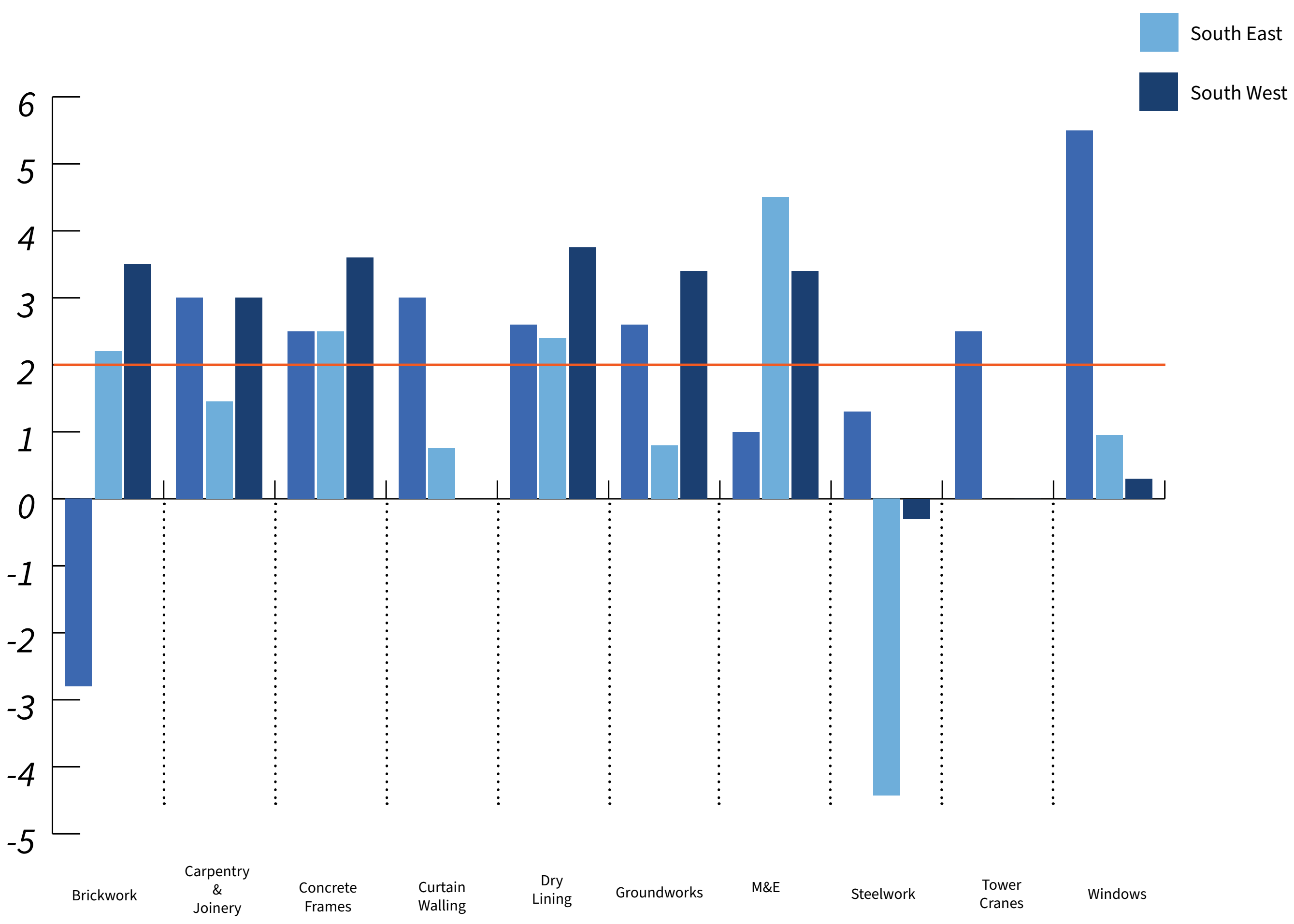
In continuation, with BCIS and the Insolvency Service identifying 17% of all insolvencies in England and Wales to be from construction firms during August 23, main contractors are doing all they can to best mange supply chain health through robust credit checks and pre-qualification processes. Many contractors are utilising relationships with their supply chain partners in attempt to best understand their upcoming workload in a holistic manner. However, the extent of insolvencies within the industry will contribute to the risk profile of projects and clients should be aware of the impact this may have on overall tender prices.

Regardless of building costs becoming more predictable, there are still reports of trade supply chain holding prices for a limited time, demonstrating the industry's cautious approach.

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.

James Wright
Senior Framework Manager

Cost % Change since Q2 2023



Material Availability

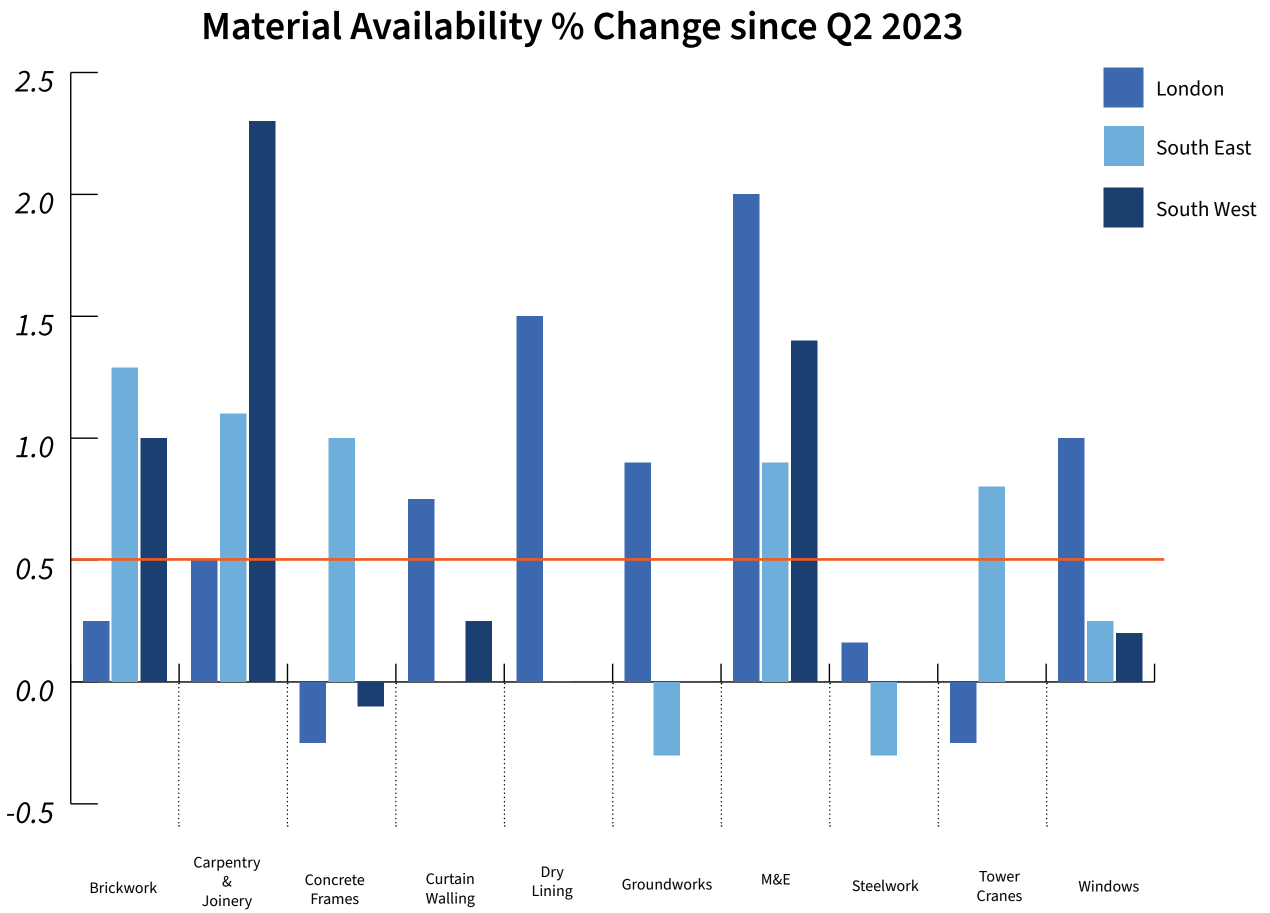
SCF Main Contractors and their trade supply chains have reported that material availability has been stable during Q3, with lead times only increasing by an average of 0.5 weeks across all trades.

The trades with the greatest increase in lead time during Q3 include:

- Carpentry & Joinery +1.5 weeks
- M&E +1.5 weeks

The stability in lead times during Q3 is well aligned with the observations throughout the year, with lead time only being 1 week longer this quarter when compared with the same time last year.

SCF Main Contractors do not propose material availability to be key issue to projects at present but highlight that although lead times are stable these have not recovered to the timeframes experienced pre-pandemic.



Looking ahead: Forecast Q3 2023

Tender Workload

SCF Main Contractors and their trade supply chains forecast a small average increase of 1% in tender workload for Q3 2024. The trades with the greatest expected increase include:

- Dry Lining 4%
- Steelwork 4%
- Windows 4%

However, it is worth noting there is a large range in expected workload across our dataset, highlighting the continued uncertainty within the market surrounding future workloads. For example, the trades within our data set anticipating the greatest decrease in volume over the coming year include:

- Brickwork -4%
- Tower Crane -3%
- Groundworks -1%

Brickwork and Blockwork firms have highlighted the difficulty in predicting workload at present due to the ongoing challenges within the residential market.

Output for private residential sector is expected to continue to drop throughout the remainder of 2023 and into 2024 and as a result, it is of no surprise that brickworkers expect tender workload to decrease. In order to further develop our dataset, SCF Main Contractors have decided to incorporate intelligence for Roofing and Cladding trades within our data collection. This will help provide additional insight into to the residential market.

scf Consult

ONS data reporting a substantial drop in public non-housing new orders in Q2 is a concern. It is always a good idea to avoid reading too much into one data point, but that it was a third down on Q1, alongside inflation eating into government and local authority budgets, justify a certain level of nervousness. Part of infrastructure spending also comes from the public sector, and the declines this have seen in recent quarter provides further evidence of government departments scaling back.

Employment

Employment is anticipated to increase by an average of 2% by Q3 24. The trades with the greatest forecast in employment include:

- M&E 4%
- Groundworks 3%
- Windows 2%
- Curtain Walling 2%

However, this forecast is relatively conservative when compared with past forecasts, demonstrating the slowing rate of tender workload and perhaps the hesitation in investing in long-term growth during periods of cost pressures.

Building Cost

In forecast for Q3 24, building cost is expected to increase by an average of 3% across all trades.

The trades with the greatest forecast include:

- Dry Lining 7%
- Concrete Frame 6%
- Groundworks 4%
- Carpentry and Joinery 4%

SCF Main Contractors have already received annual material price notifications for January 2024, and these will be captured within this forecast. With the high cost of living expected to remain over the following year, trade supply chain anticipates the cost of labour to remain high.

scf Consult

Between Q3 2023 and Q3 2024, BCIS are forecasting build cost inflation of 3.1% while they believe tender prices will increase just 2.1%. This discrepancy likely reflects the view, consistent with that reported in our survey, that contractors are becoming more competitive. If tender prices grow at a slower rate than the costs to build, then the most likely way for this to happen is through falling overhead and profits. In particular, profits are the easiest part to pick-up the slack, and this may worsen, the already considerable insolvency challenges. As highlighted earlier, supply chain due diligence and paying in a timely fashion so as to limit these risks, are important to a project's success. Furthermore, it is worth noting that both the build cost and tender price forecasts are still rising. Given how significant inflation has been over the past couple of years, continued increases suggest the viability problems many schemes are currently facing won't be ending soon.

Material Availability

Material lead time is anticipated to remain consistent, on average trades are not expecting any changes throughout the year.
The trades with the greatest increase include:

- Dry Lining +1 week
- Carpentry and Joinery +1 week

However, it is worth noting that a downturn in demand may not necessarily mean an increase in material availability. For example, a northern brick manufacturer has warned of its decision to close a factory following a drop in demand for product. We may see other factory closures over the coming year as manufactures aim to align their capacity with market demand.