



Market Intelligence

Q4 2023

Contents

[Introduction](#)

[Tender Workload](#)

[Employment](#)

[Building Cost](#)

[Material Availability](#)

[Looking ahead](#)



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 150 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

Regardless of high interest rates and a continuation in rising building costs, 2023 has resulted in relatively stable market conditions when compared with 2022, providing project teams with improved predictability for their projects. Nevertheless, outdated cost plans and legacy budget setting has still caused affordability challenges, with many schemes having to utilise redesign and additional funding to progress to site.

Supply chain resilience continues to be an issue across the industry, particularly amongst SMEs and specialist firms, where unsustainable levels of risk and unfavourable payment terms continues to stress the supply chain. Main Contractors are closely monitoring the capacity of subcontractors, with an emphasis on a holistic approach to better understand their workload across regions and sectors.

Although interest rates are expected to have reached a peak, it is unclear how long they will remain at this level. If inflation continues to be persistent, recovery of the private housing market may be slow and resulting construction output restricted for the following year. Main Contractors also suggest that the political landscape in the UK and Middle East warrants a close watch. With a general election to be held in the next year, the construction industry often observes declarations in funding as political parties face public pressure to address issues such as housing shortages and decarbonisation.

Tender Workload

Throughout Q4 tender workload increased by an average of 1.6% across all trades. The trades with the largest increase include:

- Groundworks 10.4%
- Concrete Frame 7.1%
- Brickwork 4.6%

Although this rise may seem relatively conservative, it is worth noting that tender workload has continued to increase over recent years. As a result, it is of no surprise that trades reported an average 4.2% increase in tender workload in Q4 when compared with the same time last year.

Nevertheless, the rate of increase observed is slower than previous years, indicating that although workload is high, growth in tender workload is levelling off. According to S&P Global CIPS while construction activity declined throughout December, levels were the highest they have been in the past four months, suggesting an optimistic start to 2024. Private New Housing was cited as a significant contributor to this decline due to a reported drop in demand derived from high mortgage rates.

Data from trade suppliers suggest that decarbonisation strategies are influencing levels of workload. For example, subcontractors reported an average 13.1% reduction in tender workload for tower crane usage, indicating a rising demand for refurbishment projects. This is likely driven by future aspirations for net zero carbon in

operation and the expected increased requirements for Minimum Energy Efficiency Standards. Our observations align with that from Glenigan's, where their sector analysis identified an expected 6% increase in the number of starts of office renovations and refurbishments throughout 2024, with a transition towards net zero carbon in operation and a demand for Grade A spaces being cited as potential drivers.

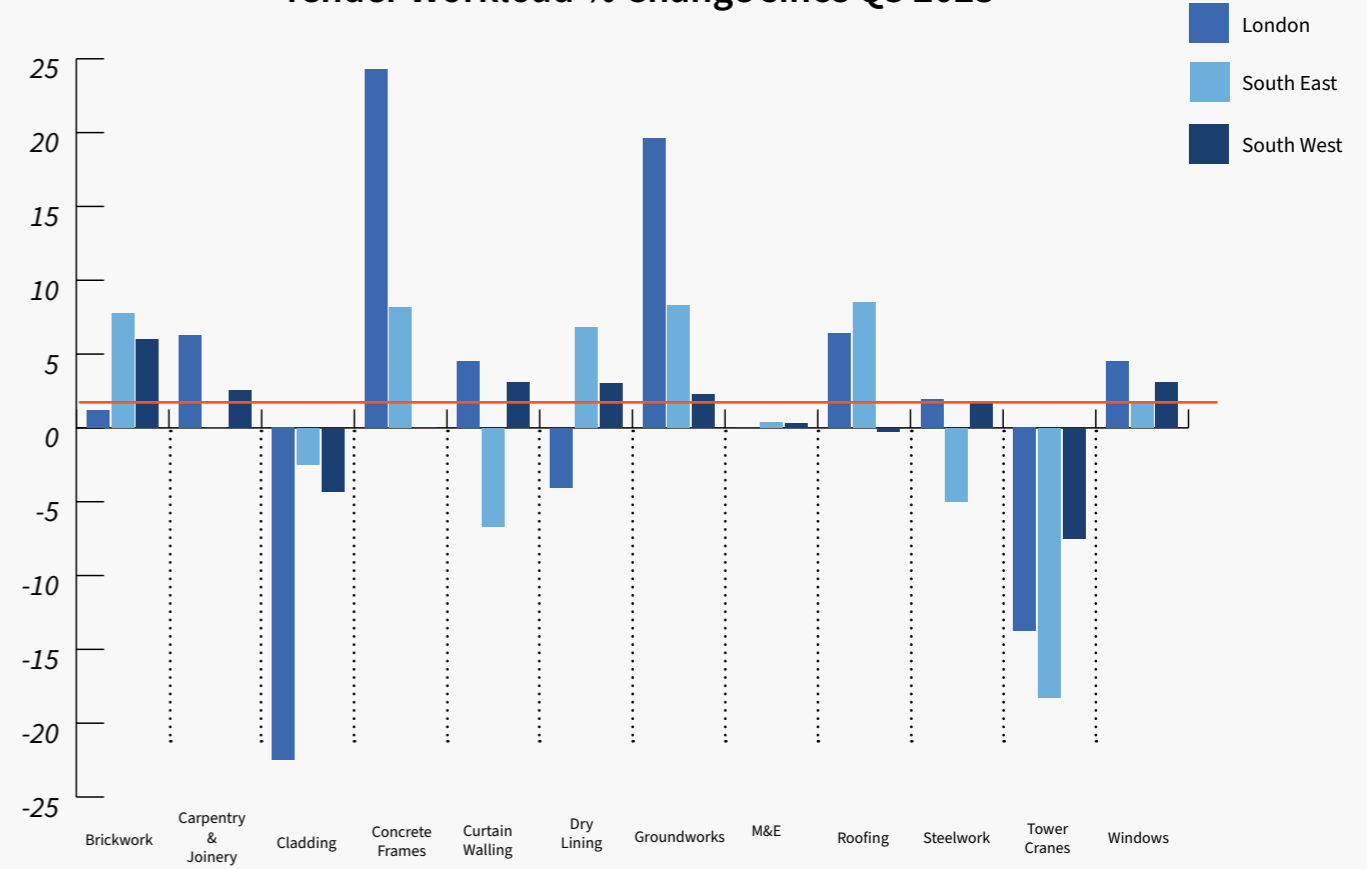
Our data suggests projects may be shifting towards the use of concrete frame over steel frame, with tender workload for concrete frames increasing by an average of 7.1% across regions when compared with steelwork only increasing by an average of 0.5%. SCF Main Contractors suggest that this is likely driven by the increasing awareness and use of embodied carbon targets on projects.



Look to engage with contractors early in your project, preferably prior to planning. This will help ensure that budgets are realistic and detailed design reviews can be completed to encourage methodologies that best suit the supply chain market.

Matthew Elliott
Senior Framework Manager

Tender Workload % Change since Q3 2023



Employment

Throughout Q4, employment increased by an average of 0.6% across all trades. The subcontractors with the largest increase in the number of employees include:

- Groundworks 2.7%
- M&E 2.7%
- Carpentry & Joinery 1.5%

Alternatively, trades such as Tower Crane usage and Cladding reported a 0.6 % and 1% decrease respectively in employment during Q4, reflecting the reduction in tender workload reported for the quarter.

Subcontractors measured a 4.6% increase in their number of employees in Q4 when compared with the same time in the previous year, this annual rise aligns with the expected increase in delivery demand derived from past high levels of tender workload.

However, it is important to note that with a high number of insolvencies in the industry at present, our data may be depicting an increase in employment, when in reality, laid off subcontractors may have been re-hired by other local firms. As a result, our dataset may capture a shift in workforce rather than an expansion within the industry.



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.

Janara Singh
Assistant Framework Manager

Employment % Change since Q3 2023



Building Cost

During Q4, volatility within the construction market stabilised, providing projects with an improvement in predictability. Trade specialists reported an average increase of 2.3% in building cost throughout the quarter. The trades with the largest increase were:

- M&E 4.7%
- Brickwork 4.6%
- Dry Lining 1.1%

Some trades may still be vulnerable to increased labour costs as the cost-of-living remains challenging. Nevertheless, cost uplift likely reflects national inflation, with CPI inflation standing at 4% in January 2024. Conversely, some trades reported an increase in build cost below that of inflation, suggesting pricing is becoming increasingly competitive.

However, it is important to note that building cost was still on average 6.5% greater in Q4 when compared with the same time in the previous year, highlighting the extent of uplift throughout the year and the impact this may still have on projects with historical budget setting. Main Contractors highlight how throughout the year it has not been uncommon to observe preconstruction programmes to elongate as projects look to achieve affordability through approaches such as redesign, scope reduction, and securing additional funding.

The resilience of the industry continues to be tested with a high number of firms claiming insolvency. According to the Insolvency Service, the construction industry faced a 36% increase in the number of insolvent firms this year to the 31st of October when compared with January 2020, highlighting the extent of the issue. This has been particularly prevalent amongst SMEs and specialist suppliers, where resilience to unsustainable levels of risk and unfavourable payment terms have resulted in cash flow difficulties.

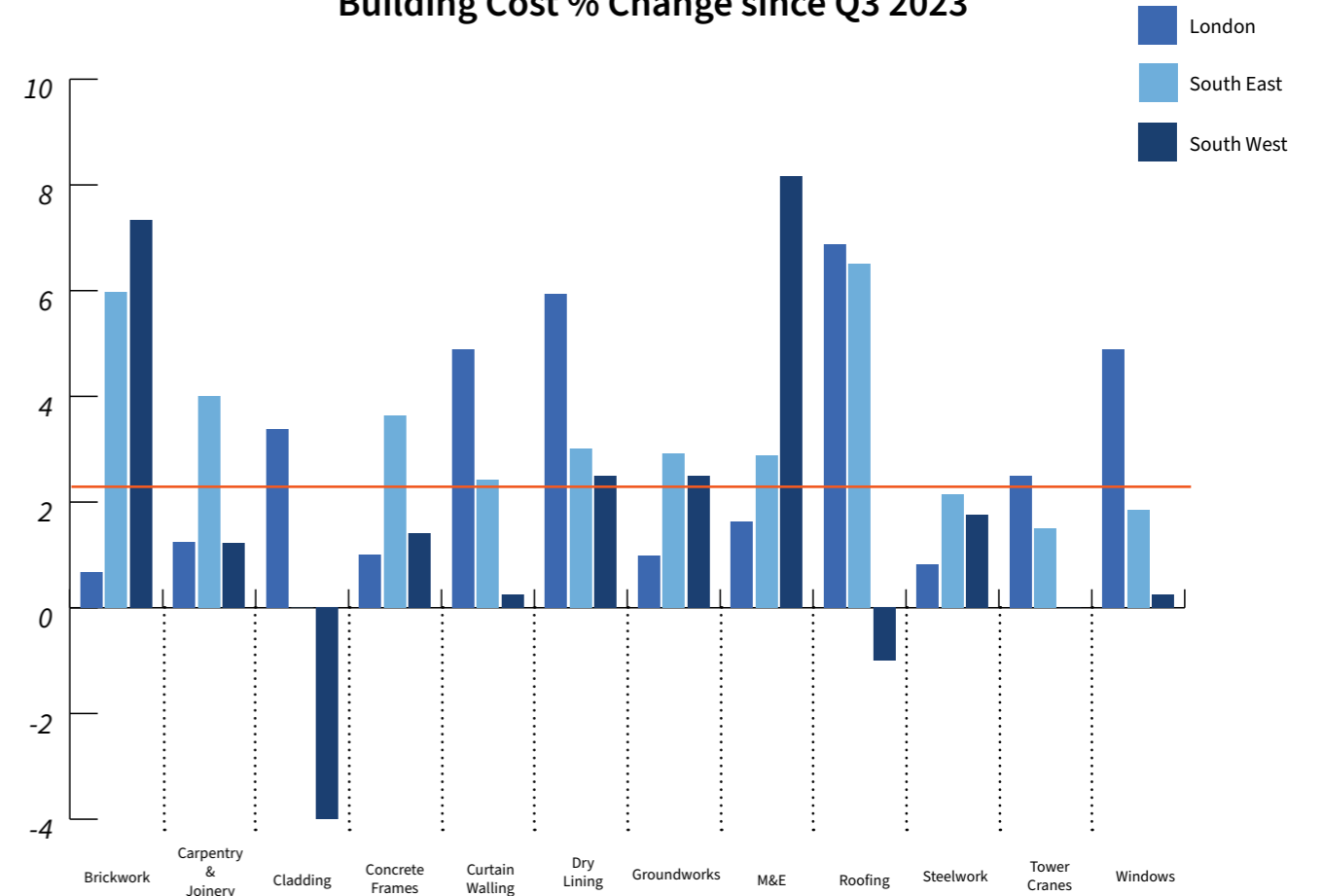


Publishing pipeline is a great way to support supply chain resilience. We publish our pipeline on our subcontract tendering portal to help boost visibility and support the supply chain in managing their workload.

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.

Adrienne Turner
Framework Manager

Building Cost % Change since Q3 2023



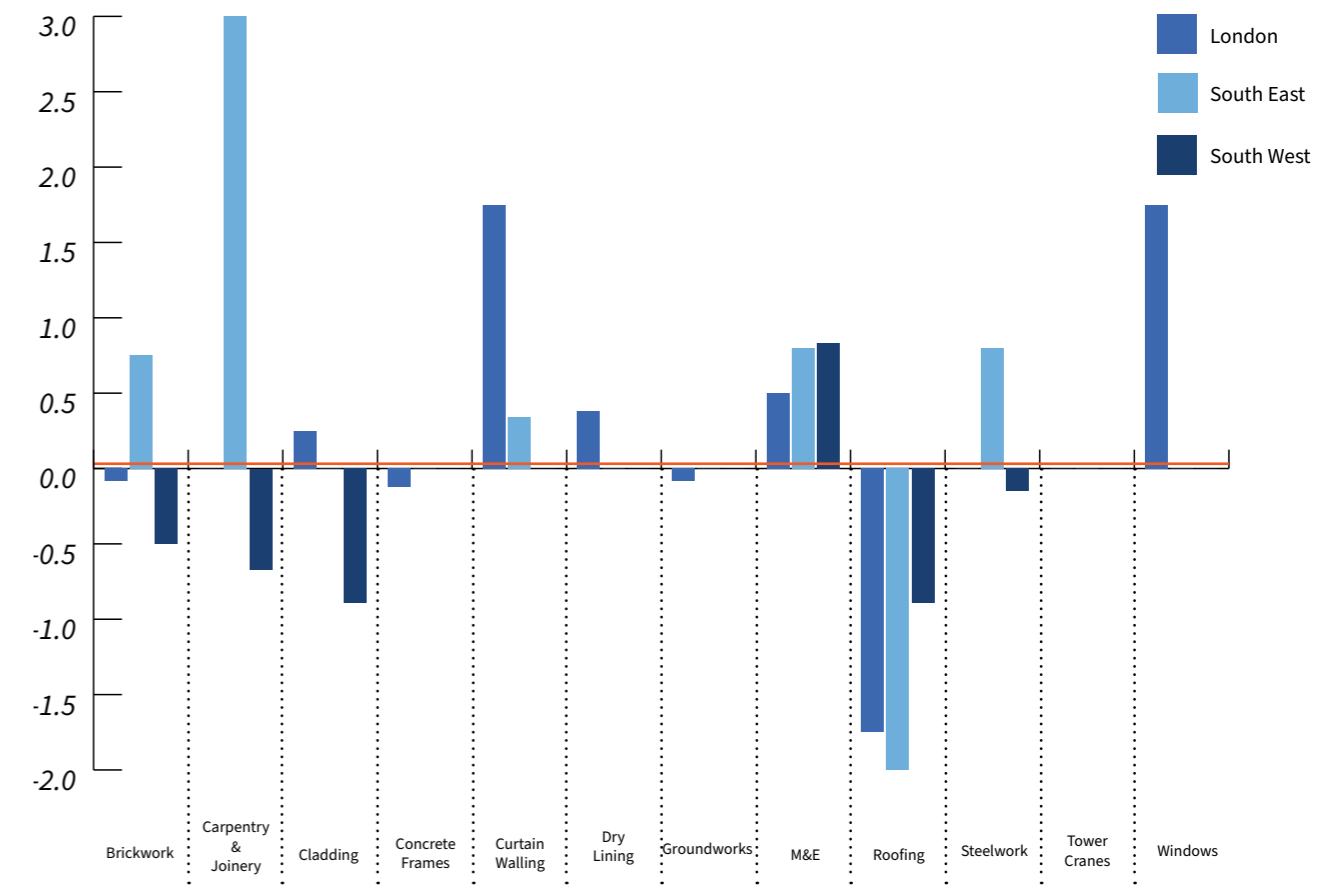


Material Availability

On average trades reported material availability to be stable, and in some cases, trades observed a recovery in lead time throughout the year.

For example, roofing subcontractors reported a 3.6-week improvement in material availability, this is likely driven from the downturn of the private residential market resulting in a readily available supply of materials.

Material Availability % Change since Q3 2023



Looking ahead: Forecast Q1 2024

Tender Workload

As the construction industry aims for continued stabilisation, the new year may bring a buoyant political landscape. With a general election currently due to be held in the year, SCF Main Contractors report a forecasted drop in tender workload towards the lead up to the election as PURDAH requirements inhibit bidding, followed by a spike as activity resumes. As political parties look to publish manifestos, the construction sector will have to wait to see the impact this has on future funding across sectors in the built environment.

Subcontractors anticipate tender workload to increase by an average of 4.9% across all trades. The trades with the greatest forecasted increase are:

- Concrete Frame 7.4%
- Steelwork 7.3%
- Groundworks 6.3%
- Roofing 5.2%

Employment

Over the next year, trade subcontractors forecast a 2.1% increase in the number of their employees.

The trades with the largest forecasted increase include:

- Carpentry & Joinery 4.5%
- Concrete Frame 3.8%
- Cladding 3.7%
- Groundworks 3.4%

Building Cost

Trade subcontractors forecast an average increase of 4.2% in building cost throughout 2024.

The trades with the largest anticipated increase include:

- Brickwork 5.7%
- Steelwork 5.7%
- Cladding 5.6%
- Groundworks 5.1%

Material Availability

At present, material availability is not expected to be a problem during 2024, with trade subcontractors forecasting no change in average material lead time.

The trades with the largest expected recovery in material availability include Roofing and Brickwork, indicating an anticipated slow recovery of the private residential market.

However, SCF Main Contractors are looking to closely monitor shipping activity in the Middle East following recent political instability. Reports have shown a 90% reduction in vessels through the Red Sea and Suez Canal in January 2024 when compared with the same time last year. Main Contractors fear that this may result in extended delivery times and increased shipping costs for manufactured products coming from China, as this could result in the use of other shipping routes with extended delivery time.

It's also worth noting that Chinese imports only account for around a fifth of total construction imports, and with the majority of products manufactured domestically, many goods will not face these risks.

SCF Consult: The Year Ahead

Economically, the biggest question for the year ahead is when will the Bank of England start to cut interest rates, and how far will they go. The Monetary Policy Committee's meeting at the start of February suggested that there is still much that needs to happen before such a move can take place. Importantly, while CPI inflation is set to fall to 2% in the second quarter of 2024, it will then rise again in the second half of the year. The MPC are also concerned about a tight labour market, with regular pay growth slowing, but continuing to rise. Such issues are less apparent in construction, where regular pay was 0.5% lower in the final quarter of 2023 than in Q3. Current expectations are that the first rate cut will happen in either May or June, and there will be several more cuts before they finish the year at 4.25% or 4.5%. That the UK is now in a recession may encourage further interest rate cuts, but even 4% is still a deterrent to borrowing.

Whereas there is considerable uncertainty about the path of interest rates, banks have already been cutting mortgage rates. So far, this is far too early to have an effect on housebuilding, but it has led to a small pick-up in mortgage approvals, and according to Nationwide, an increase in house prices in January. However, ONS data shows that private housing new orders slumped in Q4. Dropping 14% for the quarter, and almost 30% lower than 12 months earlier, the reduction is considerable. Even if interest rates are cut more aggressively than anticipated, it is a long way back for the sector.

Worryingly, the Q4 2023 new orders numbers point to a very tough year ahead. Overall, all new work was 30% down on Q4 2022, and as well as private housing's weakness, infrastructure and private commercial also fell substantially. Furthermore, private industrial had another large fall, leaving it around half the size it was at the end of 2022. With new orders the best indicator for what is likely to happen to output in the coming months, it suggests further widespread challenges.