



# OUTLOOK FOR CONSTRUCTION

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# AGENDA

With 69% of British civil engineering firms reporting difficulties with finding skilled operatives, it's perhaps no surprise that HS2 is now facing a labour shortage. As labour looks set to become the next cost driver, we ask the question: *'Construction inflation: is delivery a problem?'*

To address that question, we'll examine industry capacity in construction, looking at:

- ▶ Forecasts of future demand levels
- ▶ The current supply position
- ▶ Assess if there's a mismatch between supply & demand
- ▶ Draw some conclusions
- ▶ Questions

# SETTING THE SCENE

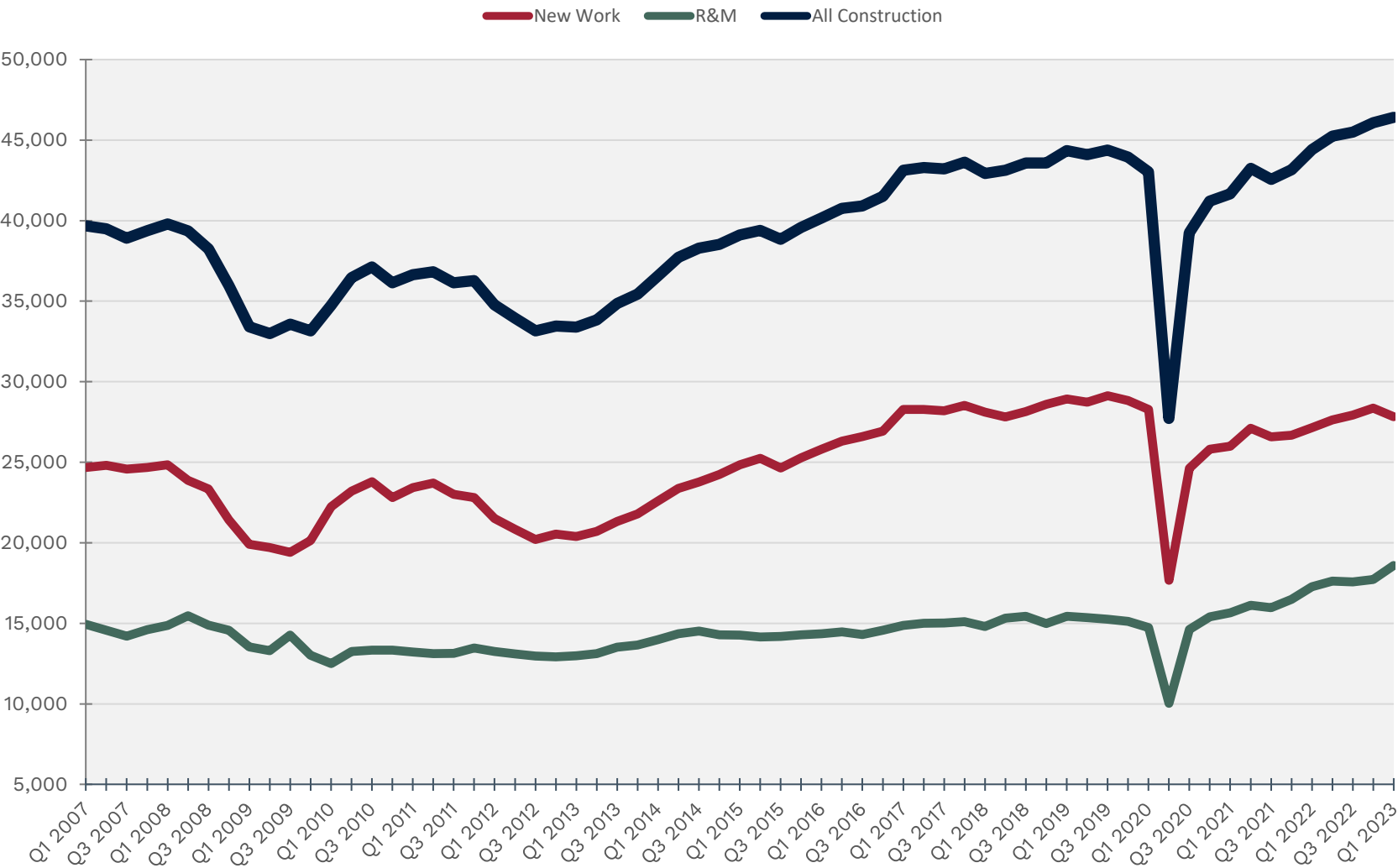
- ▶ Anecdotally we are hearing a lot about shortages of labour and clients being unable to attract firms to bid for projects
- ▶ HS2 is the latest to say they are struggling to recruit skilled labour, a recent thought piece by BCIS highlighted some of these issues (Construction labour – will the Shortage Occupation List make a difference?)
- ▶ The cost and availability of labour is anticipated to be a major barrier to the delivery of construction projects over the next year, but is this hyperbole or fact?
- ▶ Let's look at the current capacity of the industry

# CAPACITY, WHAT IS IT AND IS IT A PROBLEM? (SUPPLY VS DEMAND)

- ▶ Industry capacity represents the maximum amount of goods or services that companies can supply in a period
- ▶ When there is under capacity and demand exceeds supply, market players have high pricing power and the price of the product increases
- ▶ The reverse is true when there is over capacity
- ▶ What's the current situation in the UK construction industry? Is there a mismatch between supply and demand?
- ▶ First, we need to assess the demand position

**Demand position**

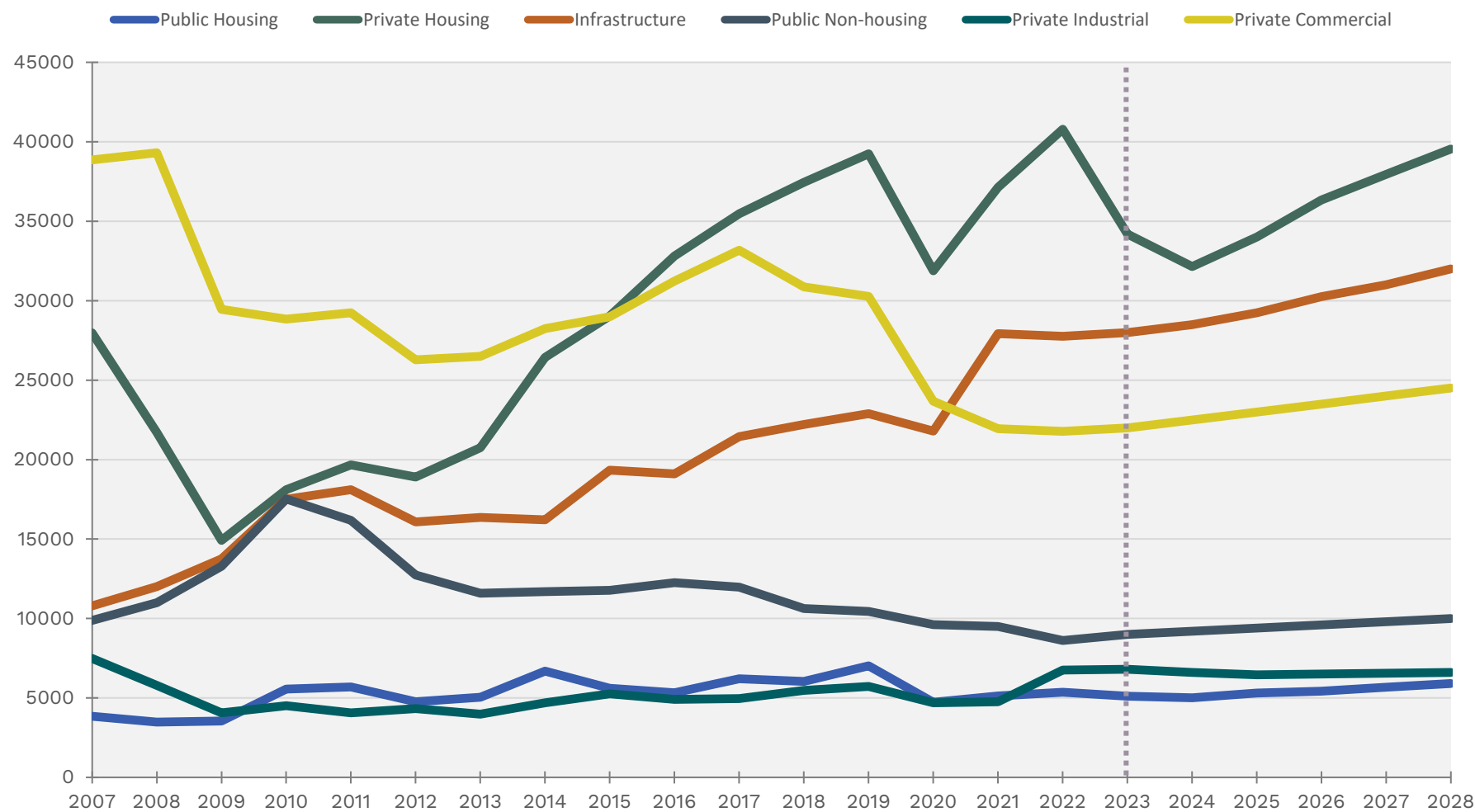
# CONSTRUCTION OUTPUT (ONS: QUARTERLY VOLUME, SEASONALLY ADJUSTED £M)



Total output is now above pre-crisis levels driven by growth in R&M.

New work remains at 2017 levels with output declining in the latest quarter.

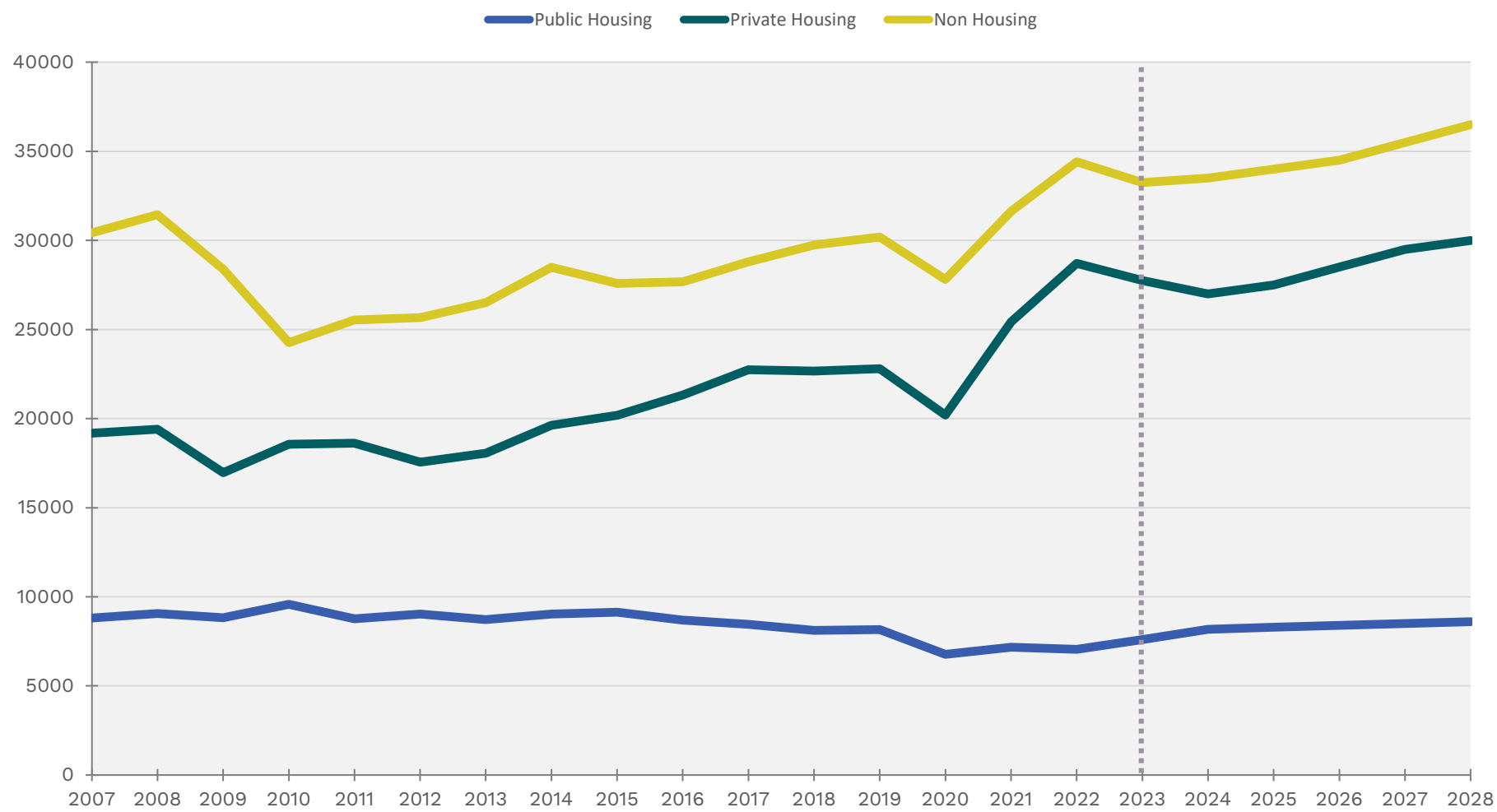
# FORECAST FOR NEW CONSTRUCTION OUTPUT BY SECTOR (ONS/BCIS, 2023 £M)



New work output is expected to fall in 2023 primarily from declining output in the housing sector. All other sectors show slight increases



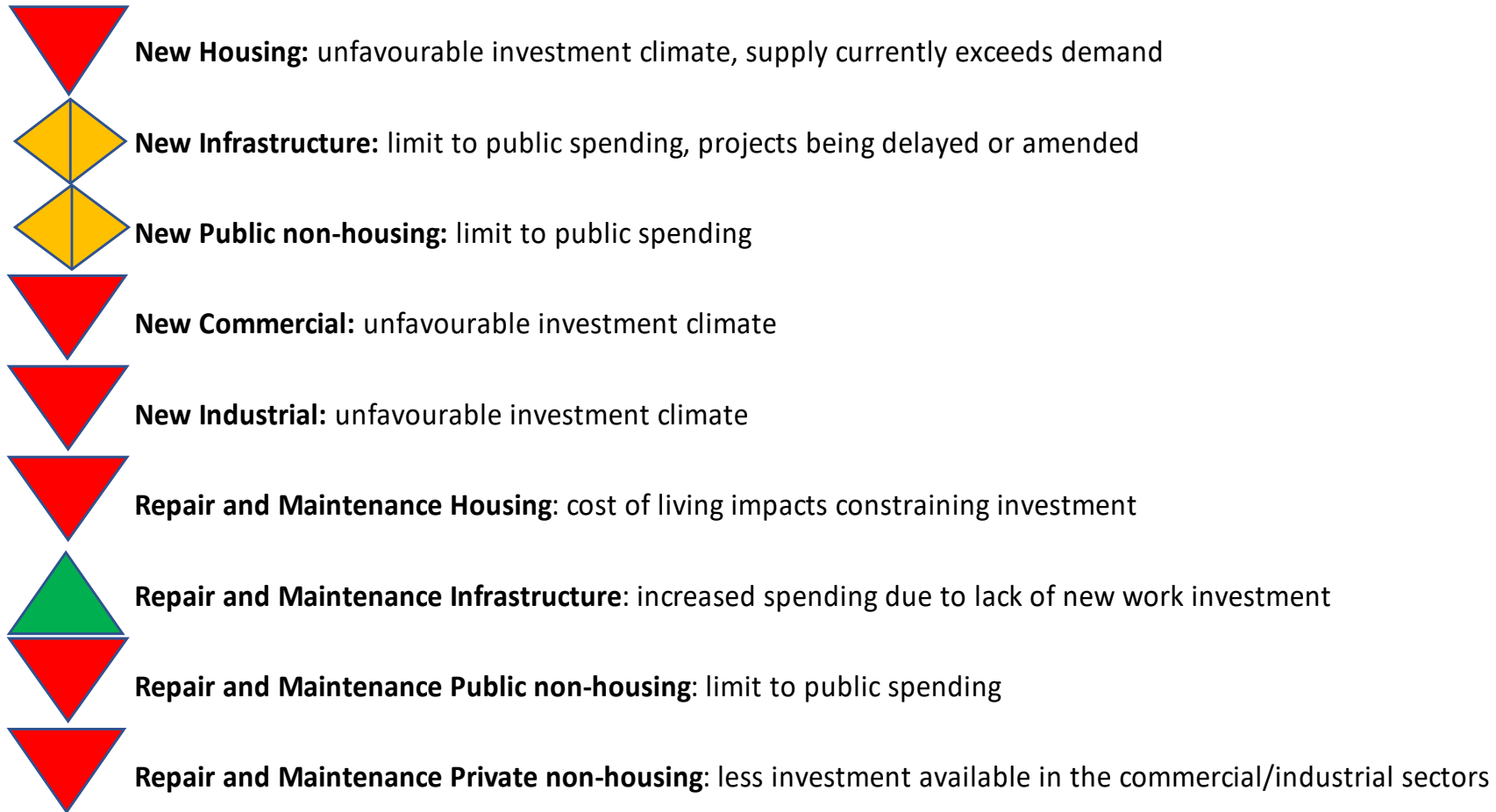
# FORECAST FOR R&M CONSTRUCTION OUTPUT BY SECTOR (ONS/BCIS, 2023 £M)



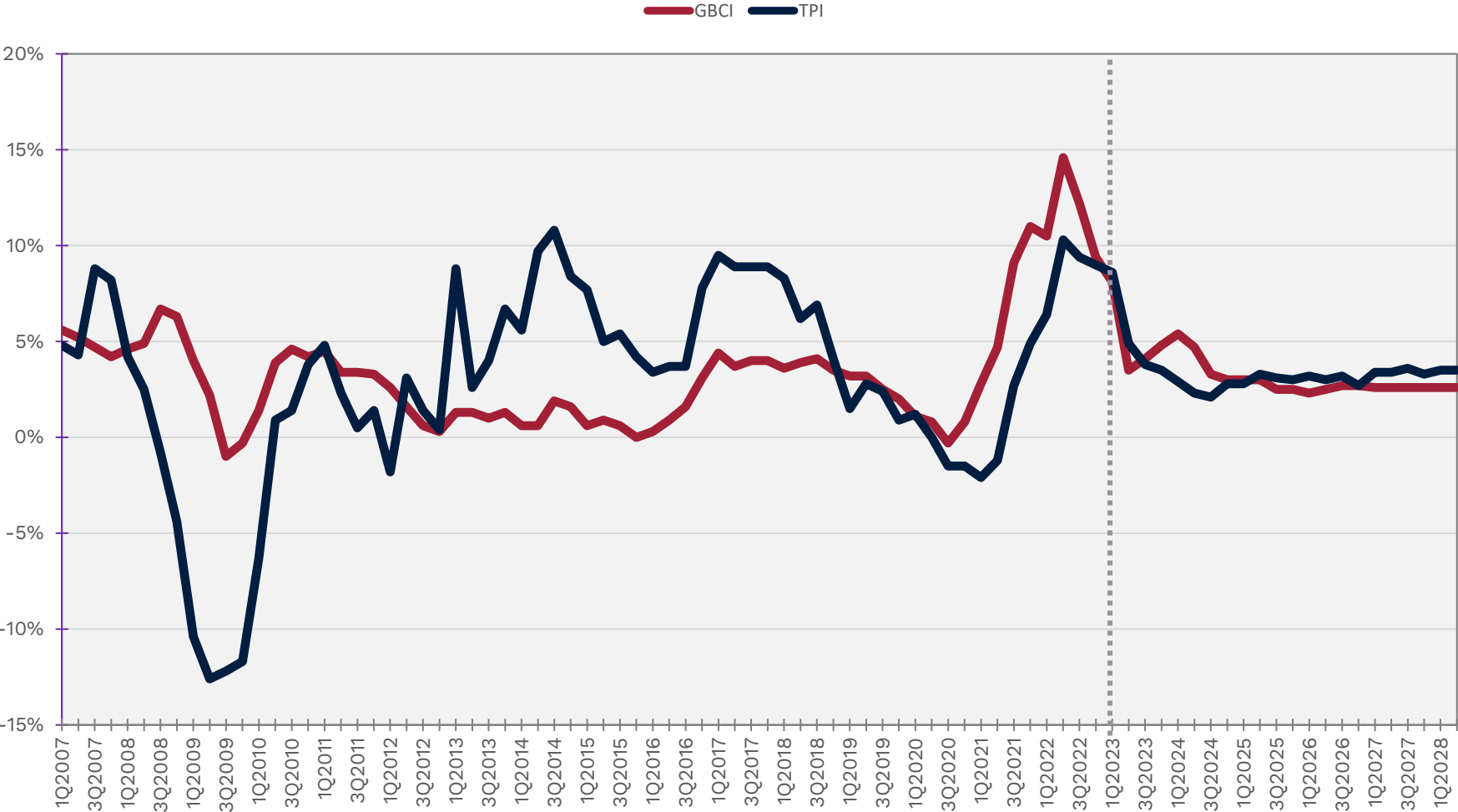
Some drop off in R&M output is forecast, before recovery later in the period



# SUMMARY OF GROWTH PREDICTIONS BY SECTOR FOLLOWING LATEST DATA

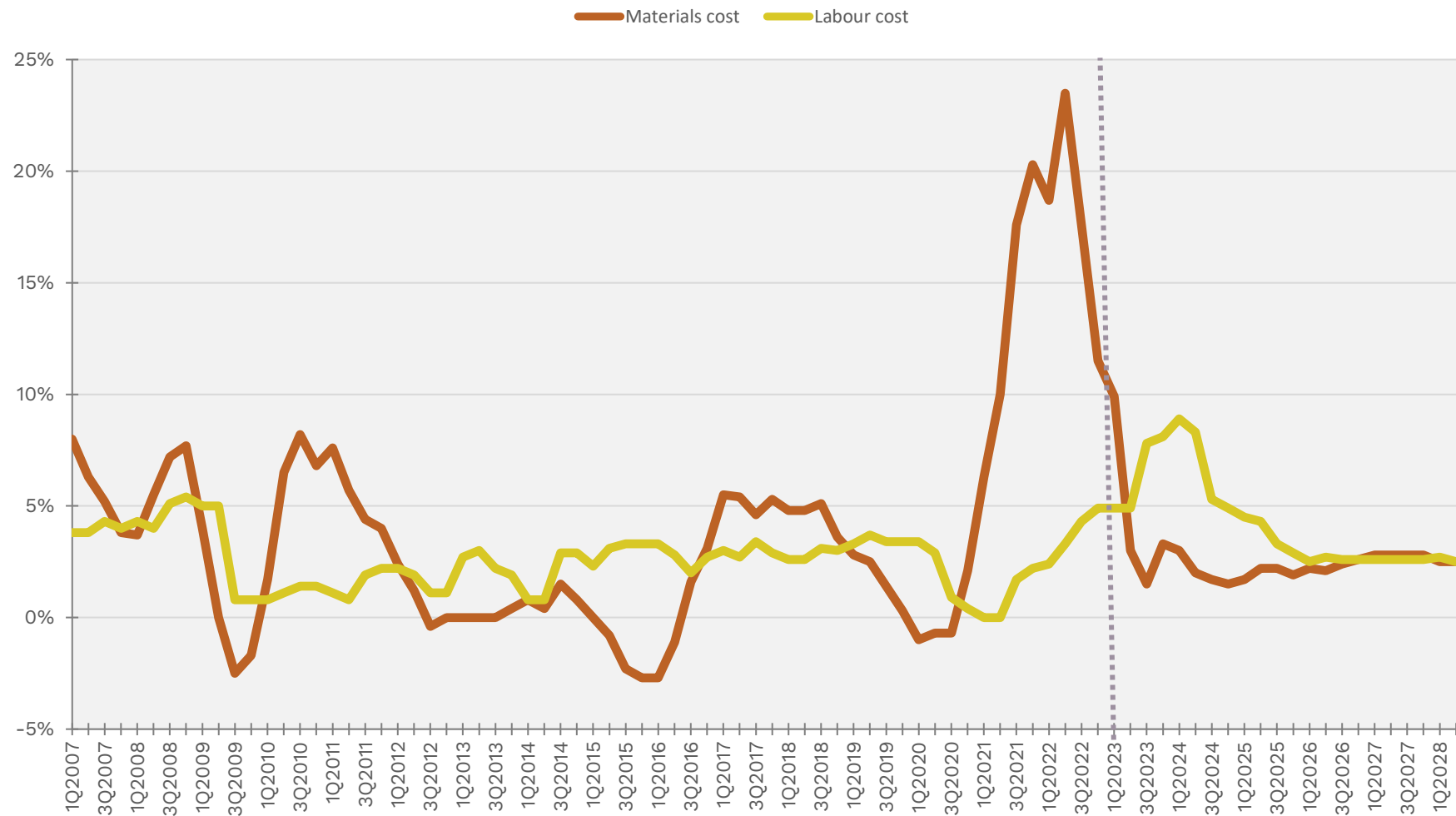


# GROWTH IN BCIS GBCI & TPI (BCIS 2023)



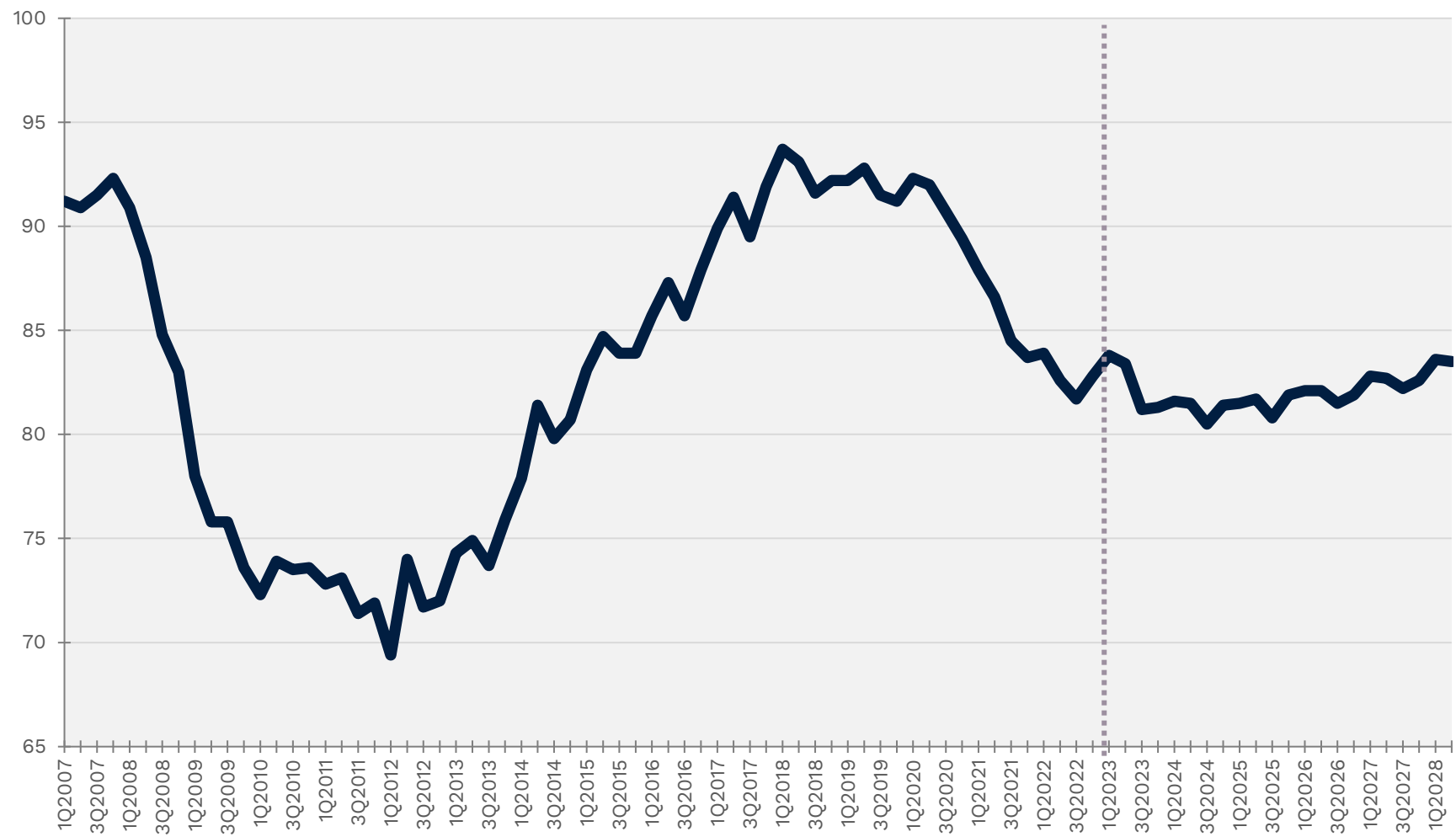
Forecasts relatively benign compared to the recent past. Some evidence of an uptick in the GBCI next year

# GROWTH IN BCIS MATERIAL & LABOUR COST INDICES (BCIS 2023)



Labour costs are predicted to take over from materials costs as the key cost driver going forward

# MARKET CONDITIONS INDEX (BCIS MCF 2023)



MCF relatively benign  
over the forecast period

# BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

## Procurement

- ▶ Reducing capacity means contractors are being more selective on the tender routes they are willing to work, preferably 2 stage, adding inflation pressures on to prices
- ▶ Volatility is still being priced into fixed price contracts
- ▶ Contractors are keen to secure turnover where a number of projects comprising taller buildings have been paused due to the time for redesigning for the introduction of second staircases

## Sectors

- ▶ Hotspots in infrastructure, commercial fit out
- ▶ Housing market has slowed in London and major cities due to the second staircase rule. Sub-contract supply chain is expected to be very keen

# BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

## Inflation

- ▶ M&E price rises are still not showing signs of slowing, whereas general building works are beginning to show some signs of stabilisation
- ▶ Supply of MEP goods is still an issue which means they cannot fix prices. Generally, logistics issues have calmed (albeit with a lot of forward planning)
- ▶ General slowdown in material inflation but growing wage inflation
- ▶ Concrete has been rising. Steelwork and reinforcement have gone down. Labour is going up across the board
- ▶ Generally better material availability
- ▶ The steel and concrete industries are opting for "cleaner"/less carbon-intensive materials which is pushing up costs

# BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

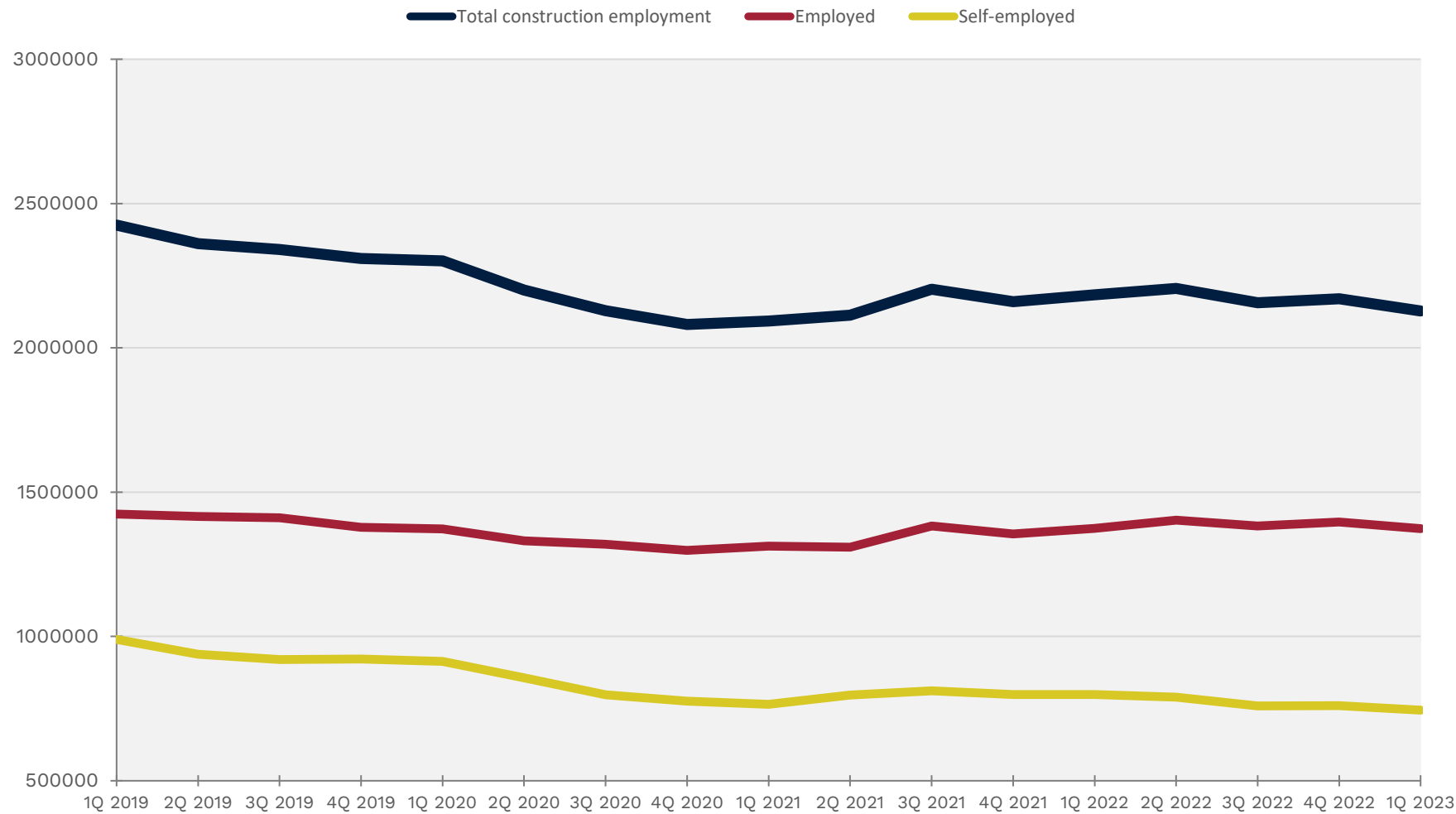
## Challenges

- ▶ Increasing number of insolvencies as a result of tightened financial conditions, and prolonged exposure to supply chain disruption, labour shortages and some inflation
- ▶ The application of the 2nd staircase rule in London and other cities has been very disruptive
- ▶ Insolvencies on projects remain a major concern
- ▶ Rising cost of construction, skilled labour shortages and lack of confidence in the market to invest in new projects are the main three challenges faced by contractors
- ▶ Uncertainty is wearing on a lot of clients (insolvency risk, fire regulations, product evolution, labour shortages and material panics). These are also causing viability to be questioned



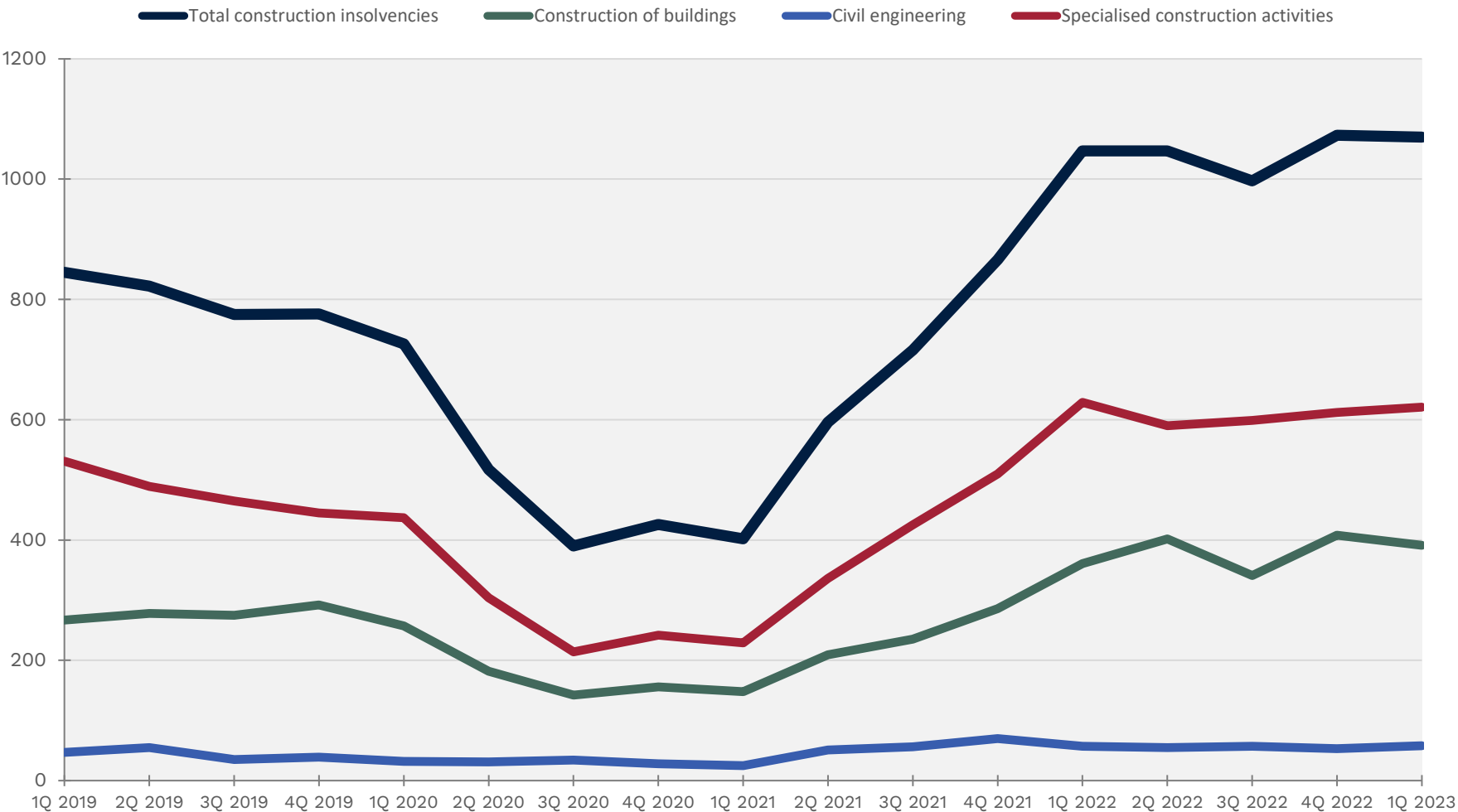
**Supply position**

# NUMBERS EMPLOYED & SELF-EMPLOYED IN CONSTRUCTION (ONS, 2023)



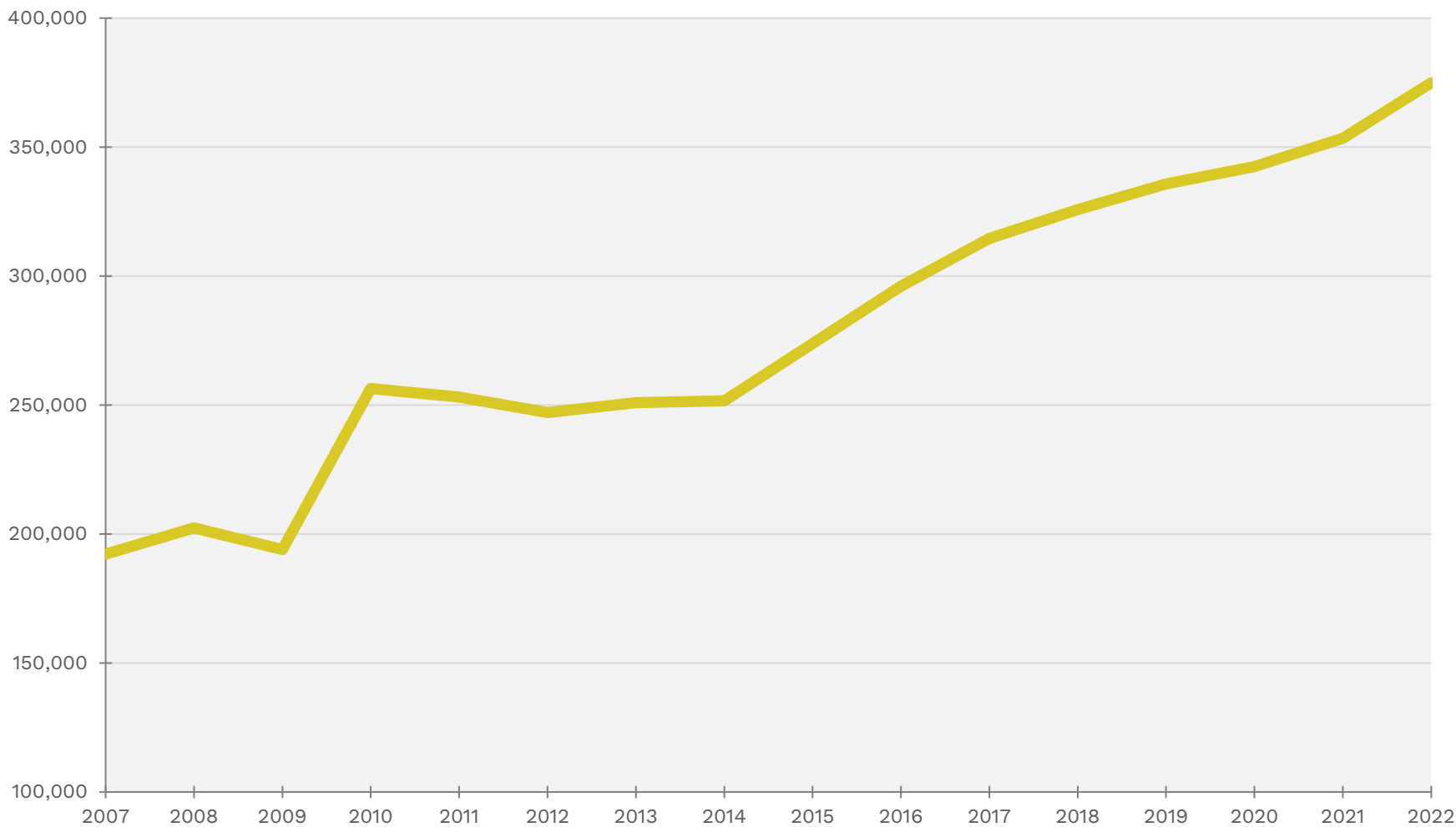
Declining trend in employment, driven by falls in the numbers of self-employed

# NUMBER OF CONSTRUCTION INSOLVENCIES (ONS, 2023)



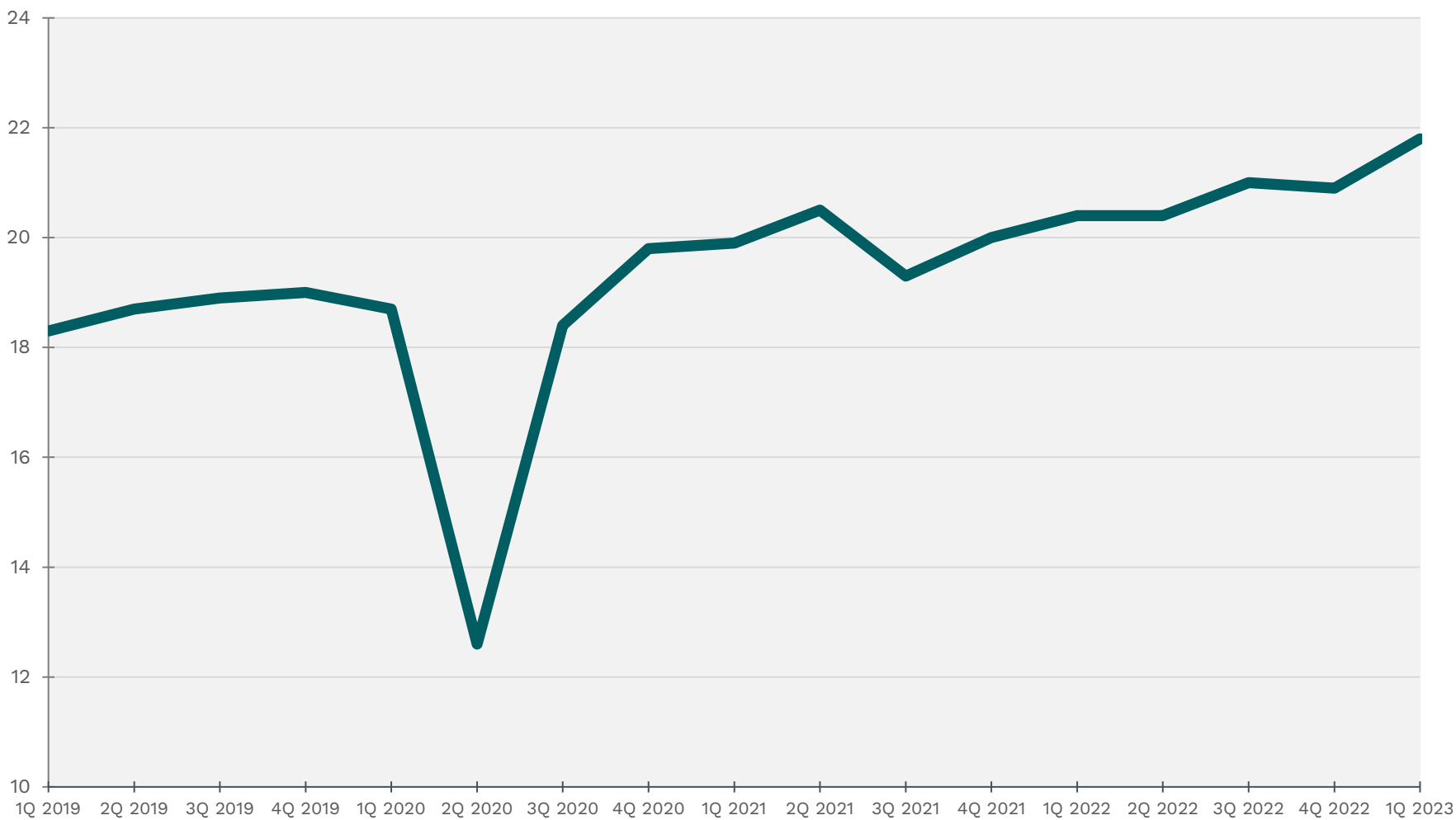
Growth stabilising but still high compared to pre-pandemic levels

# NUMBER OF CONSTRUCTION FIRMS (ONS, 2023)



Exponential growth  
since 2014

# LABOUR PRODUCTIVITY RATIO (OUTPUT GENERATED PER UNIT OF INPUT)



20% increase in labour productivity since 2019

# Summary

# IS THERE A MISMATCH BETWEEN SUPPLY & DEMAND?

- ▶ What does the data tell us?
- ▶ Total output is back to pre-crisis levels, although future demand is forecast to soften and likely remain subdued over the next 5-years
- ▶ Anecdotally, it appears that there is a supply imbalance, with reports of difficulties securing contractors and site operatives. However, the data doesn't really support that notion, is there something more structural happening?
- ▶ Are we delivering similar levels of output with less workers?
- ▶ From the data presented it would certainly appear so.



# CONCLUSION

- ▶ Returning to our original question: Is delivery a problem?
- ▶ Despite the number of insolvencies having risen and the numbers employed falling, the number of firms and labour productivity both appear to be increasing. Has the industry become more efficient?
- ▶ Are there real shortages or are contractors and trades being more selective on the projects they are willing to work on
- ▶ The market seems to be at a turning point as input cost inflation and demand pressures fall. This will see tender price inflation slow allowing investors some incentive to take projects forward
- ▶ But the pressure seems to be off for now....

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