

CONSTRUCTION OUTLOOK: is this a good time to build?

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THE PANEL



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AGENDA

- Setting the scene
- Commodity drivers
- Output and orders
- Costs and prices
- Industry views
- Summary
- Your questions

SETTING THE SCENE

- Subdued conditions in the third quarter
- Ongoing geopolitical tensions, although reduced demand continues to counter some of this upward pressure
- Sector waiting for the Autumn Budget
- Inflation rising and potential for hikes in the base rate
- However, despite the gloom - is this a good time to build?



COMMODITY DRIVERS

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Brent crude prices continue to show volatility and have spiked again

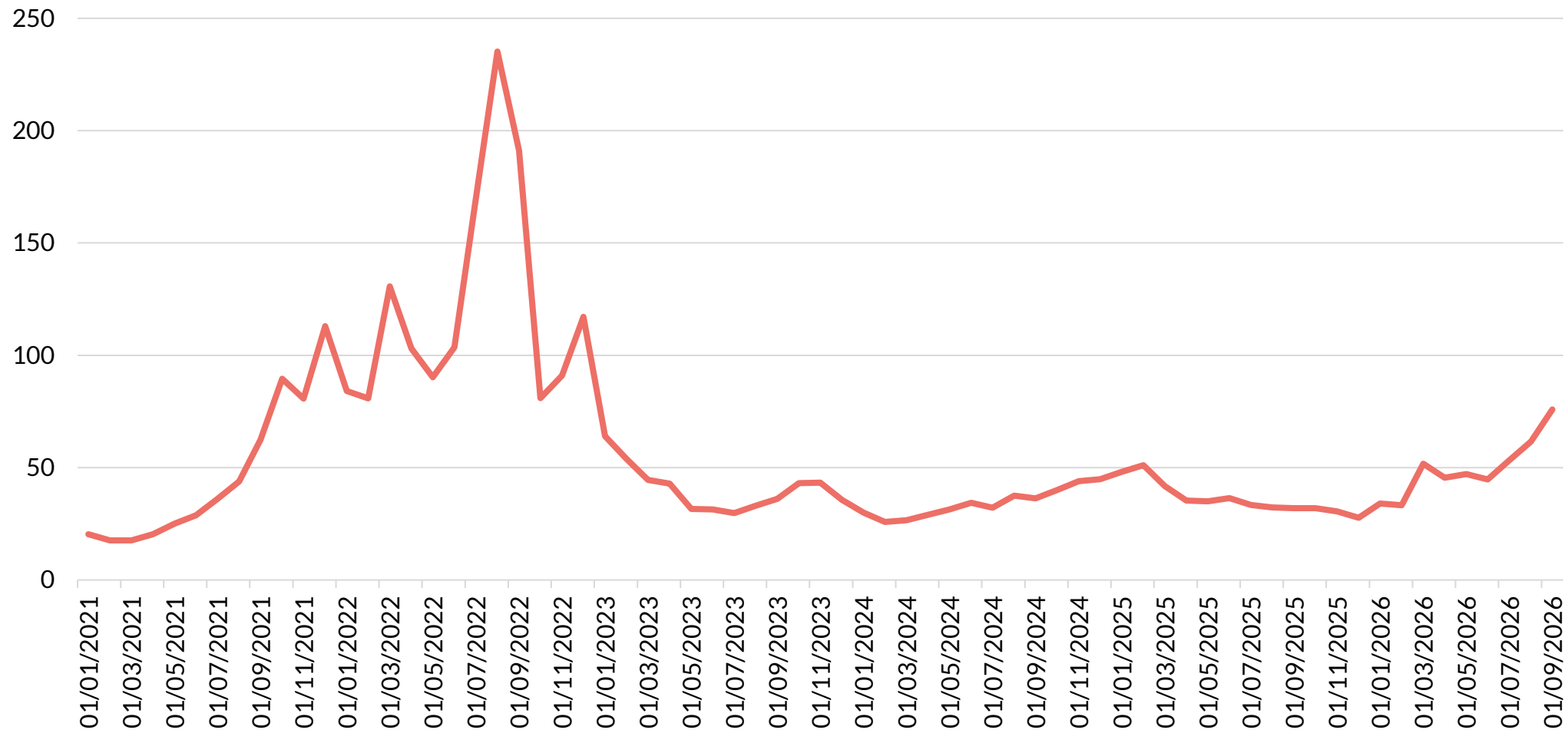
Weekly Brent crude oil spot price (US\$ per barrel)



Source: Energy Information Administration (EIA)

Natural gas prices have reached three-year highs

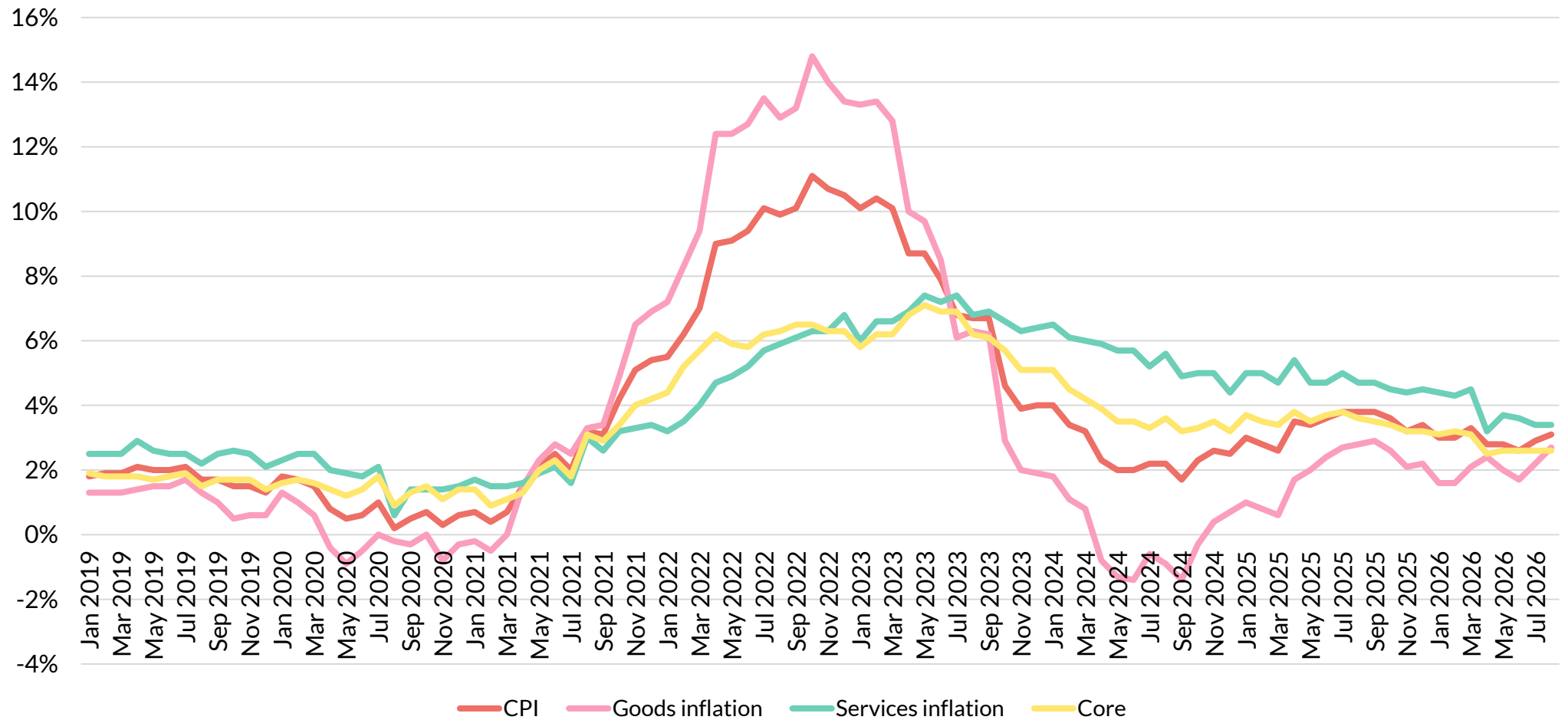
European natural gas prices (€/MWh)



Source: EEX Next Day Index

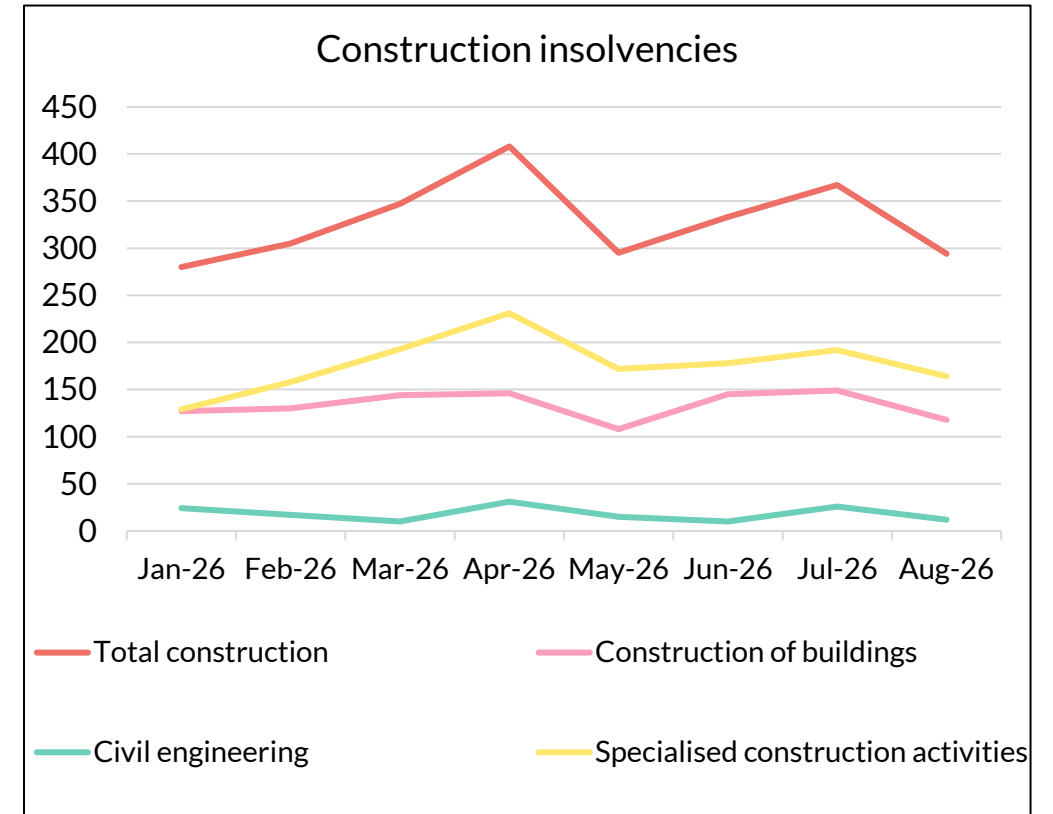
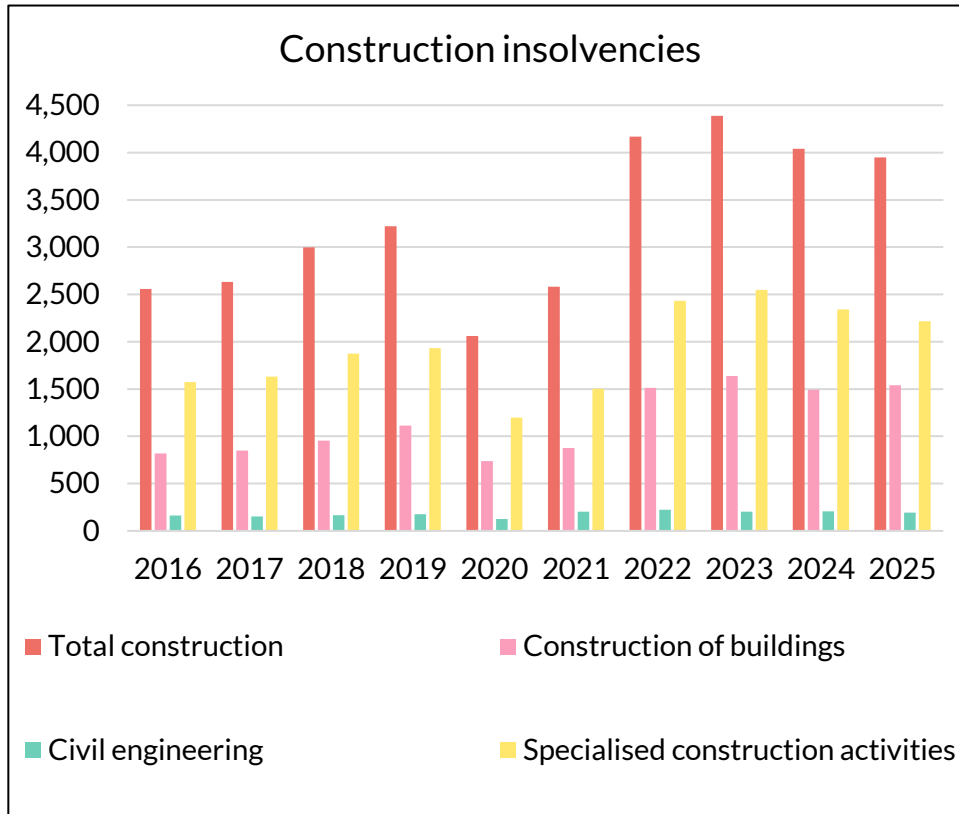
Inflation passthrough remains slow, but signs of growth are there

Inflation (year-over-year percent change)



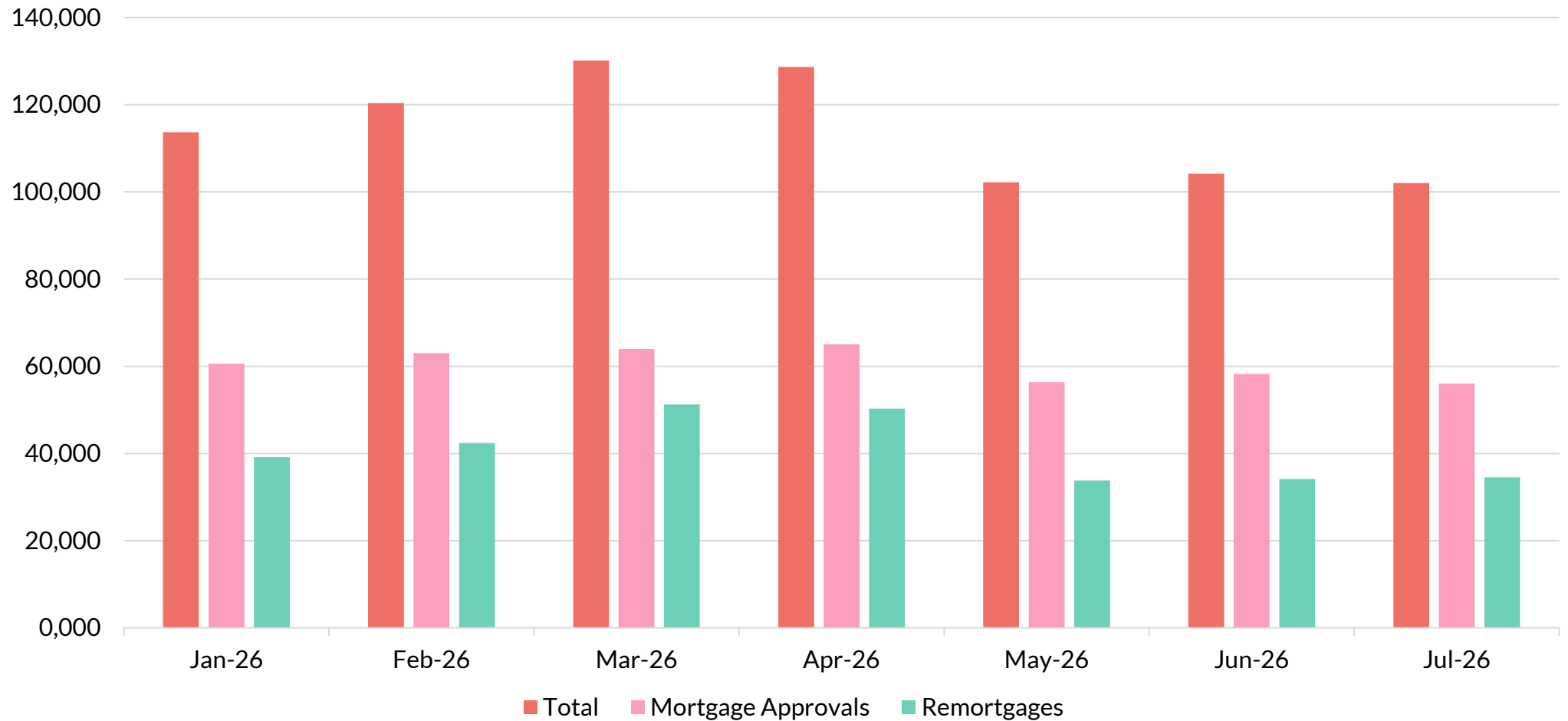
Source: Office for National Statistics (ONS)

Insolvencies highlight weakness in demand, contractors will continue to face challenging conditions



Source: The Insolvency Service

Mortgage approvals have significantly lowered in recent months



Source: Bank of England (BoE)

OUTPUT & ORDERS

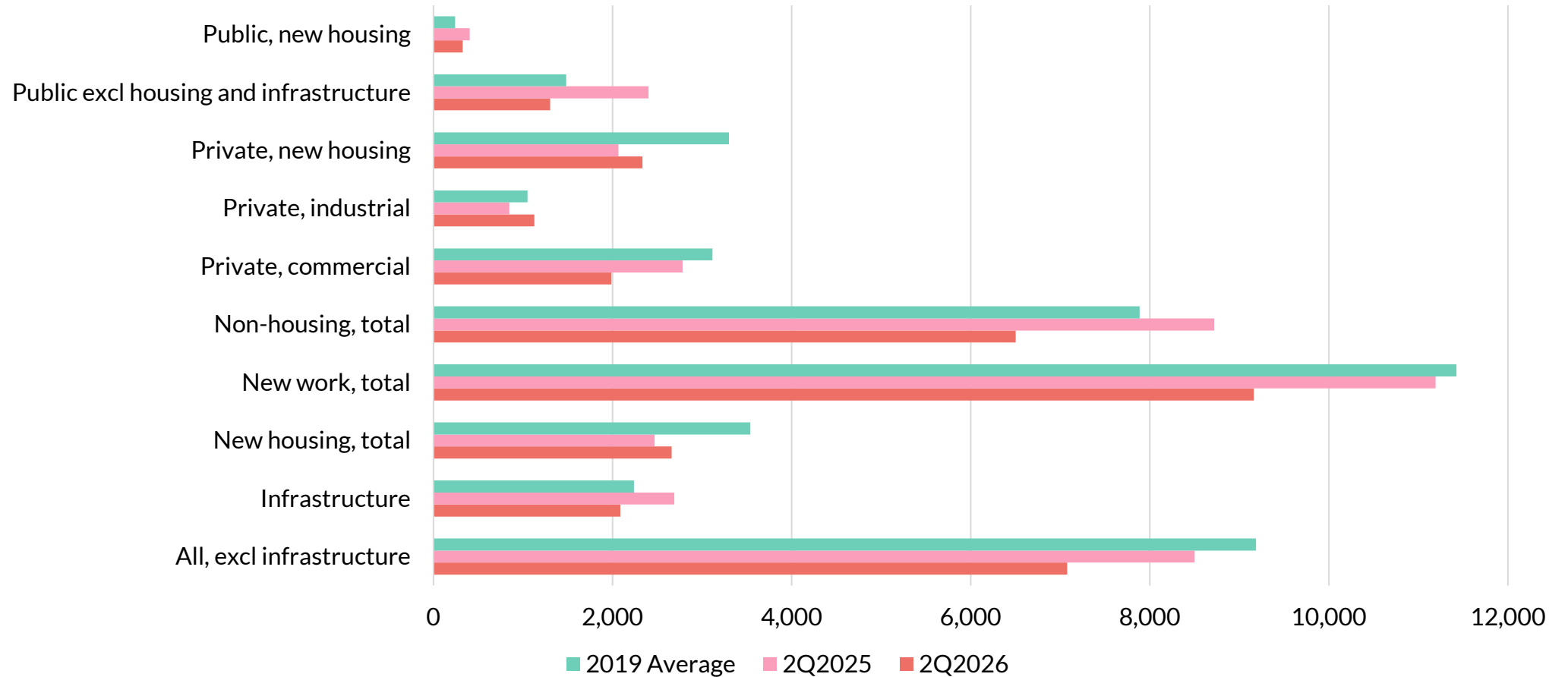
New work output remains far lower in most categories compared to last year, R&M stays robust

Quarterly movement			
	1Q2026	2Q2026	Q/Q %
Public new housing	2,048	1,964	-4.1%
Private new housing	9,522	9,629	1.1%
Total new housing	11,571	11,592	0.2%
Infrastructure new work	7,946	8,099	1.9%
Public other new work	3,335	3,222	-3.4%
Private industrial new work	2,091	2,037	-2.6%
Private commercial new work	5,729	5,841	2.0%
All new work	30,671	30,791	0.4%
Public housing R&M	2,454	2,516	2.5%
Private housing R&M	10,220	10,156	-0.6%
Total housing R&M	12,674	12,671	0.0%
Non housing R&M	11,189	11,235	0.4%
All R&M	23,862	23,906	0.2%
All work	54,534	54,697	0.3%

Annual movement			
	2Q2025	2Q2026	Y/Y (%)
Public new housing	2,304	1,964	-14.8%
Private new housing	10,317	9,629	-6.7%
Total new housing	12,621	11,592	-8.2%
Infrastructure new work	8,686	8,099	-6.8%
Public other new work	3,365	3,222	-4.2%
Private industrial new work	2,309	2,037	-11.8%
Private commercial new work	5,794	5,841	0.8%
All new work	32,776	30,791	-6.1%
Public housing R&M	2,427	2,516	3.7%
Private housing R&M	9,638	10,156	5.4%
Total housing R&M	12,065	12,671	5.0%
Non housing R&M	10,954	11,235	2.6%
All R&M	23,019	23,906	3.9%
All work	55,795	54,697	-2.0%

Source: ONS

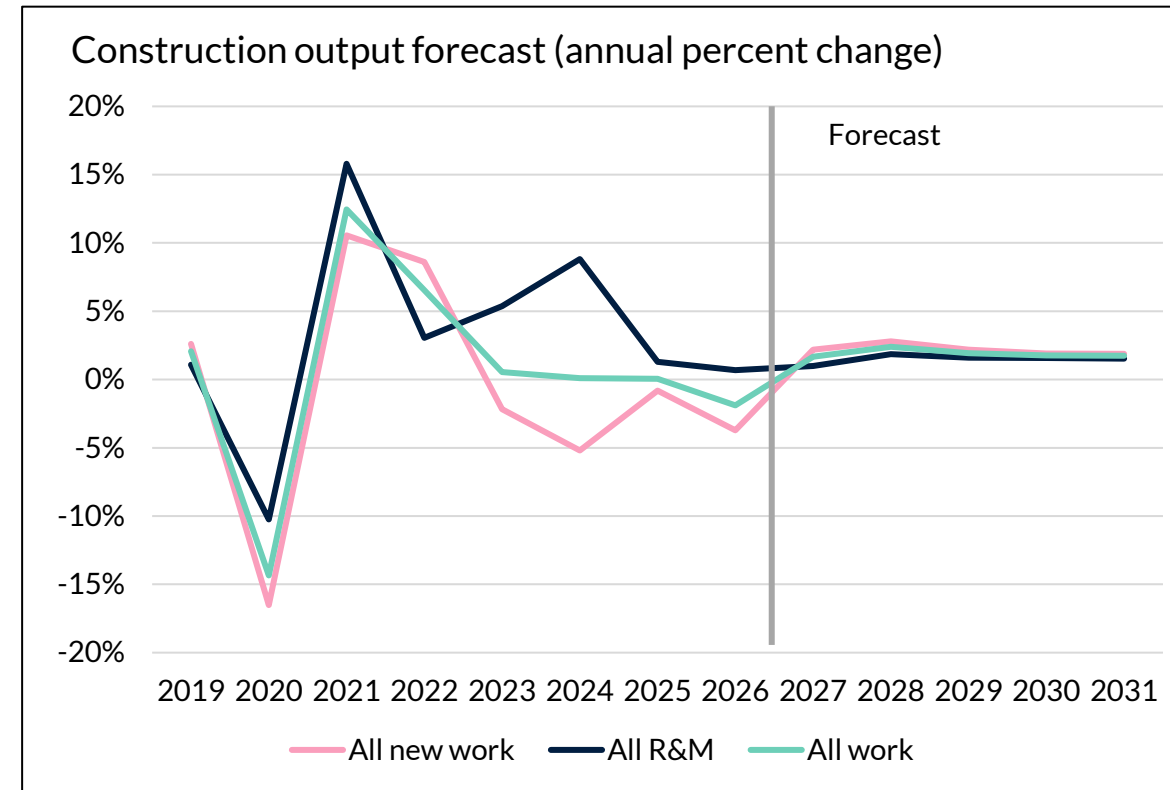
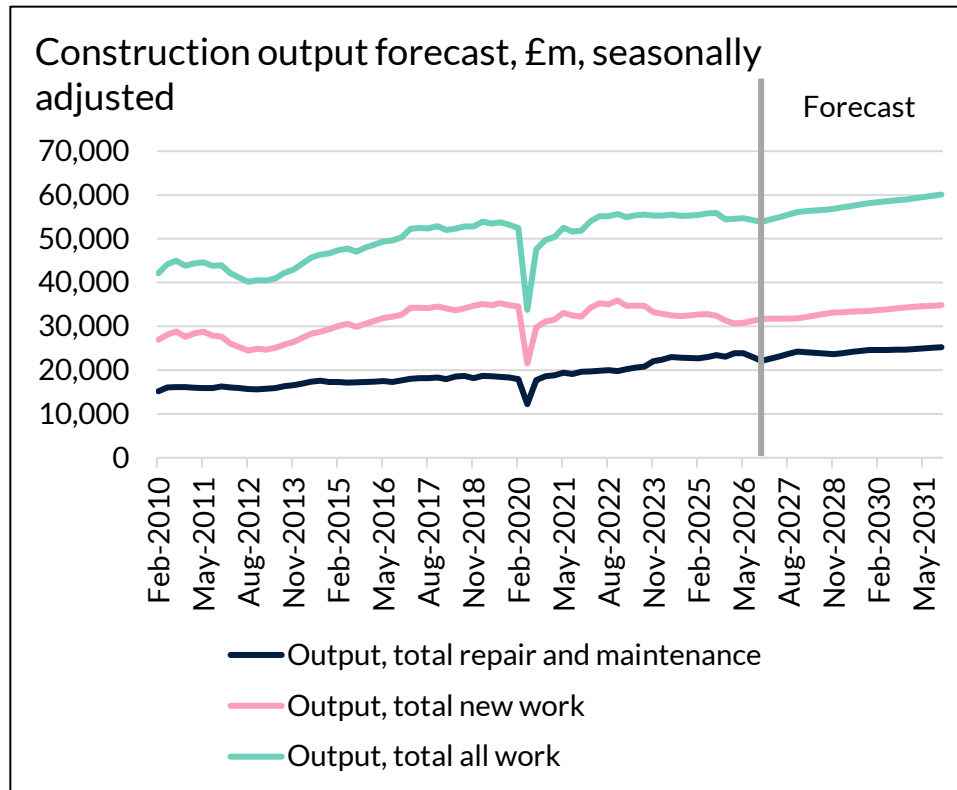
New orders vary, most are down on 2Q2025 and 2019 average level (£m)



Source: ONS

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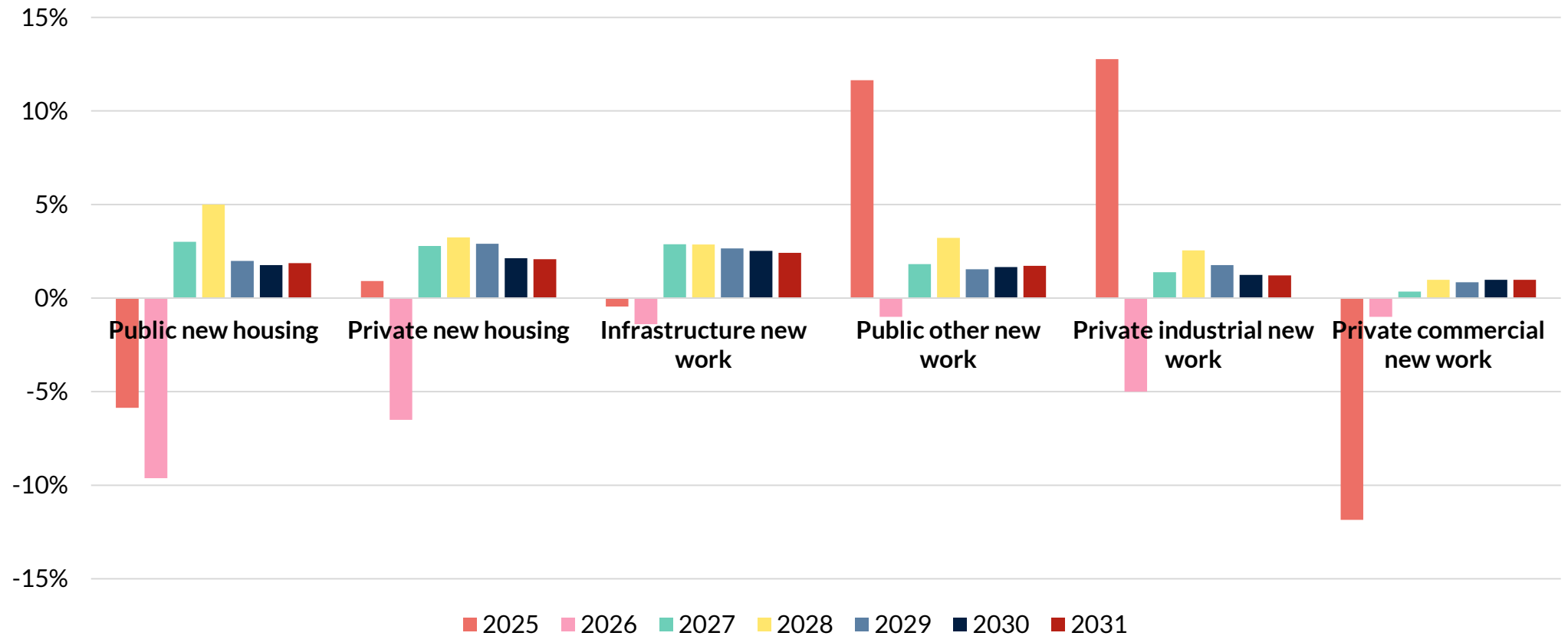
Construction activity expected to see contraction in 2026, before recovering in 2027



Source: ONS, BCIS

All new work sub-sectors expected to see growth in 2027, following contraction in 2026

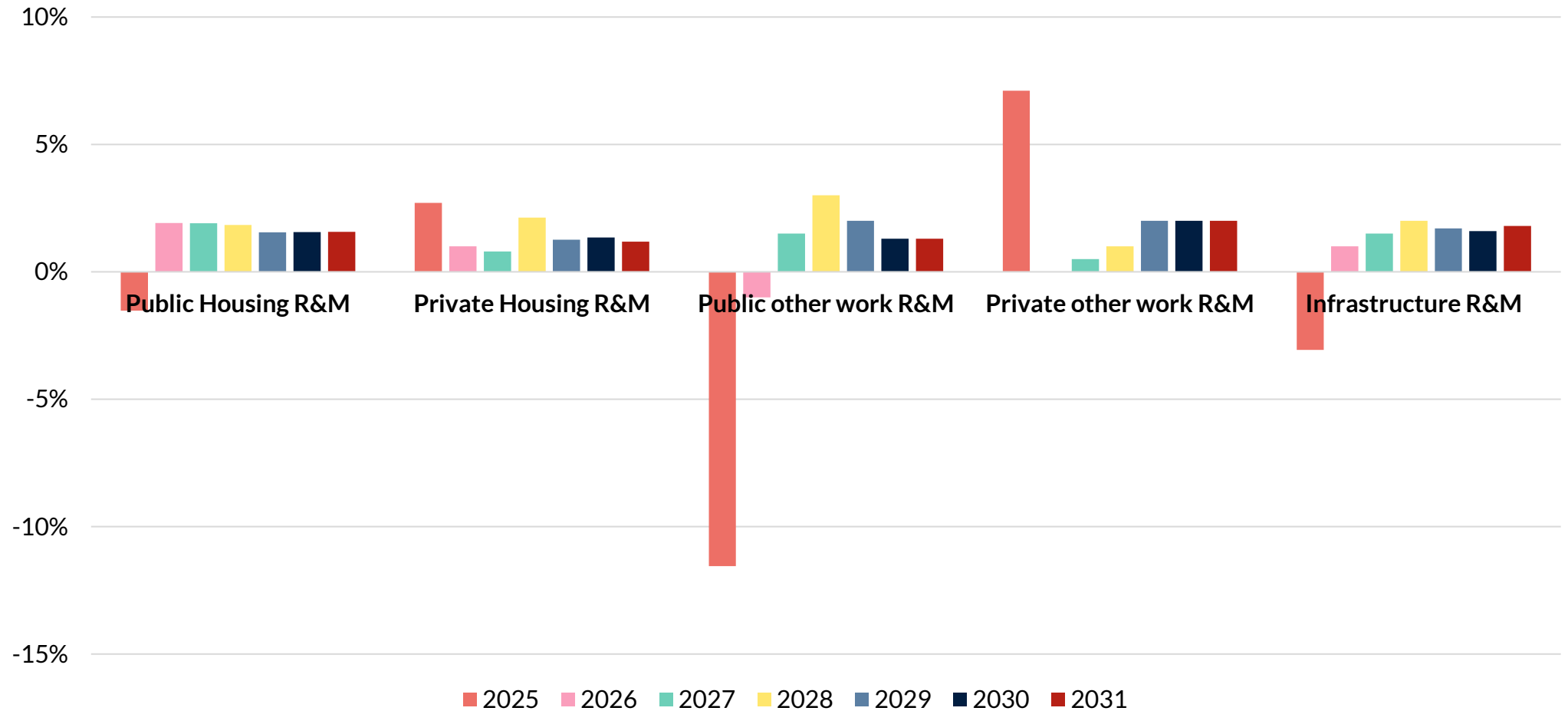
New work sub-sector annual growth (%)



Source: ONS, BCIS

Steady growth forecast for repair and maintenance

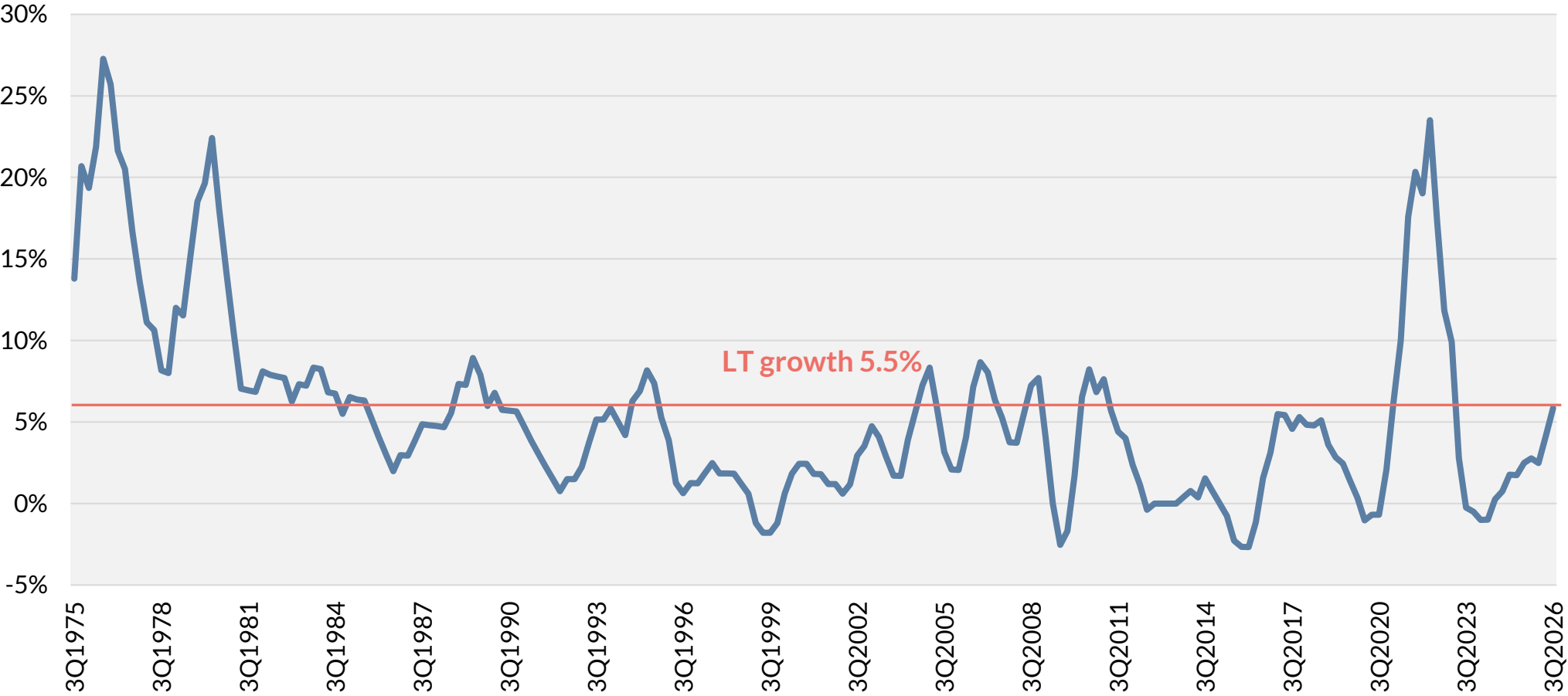
R&M sub-sector annual growth (%)



Source: ONS, BCIS

COSTS & PRICES

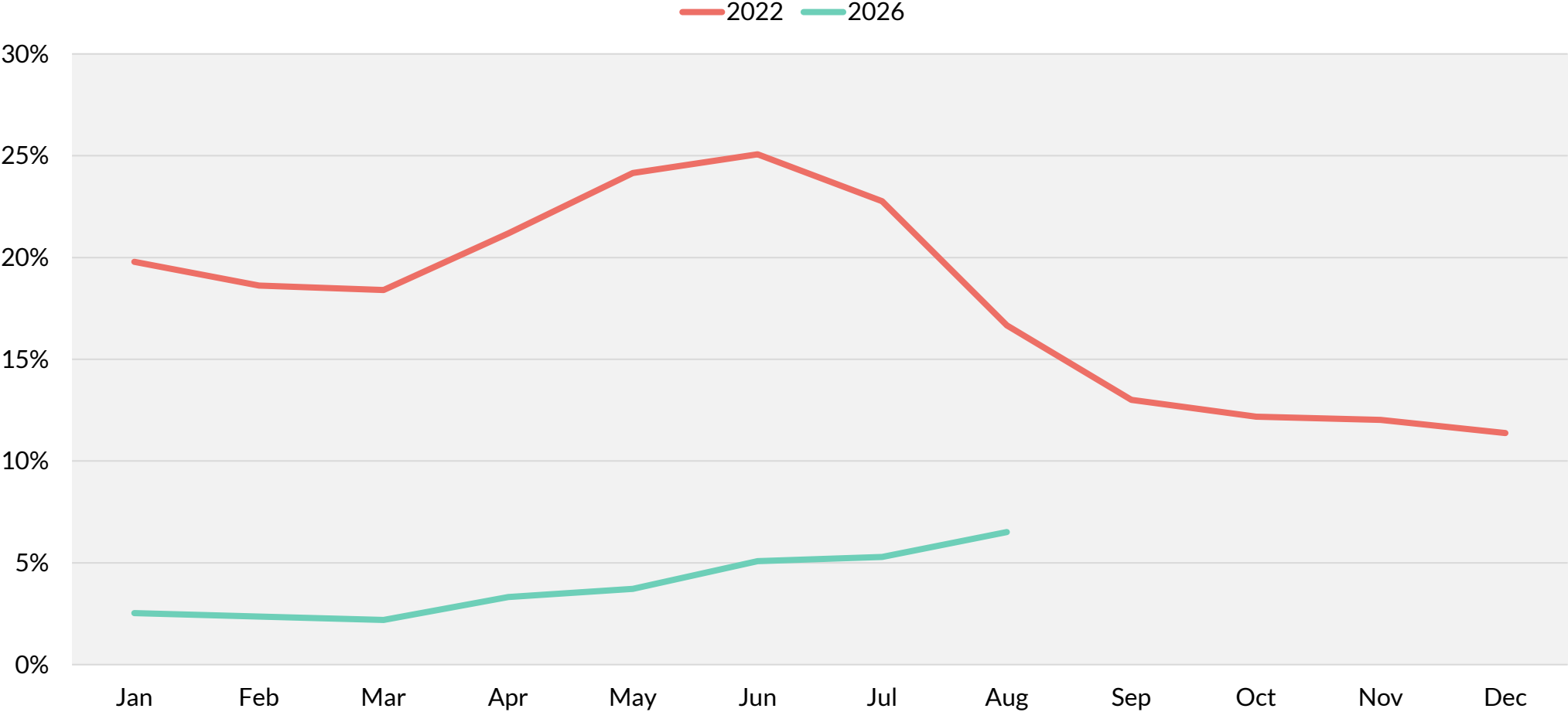
BCIS Materials Cost Index, year-on-year movement



Source: BCIS

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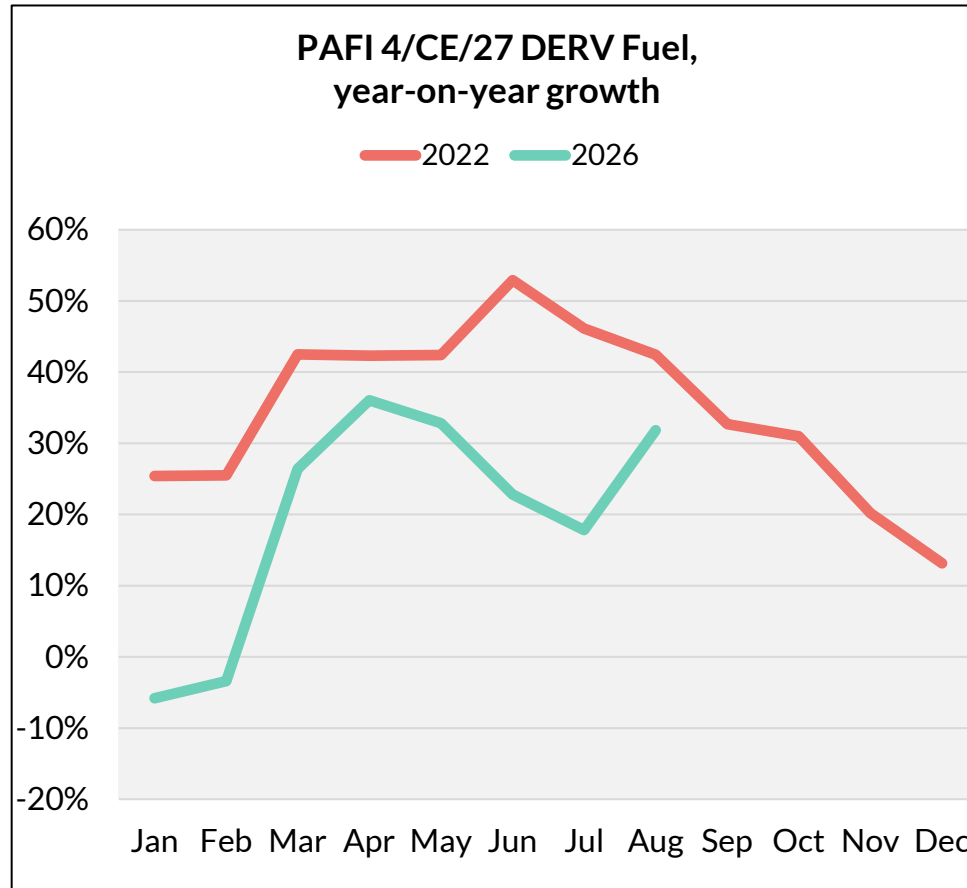
BCIS Materials Cost Index, year-on-year movement



Source: BCIS

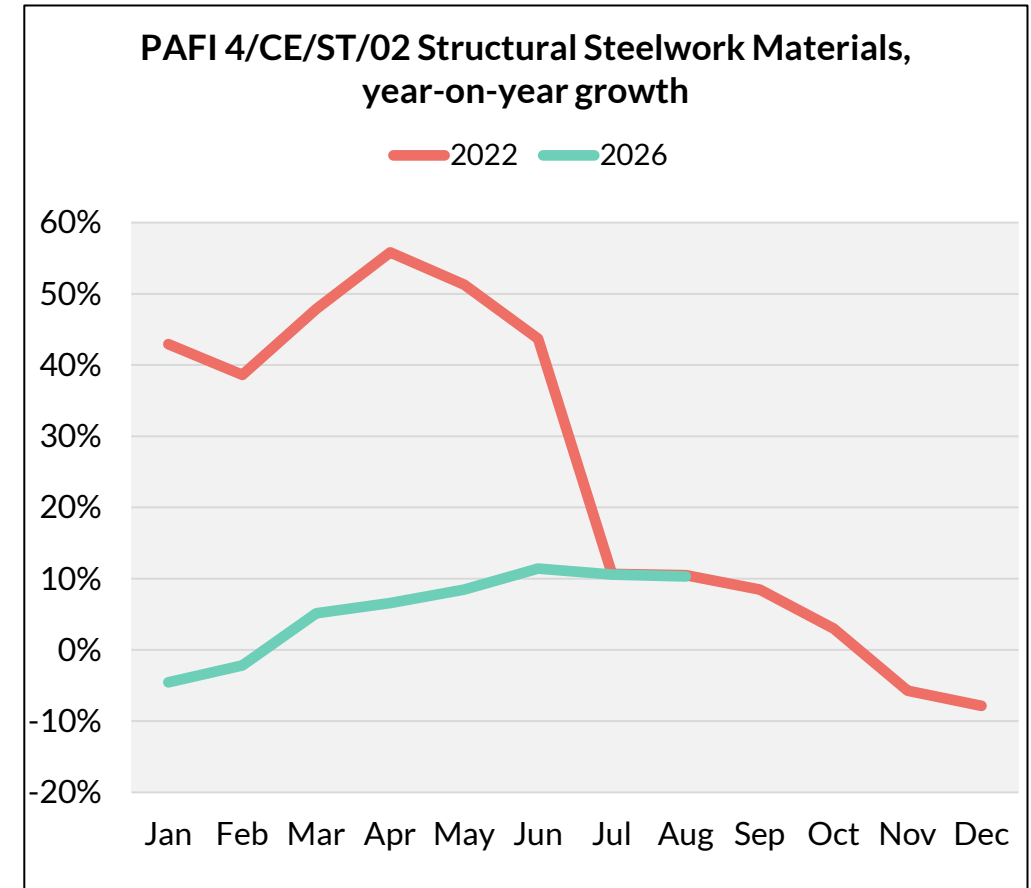
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DERV and steelwork – monthly comparison 2022 and now



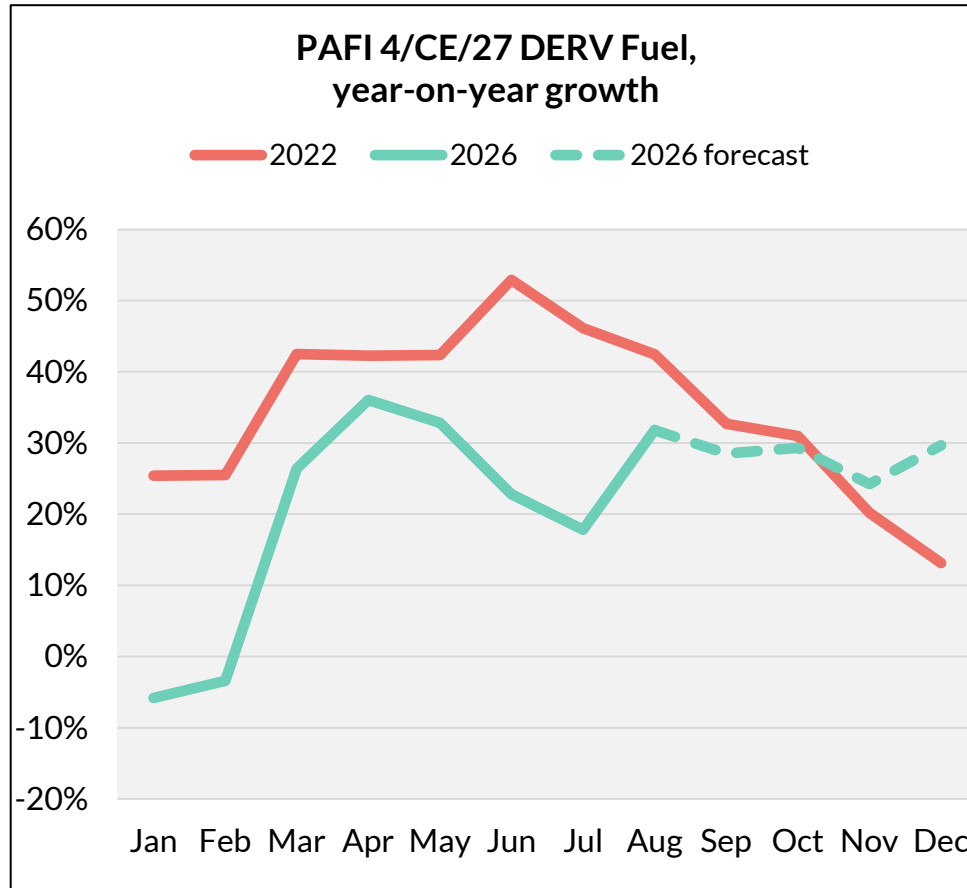
Source: BCIS Price Adjustment Formulae Indices Series 4 - Civil Engineering and related Specialist Engineering

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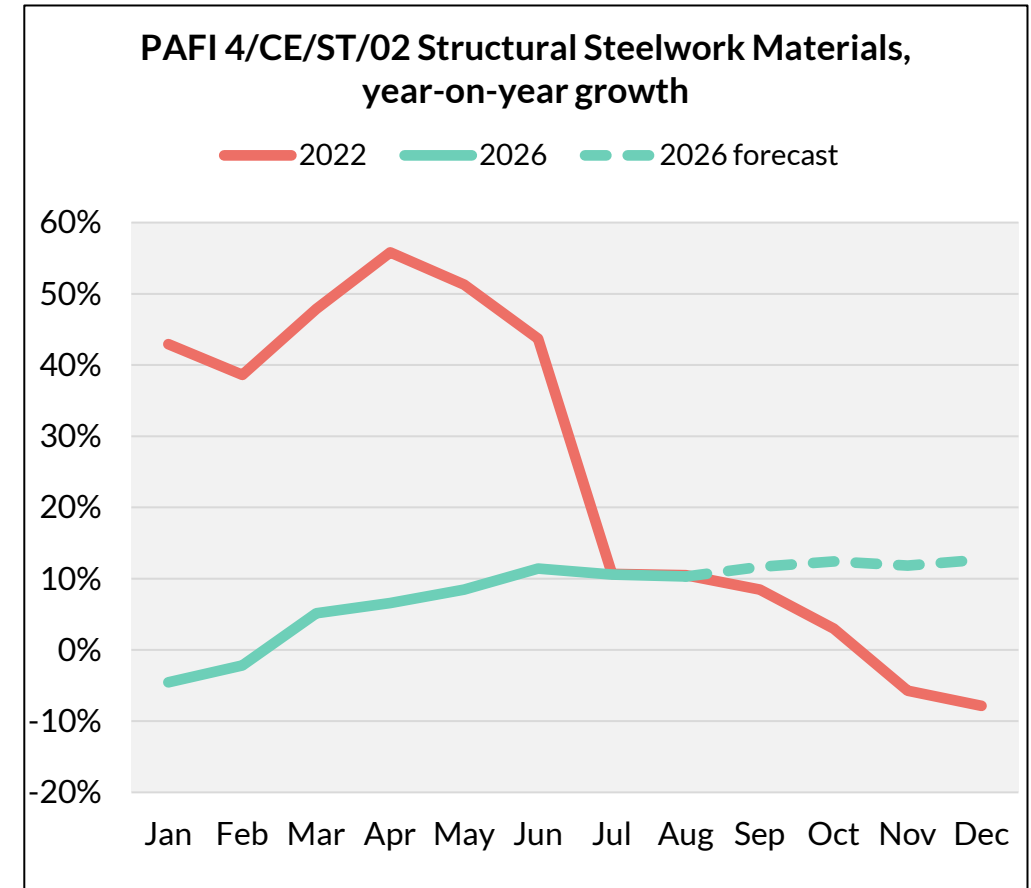
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DERV and steelwork – monthly comparison 2022 and now



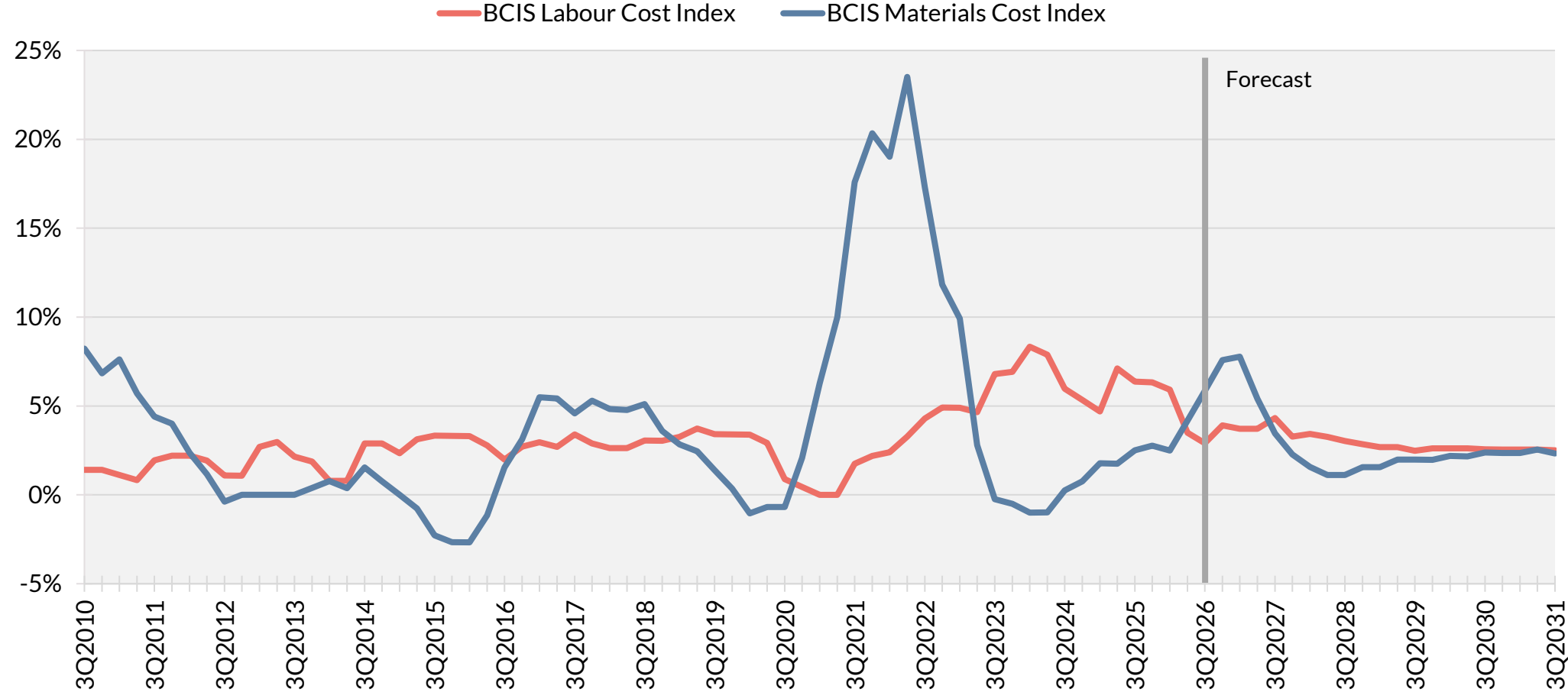
Source: BCIS Price Adjustment Formulae Indices Series 4 - Civil Engineering and related Specialist Engineering

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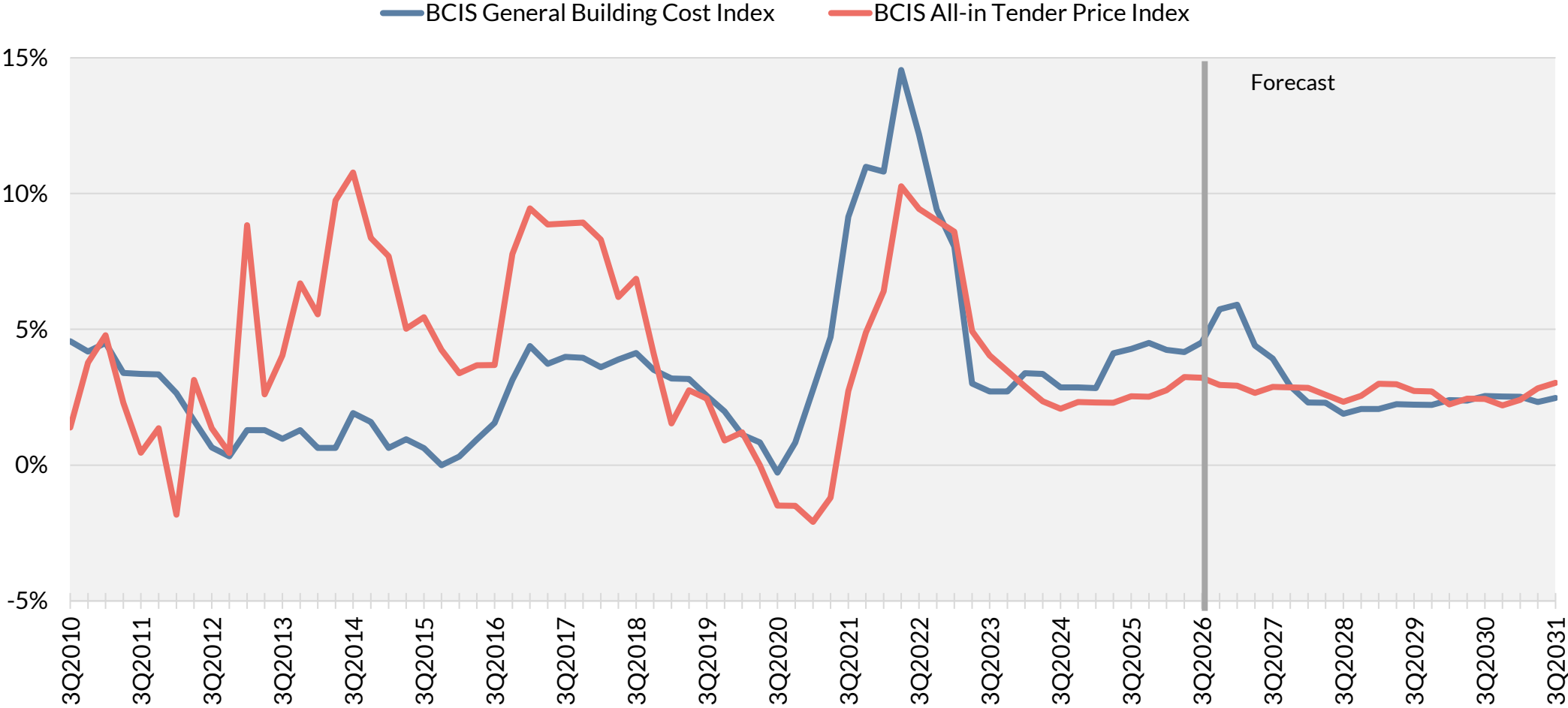
GROWTH IN INPUT COSTS (BCIS, 2026)



Source: BCIS

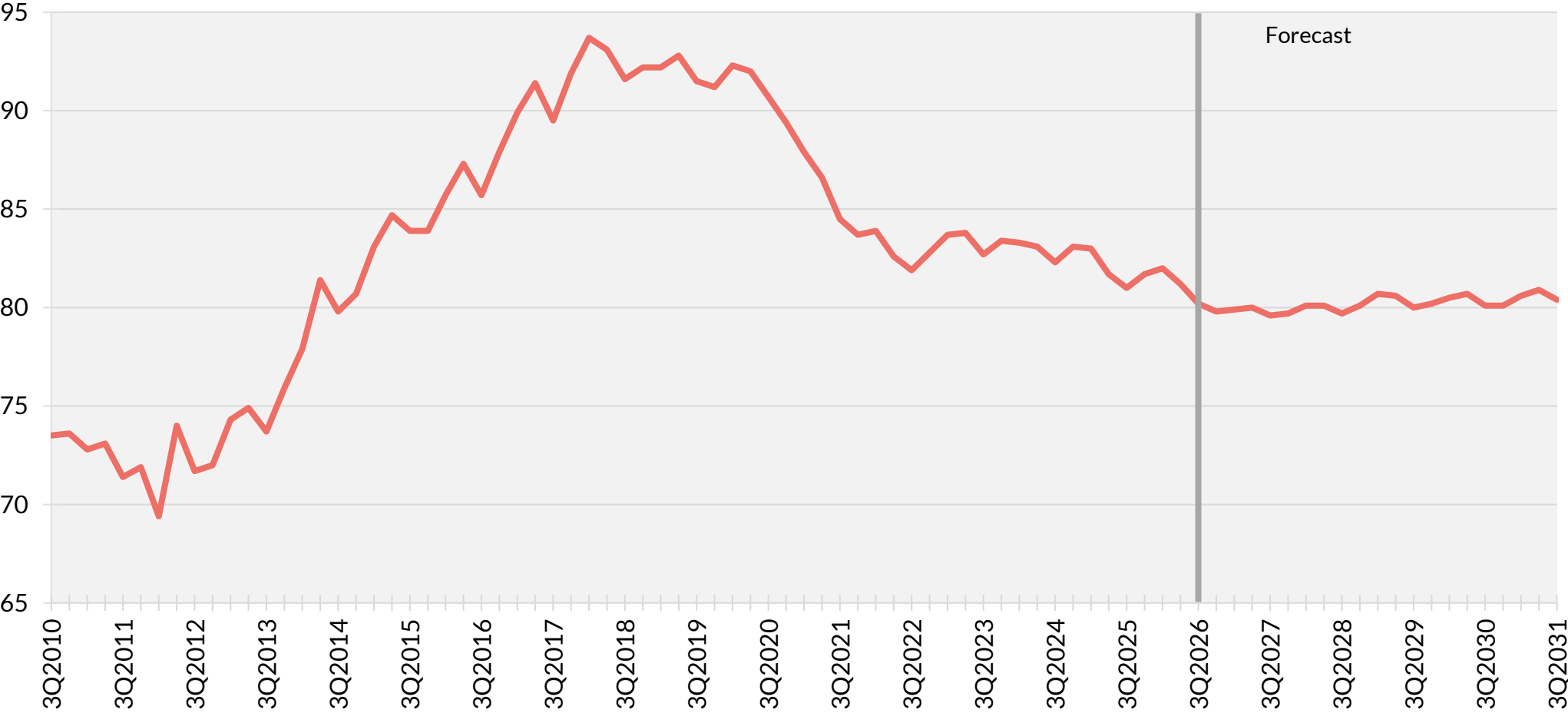
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GROWTH IN BUILDING COSTS & TENDER PRICES (BCIS, 2026)



Source: BCIS

MARKET CONDITIONS INDEX (BCIS, 2026)



Source: BCIS



INDUSTRY VIEWS

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BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Sectors

- Contractors pricing higher for public sector work with assumption there is sufficient budget to match higher tenders
- Greater inflationary increases in industrial / warehouses evident, due to volatility in steelwork pricing
 - Impacting larger 'big box' sheds to a greater extent
- Investment in defence and New Hospital Programme (NHP) gathering pace. Tier 1s appointed on 11 NHP projects
- Current high demand in sectors like data centres and NHP, which are particularly M&E-intensive, exacerbates capacity risk and potentially creates cost pressures in other areas of market

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Materials & Trades

- Structural steelwork, steel reinforcement and asphalt have experienced highest materials cost increases in period
- Some finishing trades appear to be very flat in terms of TPI - tiling, painting, timber panelling, etc.
 - Concrete structure costs appear fairly stable
 - Metal costs a concern, have been increasing
 - Fuel for transport obvious area of increases
- Currently experiencing much less volatility in MEP services pricing than 6 months to 1 year ago. May be direct consequence of softening pipeline projections
- Introduction of UK's Carbon Border Adjustment Mechanism (CBAM) early next year expected to have some inflationary impact

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

Market challenges

- Data centre demand in UK currently undermined by grid capacity
 - Putting some data centre projects at risk, UK losing competitiveness compared to other markets
- Planning and regulatory delays driving up costs, pushing back project milestones and harming viability and industry confidence
- Building Safety Regulator Gateway approvals remain a factor, although approval rates and review timescales improved
- Effect of Iran war not as significant as first envisaged, although the longer conflict goes on for, position may well change

BCIS INDUSTRY PANEL (VIEW ON THE GROUND)

The new normal

- 2027 now considered the year for recovery
- Viability remains key issue for clients, specifically for speculative projects in commercial and residential markets
- Softer demand leaving spare capacity, increasing competition for tenders and helping keep prices in check
- Adjusting to a new cost base, but risk of another sharp burst of inflation lower than recent years
- For clients and developers deciding whether to bring projects forward, case for building now is stronger than headlines might suggest

SUMMARY

WHAT'S THE OUTLOOK FOR CONSTRUCTION?

- Substantial downgrade to previous output forecast
 - Particularly for repair and maintenance
- Orders declining, which could negatively impact future output levels
- Materials cost increases rising, and risk is on the upside
 - Particularly for materials with energy-intensive production processes
- Labour cost increases slowing
- Building cost growth being driven by increasing materials costs
- Tender price growth stagnant, and expected to remain subdued until the end of the forecast period

CONCLUSION

Returning to our original question: is this a good time to build?

- Weak demand remains dominant force in the market
- Contractors continue to face competitive conditions, limiting the extent to which higher costs can be passed on in tender prices
- We rarely, if ever, see deflation in construction, what we tend to see is disinflation where price growth slows
 - So, delaying building will not necessarily mean your project will be cheaper in the long-run, in fact the reverse is likely to be the case
- In conclusion, perhaps now is a good time to build
 - Subject to the caveat of being able to secure project finance at favourable rates



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