

# UK market in a **nutshell**

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## Wider context

Russia's devastating invasion of Ukraine has resulted in a huge humanitarian crisis and has renewed and added further pressure to the concerns the construction industry was facing.

87% of contractor survey respondents said that they had seen increased prices due to the conflict, along with other issues such as supply chain disruption and reduced validity periods.

There are also broader societal impacts, with commodities costs soaring, impacting the cost of living.

## Cost escalation

The Department for Business, Energy and Industrial Strategy's (BEIS) 'All Work' Construction Material Price Index increased by 5% in the month to March, with fabricated structural steel rising by 19.2% in the month.

This cost escalation is adding severe pressure to project budgets and 67% of survey respondents said that the current challenges are impacting growth of the construction industry, with some schemes stalling due to the uncertainty.

## **Project pipeline**

Although projects are taking longer to start on site, there is general confidence in pipelines.

Large infrastructure programmes are continuing and the government has made pledges to invest in levelling up. A new energy strategy was also recently launched to foster energy independence and tackle rising prices.

Activity is also returning to other sectors hit by the pandemic. So much so, that our survey respondents ranked residential, education and commercial as the top three sectors for current tender opportunities

## **Tendering and claims**

Due to volatility in the market, contractors are being more selective over projects and clients. In our survey, 78 percent of contractor respondents said they had declined to tender a project due to the selected procurement route or tendering strategy on a project

## **Other headwinds besides the Russia-Ukraine war**

### **Labour and skills shortages**

70% of contractors reported issues with labour supply in the first quarter and 84% saw increased labour rates.

**Rising COVID-19 cases** — lockdowns reducing activity in China are a concern.

### **The Climate crisis**

### **Construction productivity gap**

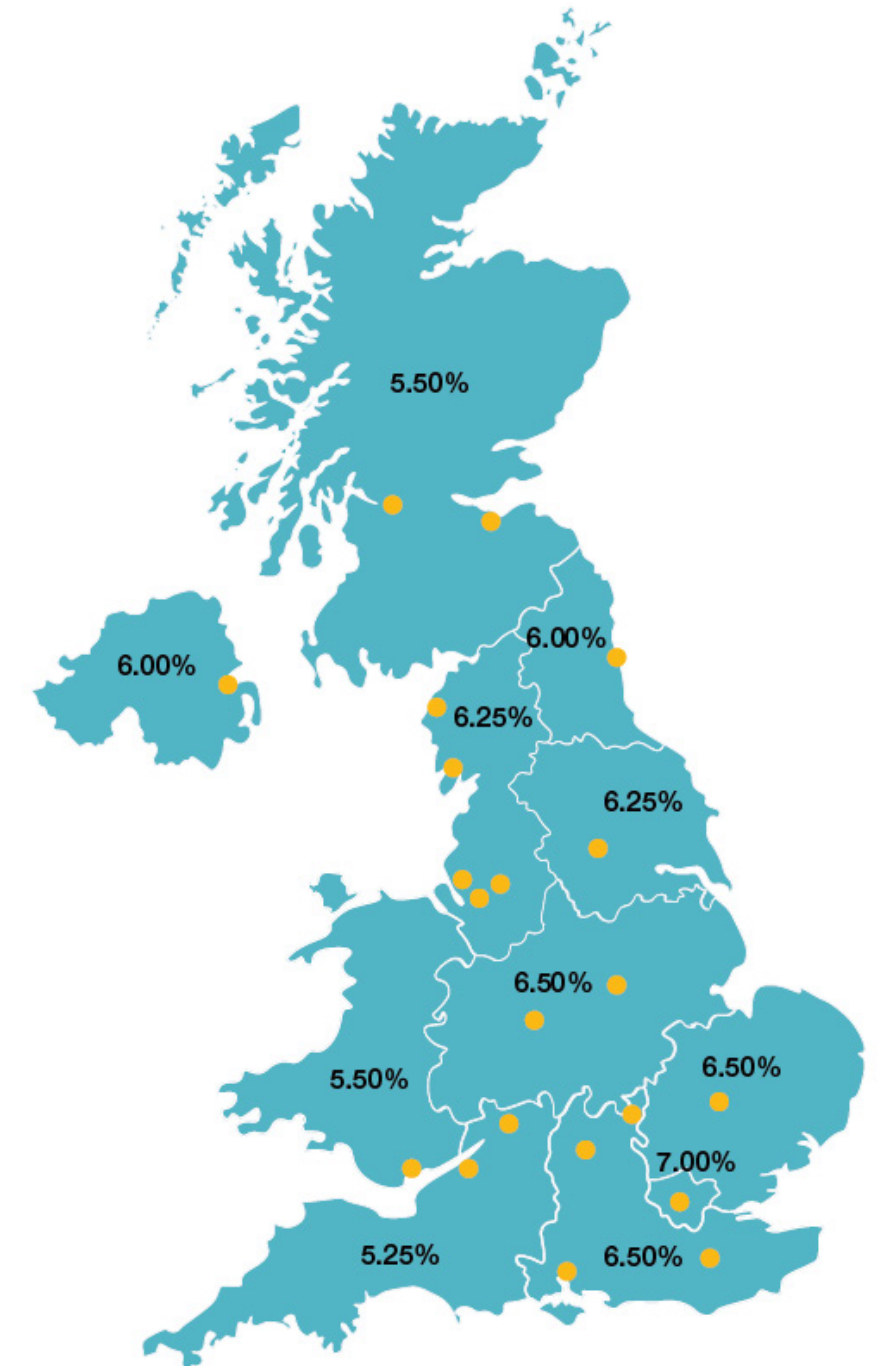
Data from the ONS shows that whilst productivity improved across the whole economy, in the construction industry, productivity has remained relatively stagnant over the past 20 years

# UK inflation forecast

Project inflation should be assessed on a case-by-case basis. There is particular market volatility currently.

## Regional inflation forecasts 2Q22 - 1Q23

	2Q 2022 - 1Q 2023		2Q 2023 - 1Q 2024		2Q 2024 - 1Q 2025	
	Moderated forecast	Winter 2022 forecast (April update) for equivalent period*	Moderated forecast	Winter 2022 forecast for equivalent period	Moderated forecast	Winter 2022 forecast for equivalent period*
East	6.50%	6.00%	4.00%	4.00%	4.00%	4.00%
Greater London	7.00%	6.00%	4.00%	3.75%	4.00%	3.50%
Midlands	6.50%	5.00%	3.00%	3.50%	3.00%	3.50%
Northern Ireland	6.00%	5.00%	4.50%	4.00%	4.00%	4.25%
North East	6.00%	4.50%	3.00%	2.75%	3.00%	3.00%
North West	6.25%	4.75%	3.50%	3.50%	3.25%	3.25%
Scotland	5.50%	4.50%	3.00%	2.50%	2.50%	2.50%
South East	6.50%	5.00%	4.00%	3.75%	4.00%	3.50%
South West	5.25%	4.75%	3.75%	3.50%	3.50%	3.50%
Wales	5.50%	4.75%	4.00%	3.50%	4.00%	3.25%
Yorkshire and the Humber	6.25%	5.00%	3.75%	3.75%	3.25%	3.25%



### Typical inflation forecasts

- 2020 – 0.00%
- 2021 – 6.00%
- 2022 – 7.00%
- 2023 – 3.75%
- 2024 – 3.50%

\*Winter 2021/22 report forecasts calculated for the equivalent period covered in this report have been rounded to the nearest 0.25 percent. 2022 forecasts were updated in April due to the impacts of Russia's invasion of Ukraine.

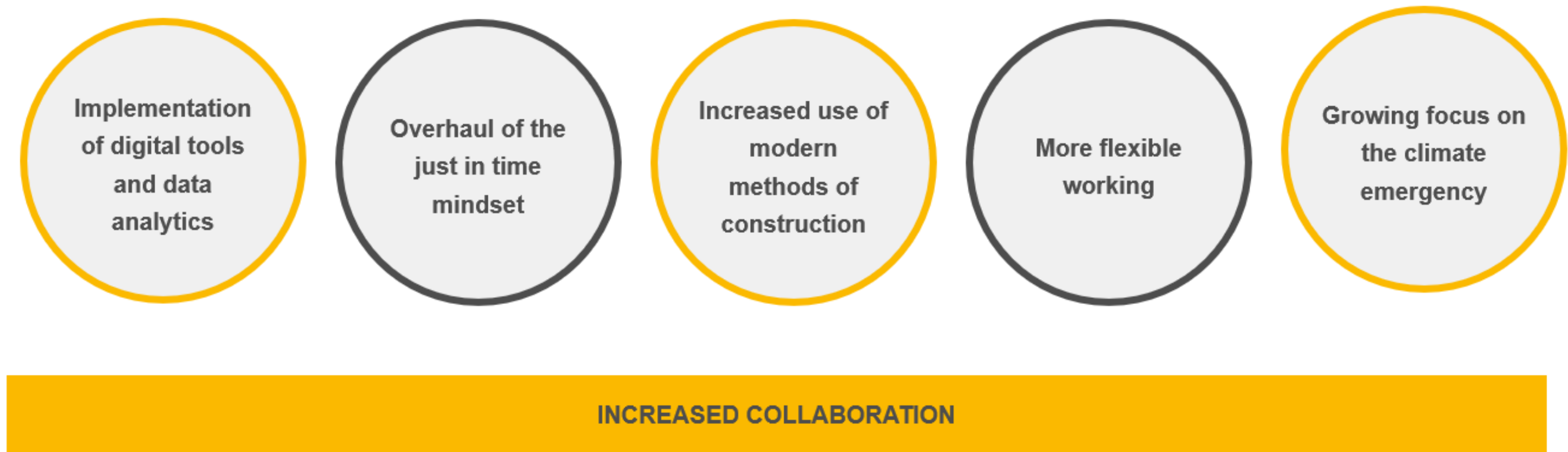
Note: This assessment is based on collated views from an internal survey of Gleeds' experts. These forecasts reflect tender price inflation only and do not account for additional costs associated with extended programmes, delivery delays and the like. Inflation should be assessed for each project.

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Many gaps are emerging for the construction industry — from the viability of projects to achieving sustainability aspirations and also with regards to skills, labour and productivity. Investment and the adoption of new technologies are critical, as well as ensuring the best use of resource.

The future of the industry depends upon building on the foundations laid during the pandemic:



*Spring 2022 UK Market Report*

# Minding the gap

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