

# Construction Market Report

January 2022 (Q1)



Fulkers  
Bailey  
Russell

Big enough to cut it,  
small enough to care.

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# Executive Summary.

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This report summarises our findings from reviewing the current state of the construction industry and is for the sole use of the recipient. It is important to note that the assessment of inflation is based on historic data and forecasts which have been used for guidance only.

The construction industry is experiencing an ever-changing economic environment as a result of the COVID-19 pandemic, increase of energy costs, and the UK leaving the European Union in January 2021. The effects of these events are likely to impact the construction industry for a number of years.

With energy prices escalating, this is adding an upward pressure to costs in all aspects of life. The production of some construction materials have a very high demand for energy, and we are seeing prices in steel and glass increasing more rapidly than had previously been envisaged.

On the advice of government guidance, construction sites are encouraged to remain open and operating, provided the protocols set out by the Construction Leadership Council are followed. However, recent guidance, where individuals only have to self-isolate for five days following a positive test (providing a negative result is indicated on days five and six), will alleviate some of the labour supply issues which have been experienced recently.

Demand within the construction industry has increased substantially leading to material shortages, increased lead in times and prices.

Some of the factors which must be taken into consideration are:

- Slower production of materials due to COVID-19
- Longer lead in times due to high demand and low supply
- Increased price of materials due to material shortage
- Increased cost of preliminaries to align with COVID-19 protocol
- Availability of labour due to increased construction activity
- Cost of labour due to competition
- Shortage of haulage drivers
- Rationing of materials to avoid stockpiling

# Inflation Review.

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## 2 Inflation Review.

### 2.1 Tender Price Index

A review of the tender prices from Q1 2021 to Q4 2021 shows an increase of 4.9%. The trend for tender prices looks to increase before steadying off. This is being caused by several significant factors such as material prices remaining high, a continuing shortage of labour, energy prices increasing and the demand for new work remaining resilient.

### 2.2 Building Cost Index

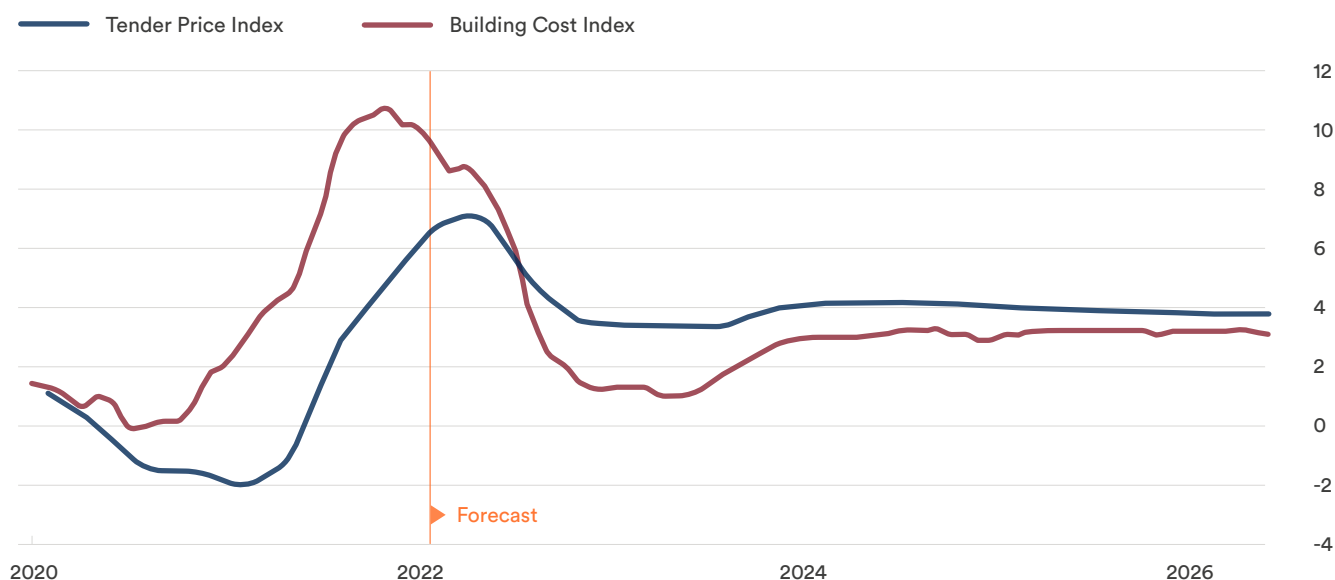
Building cost inflation continues across almost all materials classifications, as can be seen on pages 14 and 15. Building costs rose by 9.9% in the 12 months from Q1 2021 to Q4 2021.

According to BCIS, building costs are expected to rise by an annual 3% in 3rd quarter 2022, rising by 2% over the following year, then rising by 3% per annum over the remainder of the forecast period.

### 2.3 Consumer Prices Index

The consumer prices index (CPI) rose by 4.6% in the 12 months to November 2021, up from the 3.8% in the 12 months to October. This is the highest CPIH (consumer prices index including owner occupiers' housing costs) inflation rate since September 2008. Consumer price inflation is expected to increase further throughout 2022 peaking at an anticipated 6%.

### Tender Price and Building Cost Index



Data Source: BCIS





## 2.4 Labour Prices

The CITB has released figures in respect of labour projections and there is an anticipated increase in construction of 11% this year, followed by around 3% for the following four years. To meet this demand, the industry will need to recruit around 43,000 people per year.

Currently, the target is not being met, in particular within the skilled and professional trades. This current lack of training, combined with Covid, Brexit and an aging and retiring workforce will continue to put upward pressure on wage demands and consequently labour costs. This will feed through into projects, both in pre-construction and construction stages.

This will again result in increased pressure on labour costs with an anticipated continued cost rise throughout 2022, albeit at a predicted lower rate. According to BCIS, site wage rates rose by 10% in the year to 3Q 2021. This will have an impact on tender prices moving into this year.

## 2.5 Tender Price Forecast

Figures published by the Building Cost Information Service (BCIS) indicates a 4.9% increase in tender prices from Q4 2020 compared to the same period the previous year. This can be attributed to the emergence from lock down and the increase demand for material and labour and the increase in energy costs.

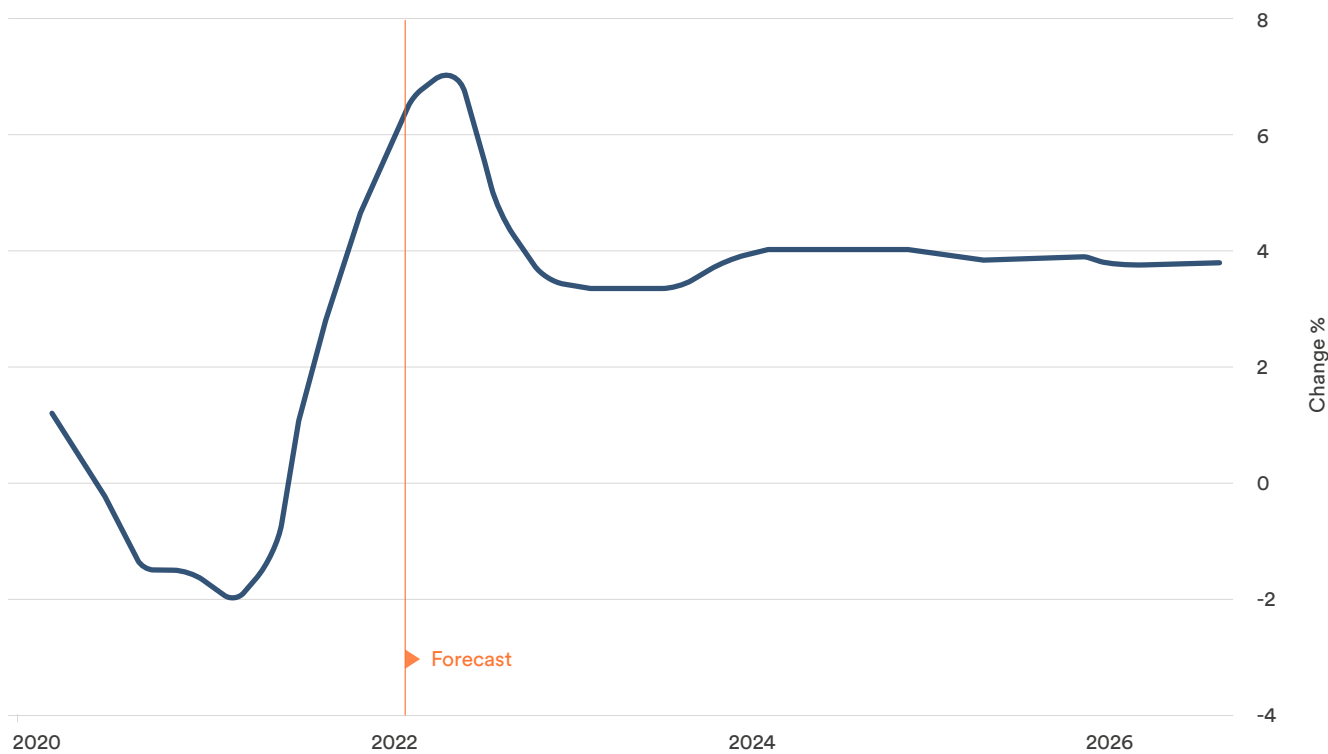
The table on the right presents the forecast inflation from 2021 to 2024 from key consultants within the construction industry and the BCIS TPI indices. This highlights that the industry is expecting tender prices to increase over the next three to four years.



## Forecast Inflation

	4Q 2021	4Q 2021	Autumn	3Q 2021	4Q 2021	1Q 2022	01/22	
Year Ending	G&T	Aecom	Arcadis	Mace	RLB	FBR	BCIS	Average
2022	2.0%	4.4%	3.5%	3.5%	3.6%	4.5%	3.5%	3.5%
2023	1.75%	4.2%	3.0%	3.5%	3.6%	3.5%	3.9%	3.4%
2024	2.0%		5.0%	2.5%	3.5%	3.0%	4.1%	3.4%

## BCIS: All in TPI Indices



Data Source: BCIS

# The Construction Market.

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## 3 The Construction Market.

### 3.1 Works on Site

The latest data from the Office of National Statistics shows that the monthly construction output fell by 1.8% in volume terms in October 2021, this is the largest monthly decline since April 2020 when output fell by 41.7%.

Anecdotal evidence from businesses in October 2021 suggests that product shortages led to price rises in raw materials and were an important reason for the decline in output.

At the sector level, the main contributors to the decline in monthly output in October 2021 were infrastructure and private new housing, which decreased by 7.1% and 4.4% respectively; these decreases were partially offset by increases in private industrial and public other new work of 8.8% and 7.0% respectively.

The level of construction output in October 2021 was 2.8% (£400 million) below the February 2020, pre-coronavirus level; new work was 6.2% (£592 million) below the February 2020 level, while repair and maintenance work was 3.9% (£193 million) above the February 2020 level.

The extent of recovery to date, since the falls at the start of the coronavirus pandemic, has been mixed at a sector level. In October 2021, compared to the respective February 2020 levels, infrastructure performed strongly (36.7% or £688 million) while private commercial was still some way below (26.9% or £670 million).



### 3.2 Lead in Times

The material shortage has not only had an adverse effect on the price of materials, it has also increased the lead in times. Contractors are now facing delays of weeks for products that had previously been available either immediately or within a couple of days. These increased lead in times are creating programme issues for projects that are both on site or about to start. Contractors are reporting that lead in times are moving on a daily basis. The table below illustrates market feedback with examples of the increasing lead times for key materials.

#### Glass

The UK window and door industry has been hit by a major shortfall in supply of laminates.

According to Mackenzie Glass there has been severe and immediate disruption to the global supply of laminates which it warns will lead to shortages this summer. Major disruption to the supply of PVB laminates in the US had created a global shortfall which was now manifesting itself in lower availability of security and acoustic glass. Compounded by further disruption to supply caused by the blockage

of the Suez Canal last year and the exponential growth in demand for laminate products from the car industry, home improvement and new build sectors.

A recent window replacement project recently undertaken by Fulkers had an increase of 60% from the previous phase, over a time frame of approximately twelve months. Fulkers validated this increase with a number of glazing manufacturers, who confirmed that recent events and a seismic change in the market had caused an increase in the glazing costs of this magnitude.

#### Drylining

Strong global metal demand is resulting in shortages, order backlogs and increased prices for most steel products. Supply and demand is likely to rebalance within the next few months, but global dynamics are likely to continue to drive increased prices. According to Jewson, factors such as the cost of gas and electricity, transport, shipping, petrol and diesel have led to astronomical raw material price increases. When filtered down through the supply chain, these translate to increases in the region of 10-15% depending on the raw material.

Material	2020 Delivery Times	Q1 2022 Lead-in Times
Timber	2 days	10 days
Roof Battens	From stock	1 month
MDF	5-7 days	4-6 weeks
Aluminium Cladding	8-12 weeks	26 weeks
Cold Rolled Purlins	6-8 weeks	20 weeks
Hot Rolled Steel	8-10 weeks	10-12 weeks
Insulation	7-10 days	3-4 weeks
Aggregate	2 days	1 week
Cement	From stock	2 weeks
Concrete Blocks	2-3 days	3 weeks
Roof Tiles	6 weeks	6 months

### 3.3 Material Availability

As we move through Q1 2022, there is increased construction activity which is positive for the industry and for the economic recovery of the country. However, we are still experiencing shortages of materials within the construction market with supply still not meeting demand. This shortfall saw the price of materials dramatically increase throughout 2021. While the market is no longer seeing the extreme levels of high demand that was experienced between July and December 2021, there are still a number of material shortages that will challenge the industry in the coming months.

There are a number of explanations for the material shortage, mainly Brexit and the COVID-19 pandemic. This has resulted in a lack of lorry drivers, labour challenges, immigration constraints, material import and shipping difficulties, and a shortage of raw materials. Price increases as a result of increased demand and long lead times have also made it challenging for suppliers to build up their stockpiles.

As a result of the points made above there is currently a significant material shortage within the industry, especially for critical elements such as steel, timber, concrete, plasterboard etc. The levels of demand are set to continue for the foreseeable future, meaning that material shortages are also set to continue unless manufacturing can catch up with demand. However, there are some signs that difficulties could be easing, with the Construction Leadership Council stating that they have seen an improvement in the supply situation across all regions of the UK.

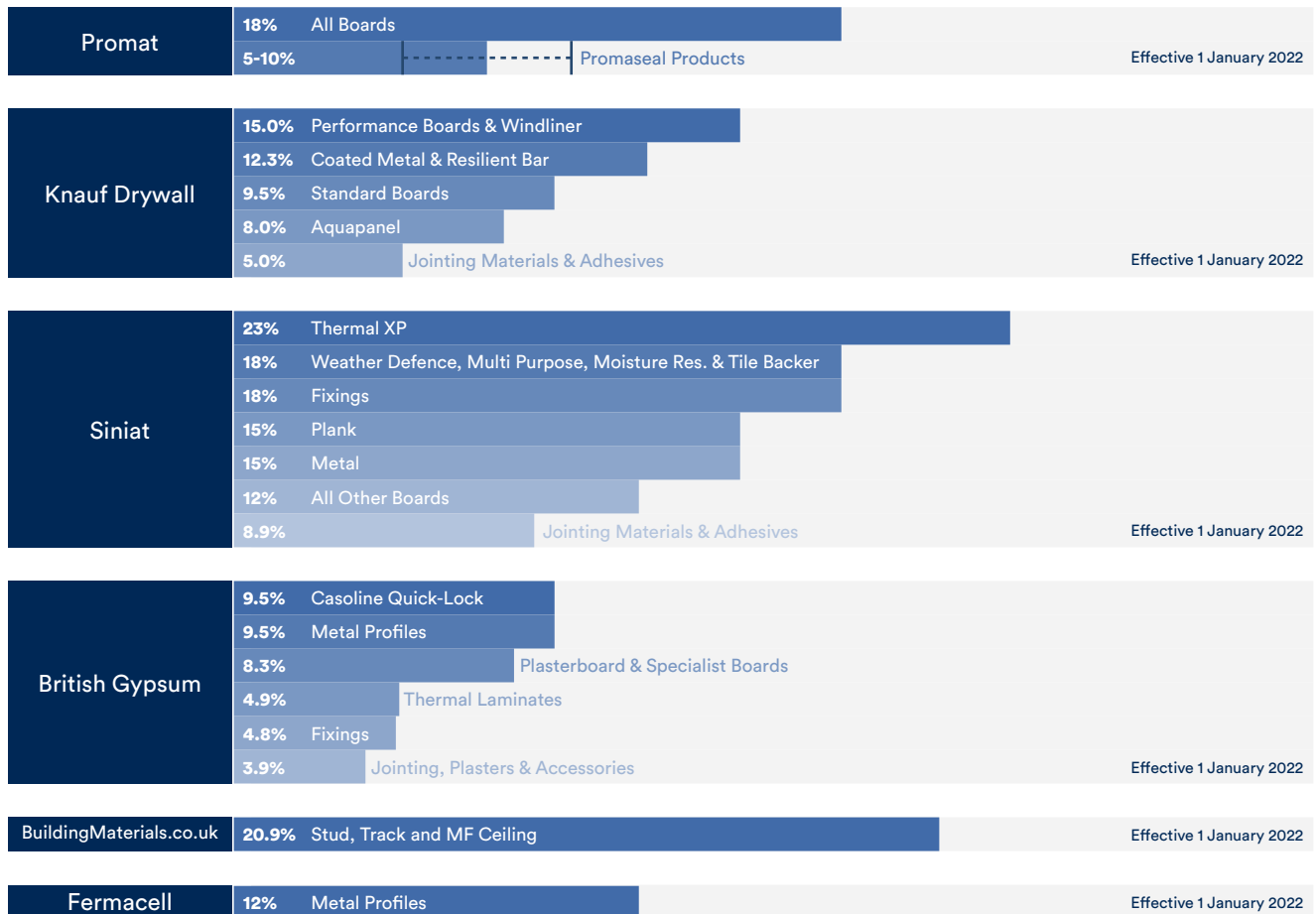
### 3.4 Price of Materials

As a consequence of the supply and demand pressures demonstrated in section 3.2, the price of building materials has inevitably begun to increase in the market. This increase in price has been significant and is widely reported within the industry, with 93% of contractors stating the price of key products such as timber, steel and insulation has increased over the past three months. Whilst the price increase varies between materials the Office for National Statistics projects an average rise of 7-8%.

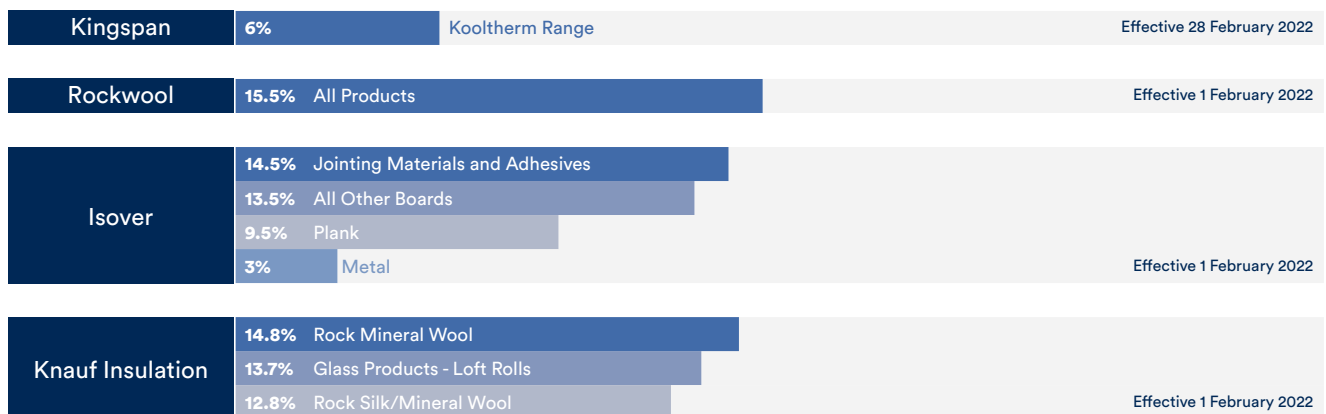
Increasing energy costs are bringing a second wave of inflation across a much wider range of construction materials. Due to the high energy intensity involved in their manufacture, products such as bricks, glass, cement and concrete are particularly exposed. This is expected to have a much wider impact on prices than the raw materials boom, which mostly affected metals and timber.

The following illustration highlights some of the material price increases which are due to come in to force in Q1 2022. Insulation is due to increase by circa 15% and drylining and ceilings to increase by circa 20%.

## Drylining & Plasters



## Insulation





## Building Materials

Weber	5.5-20%	Renders			
	10.6-15%	EWI Insulation			
Effective 1 February 2022					

## Partitioning

SAS	30%	Module Products			
	16%	All Products (Except Module)			
Effective 1 February 2022					

QIC Trims	15%	All Products			Effective 1 January 2022
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## Ceilings

Knauf	12%	All Ceiling Products			Effective 1 January 2022
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Zentia/Armstrong	20%	Ceilings and Grid			Effective 1 January 2022
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Libra	15.0%	Ceiling Grid			
	12.0%	Metal Profiles & Accessories			
	7.5-15%	Partitioning Profiles			
Effective 1 January 2022					

Rockfon	20%	Grid			
	6%	Tiles and Accessories			
Effective 1 January 2022					

Sektor	20%	Grid			
	12%	Tiles			
Effective 1 January 2022					

### 3.5 Plant

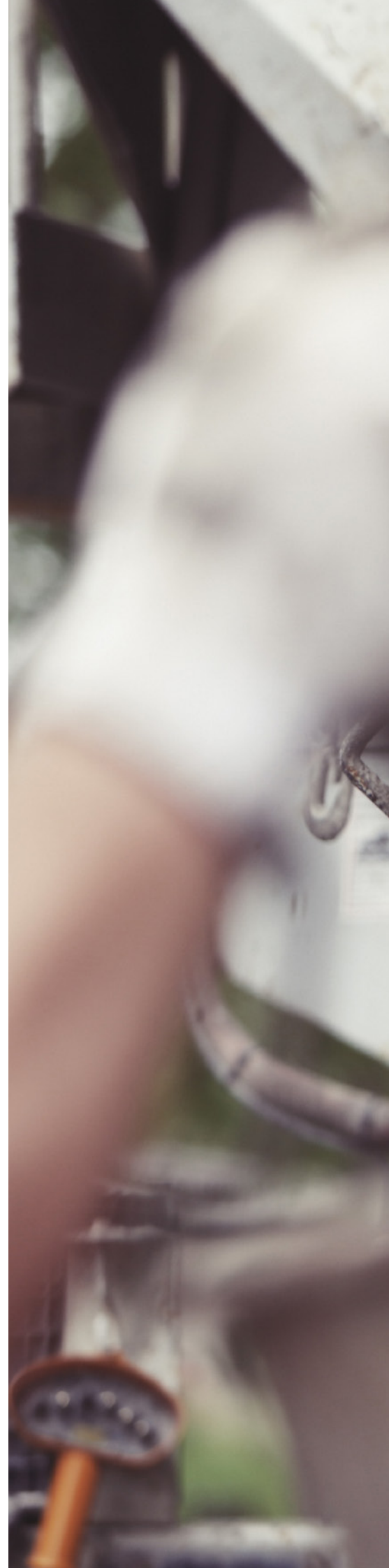
The supply of plant to sites is being heavily affected by the HS2 development. This can be seen with regards to the increase in demand for piling rigs. The lead in times has increased from 6 to 10 weeks for some suppliers. Clients are now being asked for Letters of Intent prior to a formal contract being signed in order to secure plant on site.

### 3.6 Labour

The availability of labour is now the number one issue within the UK construction sector, with wages continuing to rise. Staff mobility is high as people look for the best pay packets, causing further disruption. In addition, the spread of the COVID-19 Omicron variant has inhibited progress on building sites, dampening output and making planning harder to achieve.

However, despite these challenges, confidence in the construction sector is still quite strong. There are signs that the supply chain crisis is easing. Firms have noticed small improvements in the availability of supplies. Although certain decisions may be deferred until the Omicron variant abates, all indications are that plenty of work is available as we begin 2022.

As of 17th January 2022, the self isolation period for people who test positive for COVID-19 will be reduced to five full dates in England. People will be able to leave isolation after negative lateral flow tests on day five and six. This will reduce the impact of staff shortages on construction sites.





# An Insight into the Energy Market.

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## 4 An Insight into the Energy Market.

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With energy prices on the rise, it's more important than ever to understand why energy markets can be so volatile. They react to a wide range of price drivers, as well as underlying macro-economic factors, all of which are interconnected globally.

For instance, what happens in Asia or North America will influence the overall demand across the globe.

### Key Price Drivers

- 1. Demand:** industrial activity, heating in winter, cooling in summer, new usage such as electric vehicles, electrification of transport.
- 2. Supply:** coal, gas / LNG, nuclear output, wind / solar, import / export via interconnectors between countries.
- 3. Weather and Climate Change:** floods, droughts, heatwaves, etc. will all impact on supply and demand.
- 4. Regulatory Environment:** COP26, national energy policies, carbon related schemes.
- 5. Infrastructures:** planned and unplanned maintenance, workers strike etc.
- 6. Carbon:** carbon has now become a key topic which influences wholesale energy markets in Europe.



# Advice & Recommendations.

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Whilst there are currently supply and demand issues within the construction industry leading to higher costs and programme issues, there are mitigation measures that can be applied in order to minimise the effect to projects.

The Construction Leadership Council has stressed that wherever possible the industry must work collaboratively to manage the unprecedented situation. They go on to provide the following examples:

- Where products are in short supply, any allocation systems should be as transparent as possible so all customers can be seen to be treated fairly.
- The accuracy and timeliness of communications will reduce current frustrations. For example, customers should not over-order unnecessarily, while manufacturers should not promise delivery dates that cannot be achieved, only to cancel at short notice.
- Where relevant, the production for major projects, which is typically scheduled well in advance, should not be seen to adversely affect volumes available for smaller, regular customers.

In addition to the above, further mitigation measures include:

- Clients should consider allowing time within the project programme for longer mobilisation periods to account for longer lead in times in order to mitigate delays during construction.
- Clients should consider early order of building materials with particularly long lead in times.
- Greater collaboration with contractors in order to manage risk and ensure sufficient financial allowances and lead in times are made.
- Ensure that timescales for tendering are realistic. In current market conditions, main contractors may have to chase quotes from numerous sub-contractors and suppliers to provide a fully costed bid. This will take time and it is likely that tendering timescales will increase.

It is also worth considering fluctuation provisions. These may not be appropriate for all projects and the risk mechanism must be measured considerably. Delays in the supply of materials and labour together with the fluctuating cost of these are risks generally borne by the contractor. Fluctuations will always be present, but current events have the potential to create unpredictable variations in material prices and labour costs. However, the present challenge is that these are not manageable leading to the contractor either pricing significant risk premiums within a fixed price contract sum to carry these risks or being unwilling to take on these risks completely through the tendering process. This can lead to inflated tender prices or can create post contract issues where the premium is still inadequate.

Building contracts include fluctuation provisions to account for such risks between the client and contractor. The choice of fluctuation provisions should be determined by the application of a risk assessment in order that the risk sits with the party best placed to quantify, manage and bear such risks with provisions included that are fair and reasonable to both client and contractor. Further information can be sought from the RICS guidance note on Fluctuations available on their website.

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