

UK market in a nutshell

Wider context

Gross domestic product and construction output were 0.7% and 1.3% above their respective pre-pandemic levels (February 2020) in November 2021, giving optimism that 2022 will start back at pre-pandemic proportions. However, challenges remain, including the soaring cost of living.

Site productivity

Contractor respondents to our Winter 21/22 survey reported improved estimates of site productivity on their projects as a proportion of pre-pandemic level, with all respondents reporting that site productivity is within the 61-100 percent range. In Autumn 2021, issues with deliveries and materials availability were impacting site progress. However, these issues have more recently improved.

Labour

Issues with labour supply continued in the last quarter of 2021, with 80 percent of contractor respondents to our survey reporting issues and 70% noting increased labour rates. As strong construction growth is forecast, labour issues will likely become the key driver for cost increases in 2022 over materials.

Materials

Materials price increases had started to slow towards the end of last year, demonstrated by the BEIS 'All Work' materials price index showing no change in the month to November, compared to a 22.7 percent increase in the year to November 2021. However, energy price escalation is affecting the production of energy-intensive materials and we have started to see further price increases, including energy surcharges. Due to strong global demand and delivery and shipping issues, availability issues and longer lead-ins are also expected to continue.

Tendering

Construction activity continues to increase, with 36% of respondents to our survey saying that tender opportunities had increased in the past quarter and 46% forecasting that tender opportunities will increase over the coming quarter.

Claims

Increased costs are putting pressure on the supply chain, particularly where prices were fixed before the increases started to be seen. As a result of the risks, contractors are becoming more selective in the opportunities they pursue - engagement with the supply chain is key, along with robust tender documents with fair risk apportionment.

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Key trends

Whilst there have been many challenges brought about by the COVID-19 pandemic, it has also helped to introduce and speed up the adoption of new procedures and ways of working, which will benefit the construction industry for years to come. These include:

Increased use
of modern
methods of
construction

Moving away
from just in time
mindset/
engaging earlier
with the supply
chain

Adoption of the
Construction
Playbook/
outcome-based
procurement

Focus on the
climate
emergency/
transition to net
zero carbon

Implementation
of digital and
data tools to
improve
outcomes

Increased
flexible working

INCREASED COLLABORATION

UK inflation forecast

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

	1Q 2022 - 4Q 2022		1Q 2023 - 4Q 2023		1Q 2024 - 4Q 2024	
	Moderated forecast	Autumn 2021 forecast for equivalent period*	Moderated forecast	Autumn 2021 forecast for equivalent period*	Moderated forecast	Autumn 2021 forecast for equivalent period*
East	5.00%	3.00%	4.00%	3.00%	4.00%	3.00%
Greater London	5.00%	4.75%	4.00%	3.75%	3.50%	3.00%
Midlands	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%
Northern Ireland	3.50%	2.75%	4.00%	3.25%	4.25%	3.50%
North East	3.25%	3.25%	2.75%	2.75%	3.00%	3.00%
North West	3.25%	3.25%	3.50%	3.50%	3.25%	3.25%
Scotland	3.25%	2.75%	2.50%	2.00%	2.50%	2.00%
South East	3.50%	3.50%	3.75%	3.75%	3.50%	3.50%
South West	3.50%	3.25%	3.50%	3.50%	3.50%	3.50%
Wales	3.50%	3.00%	3.50%	3.25%	3.25%	3.25%
Yorkshire and Humberside	3.50%	3.50%	3.75%	3.75%	3.25%	3.25%

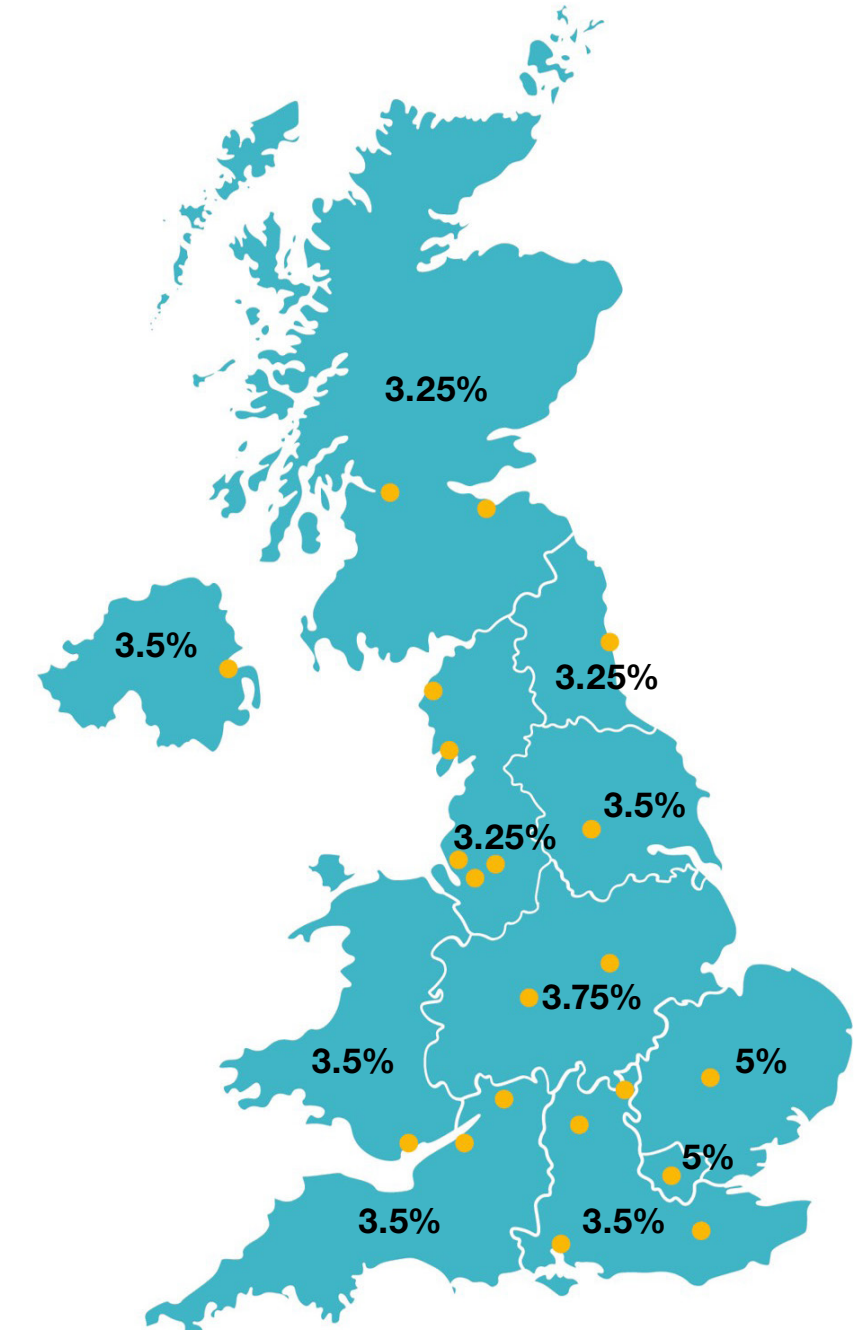
Typical inflation forecasts

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

*Autumn 2021 report forecasts calculated for the equivalent period covered in this report have been rounded to the nearest 0.25 percent.

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 due to social distancing measures, delivery delays and the like. Inflation should be assessed for each project.

Regional inflation forecasts 1Q22 - 4Q22



Winter 21/22 UK Market Report

Moving on up

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