



United Kingdom Country Insights and Commodity Report Q3 2022



United Kingdom

Q3 2022

Growth this year has been slower than was previously anticipated, with inflation and the cost of living continuing to impact, and 3.6% economic expansion forecast for the full year. August saw a 0.3% contraction, following July's 0.2% growth and June's 0.6% decline. Rising interest rates have been hiked in an effort to tackle inflation, with the Bank of England's rate currently at 2.25%. However, there will be more clarity around the outlook for the UK's economy and key indicators as Rishi Sunak begins to better outline the government's policies going forward, following this period of uncertainty.

Following seven consecutive months of growth between November 2021 and May 2022, construction output fell by 1.4% in June, followed by a 0.8% decline in July before returning to 0.4% growth in August. According to the Office for National Statistics, the August increase is attributable to a 1.9% increase in new work. Key threats to industry success are posed by certain material prices remaining high (the ONS reports 9.6% construction work price growth in June 2022 on an annual basis, which is a record high since the inception of the Construction Output Price Indices series in 2014), as well as soaring energy costs and labour market constraints, disrupted supply chains and the realisation of the impacts of current monetary policy.



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United Kingdom Country Report Q3 2022 - Commodities



Lumber

Although below the levels seen in late 2021, timber prices in recent months have remained relatively high, with a particularly sharp jump recorded in April. High transportation costs have been a factor in keeping prices elevated, and construction demand in H1 was also solid. Although the wider economic difficulties are likely to constrain residential activity in the coming quarters, any weakness in demand will be offset by the impact on prices from high energy and transportation costs. The Construction Leadership Council's Product Availability working group also recently advised that buyers would need to consider forward purchases to ensure the specifications they require are available.



Cement and aggregates

Cement prices have continued on an upward trend, and were up by 18% year-on-year in July, according to the latest data from the ONS. Aggregates have also faced continued upward pressure, reflecting what has been a strong demand environment. However, with leading indicators pointing to a much weaker outlook for construction in the coming quarters, price pressures from the demand side will ease. The longer-term picture is one of a risk of insufficient supply, with the Mineral Products Association recently raising concerns over restricted availability and limited access to particular mineral resources that could put pressure on traditional aggregate sources.



Concrete blocks and bricks

Brick production picked up strongly during the first half of the year, but has weakened in recent months, and stocks have been further run

down – in July, brick stocks were at their lowest monthly level in recent years. Brick production capacity, however, is being expanded. Higher production costs are being passed on by producers such as Forterra, which increased its prices by 30% in the first half of 2022. Such supply side pressures will keep prices relatively high.



Steel (rebar and structural)

Steel prices remain under considerable upward pressure, reflecting surging energy costs along with disruptions to supply stemming from the Russia-Ukraine conflict. British Steel has pushed up its prices twice in the past few months, by a cumulative £250 per tonne for structural sections, and this followed its price hike of £250 per tonne in March this year. However, the increases may not be sufficient to support the company's operations, with British Steel's owner reportedly stating that its two blast furnaces are unlikely to remain feasible unless it is granted financial aid. According to reports from the International Steel Statistics Bureau, in August 2022, the production cost for long steel via an electric arc furnace was £790 per tonne, up from around £400 in 2020.



Copper

Copper prices have dropped from the historic highs set in Q1. The prospect of further interest rate hikes and economic recession will dampen demand, and likely contain any upward pressure on prices in the coming quarters.



United Kingdom – Commodity Report



Materials	Q4 2022 (f)	Q4 2021 – Q4 2022 (f)		Q2 2022 – Q3 2022 (e)
	£	£	2021-22* % change	% change
Copper (£/MT)	6,490	7,191	-9.75% ↓	-13.0% ↓ ■
Steel rebar (£/MT)	698	534	30.75% ↑	-8.3% ↓ ●
Steel flat (£/MT)	828	656	26.24% ↑	-5.8% ↓ ●
Lumber (£/M3)	63	79	-20.82% ↓	-11.2% ↓ ●
Asphalt (£/MT)	535	523	2.27% ↑	1.9% ↑ ●
Limestone (£/MT)	40	40	0.45% ↑	0.0% ↔ ■
Cement (£/MT)	217	186	16.22% ↑	4.4% ↑ ■
Concrete (£/M3)	136	109	25.10% ↑	1.6% ↑ ■
Welded mesh (£/unit (a))	46	35	28.58% ↑	3.3% ↑ ●
Bricks (£/'000 unit)	1,105	860	28.56% ↑	4.1% ↑ ●
Plasterboard (£/unit (b))	9	8	20.66% ↑	12.3% ↑ ●
Diesel (£/litre)	1.82	1.47	23.81% ↑	4.1% ↑ ■

(a) 240x480cm, dia.-6mm
(b) 240x120x1.25cm (LxWxT)

● Q2 to Q3 2022 % change greater than estimation in our Q2 report
■ Q2 to Q3 2022 % change less than estimation in our Q2 report

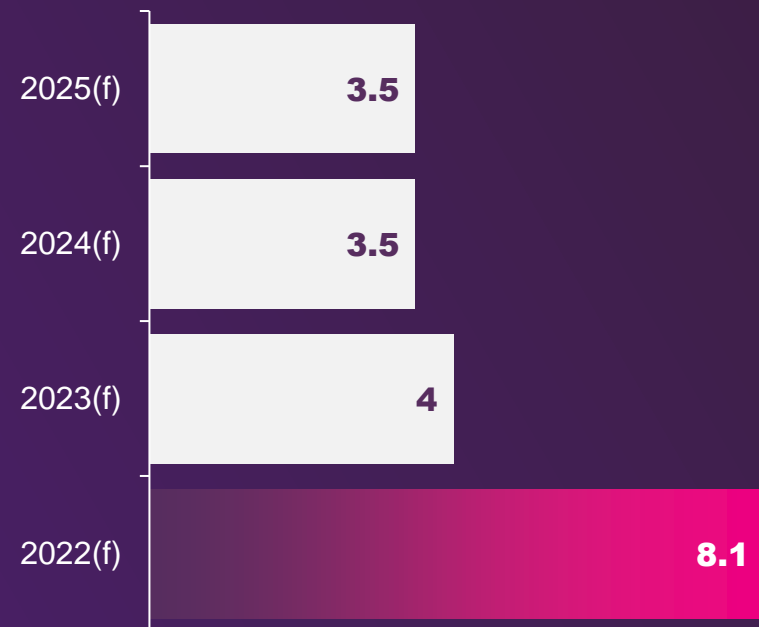
Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *	
 Copper	-1.5% ↓	 Moderate	On a quarterly average basis, copper prices fell in Q3 2022, but were fairly stable in August-September. With the looming economic recession, copper prices will face downside pressure in the coming quarter, but supply disruptions, particularly from South America, could generate renewed volatility.
 Steel prices - Steel rebar - Flat steel	-1.0% ↓ -1.0% ↓	 Moderate	Steel prices fell in Q3 from the highs reached in the preceding quarter when disruption in steel trade intensified following the onset of the Russia-Ukraine conflict. However, there was an uptick in September, with producers feeling the effects of high energy costs. Weaker demand from the construction industry in the coming quarters will keep overall price pressures contained, but producers are facing challenges in keeping prices down, despite government support to alleviate energy cost increases.
 Lumber	+1.0% ↑	 Moderate	Although lumber prices have eased back from the highs of mid-2022, rising production and transportation costs are set to prevent a marked drop to the levels seen 2020. However, there will be some weakness in demand, with the residential market set to be impacted by rising interest rates.
 Asphalt	-1.0% ↓	 Moderate	With continued expansion in road construction works, asphalt prices have remained elevated, despite a dip in crude oil prices from the mid-2022 highs. In H1 2022, new orders for road construction were up by 10%. The outlook for crude oil prices is uncertain, following the early October decision by OPEC+ to cut production levels.
 Limestone	+0.9% ↑	 Low	There has been a short period of stability in limestone prices, and this is expected to continue, as higher production costs are offset by weaker demand.











Please note that commodity prices are based on representative materials available in the respective countries, and as these materials may not be standard across all markets, cross-country comparisons on prices can be ineffective. For example, asphalt types can vary between hot, cold or a bitumen price, and standard unit sizes for materials can vary across countries.

United Kingdom – Commodity Report



Linesight tender price change forecast 2022-2025

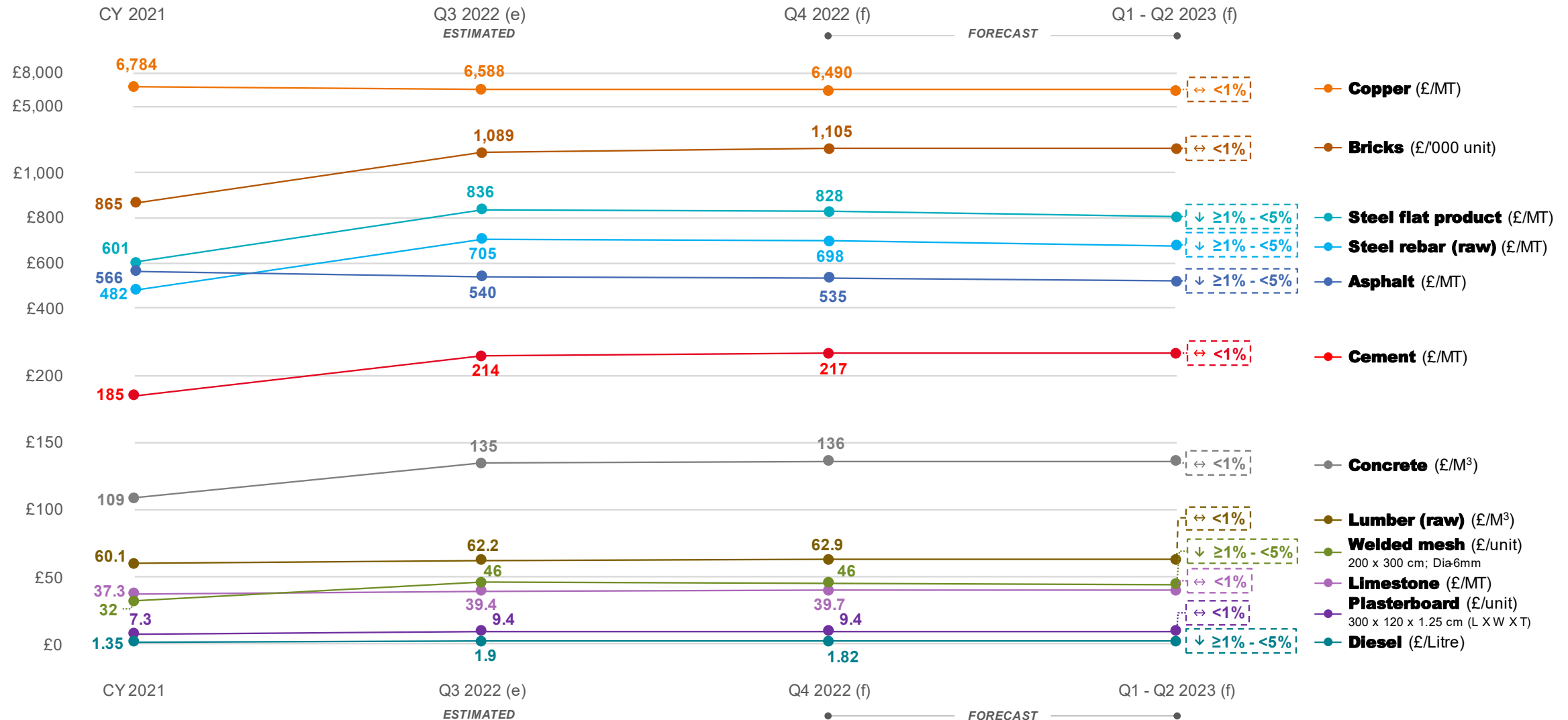


Material	% change Q3 – Q4 2022 (f)	Level of impact of pricing on construction procurement and supply chain *
 Cement Concrete	+1.0% ↑ +1.0% ↑	 Moderate Cement and concrete prices have been on an upward trend this year, reflecting relatively high demand and rising production costs. This trend is not expected to prevail in the coming quarters. Although high energy costs will continue to be a factor in keeping prices at elevated levels, demand is set to weaken amid signs of a slowdown in construction.
 Welded mesh	-1.0% ↓	 High Welded mesh prices jumped in Q2 this year and remained high in Q3, but will fall back in the coming quarters, reflecting the expected softening in steel prices.
 Bricks	+1.5% ↑	 Moderate High levels of construction activity in H1 2022, combined with rising production costs in recent months, have driven brick prices up sharply. Although demand will be somewhat weaker in the coming quarters, brick production costs will mean prices stay close to current highs.
 Plasterboard	+0.5% ↑	 Low Plasterboard prices jumped in Q3 2022, with producers passing on higher production and transportation costs. Shortages in supplies of paper for plasterboard production limited product availability in 2021, but this has not been a factor contributing to price inflation this year.
 Diesel	-4.3% ↓	 Moderate Prices have dropped back having touched the £2/litre mark in early July. However, OPEC+ decisions on cutting supply will contribute to some volatility in crude prices, keeping diesel prices relatively high.

* Level of impact rating reflects a combination of factors: the price movement and also price level (compared to recent past beyond the last quarter), the importance of the material, and general state of the supply chain in terms of stability.

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United Kingdom – Construction Materials Pricing (2021-2022)



Material prices relate to raw or unfinished materials, and not to finished, delivered and erected on-site prices.

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United Kingdom – Macroeconomic overview



Economic indicators



3.6%

GDP growth in 2022 (f)
and **0.3%** in 2021



9.16%

inflation rate in 2022 (f)
and **2.52%** for 2021



31.64M

people employed in 2022 (f)
and **31.33M** in 2021



4.15%

unemployment rate for 2022 (f)
and **4.49%** in 2021



135.21

Consumer Price Index in
2022 (f) and **123.86** in
2021



133.1

Producer Price Index in
Aug 2022 and **114.60** in
Aug 2021

National holidays



**10 public
holidays**

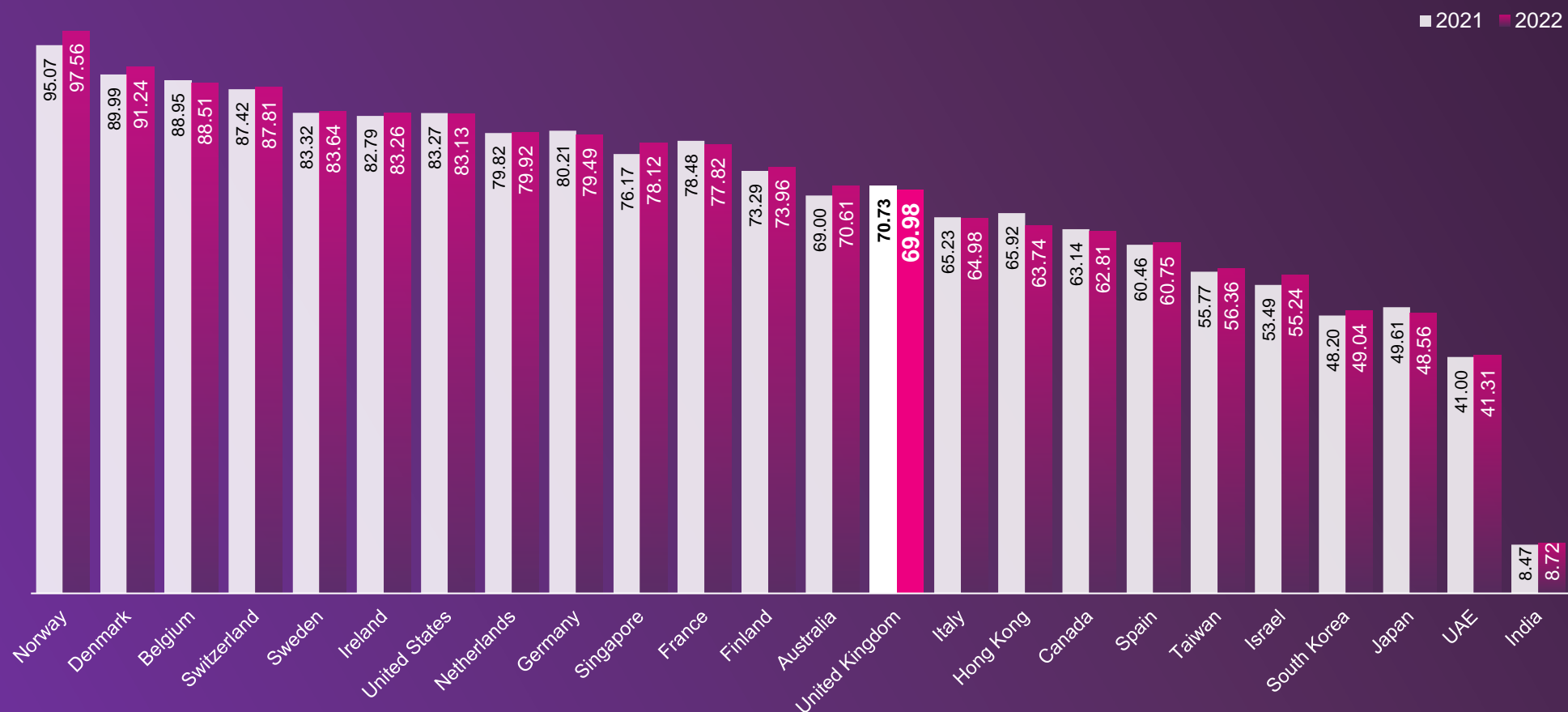
in UK in 2022.

- New Year's Day: 1 January
- St. Patrick's Day (Northern Ireland only): 17 March
- Good Friday: 2 April
- Easter Monday (Wales, England and Northern Ireland only): 5 April
- Early May Bank Holiday: 3 May
- Spring Bank Holiday: 31 May
- Christmas Day: 25 December
- Boxing Day: 26 December


United Kingdom – Macroeconomic overview



Labour productivity



Labour costs







1.90% 
change per annum in labour compensation per hour worked in Q1 2022 compared to 8.30% in Q1 2021.

Labour productivity per hour worked in 2021 international dollars, converted using Purchasing Power Parities

United Kingdom – Construction overview



Output 2021 and 2022 (in millions)

Sector	Total 2021	Total 2022 (f)	% change
Commercial 	£69,442	£69,192	-0.4%
Energy and utilities 	£33,449	£28,211	-15.7%
Industrial 	£8,626	£10,492	21.6%
Infrastructure 	£36,111	£41,316	14.4%
Institutional 	£35,304	£35,536	0.7%
Residential 	£152,829	£158,031	3.4%

Long-lead equipment (LLE) and Supply Chain narrative

Long-lead equipment (LLE) lead times have changed drastically since the start of 2022. Suppliers have seen the implications of material shortages, delays and price hikes throughout the supply chain, which is leading to extended lead times and reduced commitment from suppliers for new projects. The key areas in focus are:

- Demand:** The demand for long-lead equipment in the data centre sector has continued to increase in Q3 2022. More data centre and crypto mining providers are joining the market, and this continued demand far outweighs the capacity of the supply chain. Entry onto the production line remains a significant challenge, with suppliers reporting fully booked capacity until Q2 2024. There has been some growth in the development of Tier 2 and Tier 3 suppliers to support this demand. However, it will take time to build an extended supply chain. There has also been no sign of a decline in demand yet in early Q4 2022.
- Material shortage:** Just as material availability started to improve, the further threat of escalation with the Russia-Ukraine conflict has cast further uncertainties of future material stocks and reserves. The supply chain has continued to seek alternative sources of raw materials, and although this has been with partial success, market lead times remain conservative.
- Freight durations and costs:** Heightened by the increase in fuel costs, and compounded by the instability of labour and container availability, freight durations have been particularly volatile in recent times. Early indications from Q4 2022 suggest some stabilization in shipping durations is returning to the market, but the associated costs remain volatile due to the global fuel crisis. As clients consider alternative solutions, it almost becomes cost prohibitive to use quicker forms of transport, such as air freight, due to these increasing fuel costs.

Construction Health and Safety practices and culture



1.62 fatal injuries per 100,000 workers in construction industry from April 2020-March 2021)



30 deaths in construction industry from April 2021-March 2022

United Kingdom – Report methodology



Linesight has commissioned independent global research to track construction materials and commodity prices. The approach and methodology for the collection of construction material pricing and other indicators is based on primary and secondary research.

Primary and secondary research

Primary research is conducted on a quarterly basis with stakeholders in the value chain, including manufacturers and suppliers/distributors of the target materials, to ascertain market information on prices in recent quarters, and also on projections for changes in the coming quarter and remainder of the year. The market analysis also involves a thorough assessment of secondary sources of data on materials and labour prices, in addition to underlying demand and supply trends that will impact market prices.

Sources include GlobalData's Construction Intelligence Center (CIC), the World Bank, IMF, OECD, as well as country specific national statistics offices, such as the U.S. Bureau of Economic Analysis, Bureau of Labor Statistics, and also industry specific associations and publications. A more comprehensive list of sources is included below.

Definitions

- Commodity prices are net of taxes for all the countries
- Prices are not customer delivered
- All commodities are raw materials
- Nominal and real data

Nominal data series do not exclude changes in prices and are also referred to as current prices series.

Annual changes in nominal data for construction output will include changes in construction activity, as well as changes in costs for materials and equipment.

Real data series are calculated by keeping prices constant (so, are also referred to as constant price series), and therefore, they reflect changes in activity only. Growth rates in nominal terms can overstate the pace of growth in construction activity if there is high inflation stemming from rising prices for key inputs.

Sample sources – United Kingdom

For the United Kingdom, sources for this report include, but are not limited to:

- IMF
- ONS
- Gov.uk
- GlobalData's Construction Intelligence Center (CIC)
- BCIS

