

A Spotlight on Materials issues

March 2022

Independent Project Development and Cost Consultants

A spotlight on materials issues

**80%**

Contractors experienced issues with supply of materials/products on their projects in the first quarter (Spring survey)

77%

Respondents saw the issues with supply of materials and products worsening in the third quarter (Summer survey)

44%

Contractors experienced issues with labour supply in the second quarter, up from 17.5% in the first quarter

63%

Contractors said that they had noticed some labour rate increases in the second quarter, up from 44% in the first quarter

88%

Respondents saw tender prices increasing in 2022

In our March 2022 Market Report, we reported that 80 percent of contractors who responded to our survey said that they had experienced issues with supply of materials and products on their projects in the first quarter.

These issues have continued and are ongoing.

Issues include:

- Specified materials/products not being available
- Long lead-in times
- Material price increases
- Issues importing materials e.g. border delays

Other issues noted are:

- Shortages of heavy goods vehicle (HGV) drivers causing delivery delays and increasing costs
- Increased costs due to surging gas prices affecting industrial production

What are the key impacts of the issues currently?

The key issues impacting projects are increased lead-in times and price uplifts. Issues are being seen across all packages and the table below summarises the key issues:

Package	Commentary	Looking ahead
Groundworks and reinforced concrete frame	There are reports of increased costs for groundworks and frame driven from raw materials shortages, and demand for labour and materials for large infrastructure projects such as HS2	High demand and extended delivery times are expected to continue until at least the end of the year. Higher gas prices and increased labour and haulage costs will impact pricing
Steelwork	Steelwork prices have increased over the past year predominantly due to global demand as industry has restarted since the pandemic. In May, British Steel announced two price increases and temporarily stopped taking orders in order to catch up with backlog. A further £80/t increase was announced in June £/t rise: July 2020 +£30; August +£30; November +£40, December +£80; January 2021 +£50; March +£30; May +£50; May +£100; June +£80	Price increases had slowed in recent months and there were reports from the supply chain that some supplies were starting to ease. However, wider economic pressures of HGV driver shortages and natural gas price increases are having an impact and British Steel announced energy and transport surcharges of £25/t and £5/t respectively at the end of September, effective from 1st October 2021
Masonry	As well as materials pressures for masonry support and demand for bricks increasing after slowing during the pandemic, there are also labour pressures related to brick and block layers	Strong demand continues for bricks with low stock available. Many brick makers have announced price rises in the order of 10 percent plus commencing in the last quarter of 2021. Extended lead times are continuing with stock bricks generally 14-16 weeks and wire cut bricks typically 20 weeks plus
Facades	Cladding is being impacted by steel and aluminium availability and many suppliers are stating 2Q22 as the earliest date for new orders	Price increases are being notified and quotations are being held for circa 14 days due to the volatile pricing situation
Roofing	Insulation and roofing material price increases due to demand and raw material pressures	Reports of insulation supply being constrained for the remainder of 2022, potentially into 1Q23
Drylining/suspended ceilings	The situation has improved from earlier in the year with allocation volumes continuing to increase. There are some extended lead-in times for deep channels but generally issues are being overcome by contractors by increased dialogue with suppliers	Many of the major manufacturers have announced price increases effective from the beginning of October

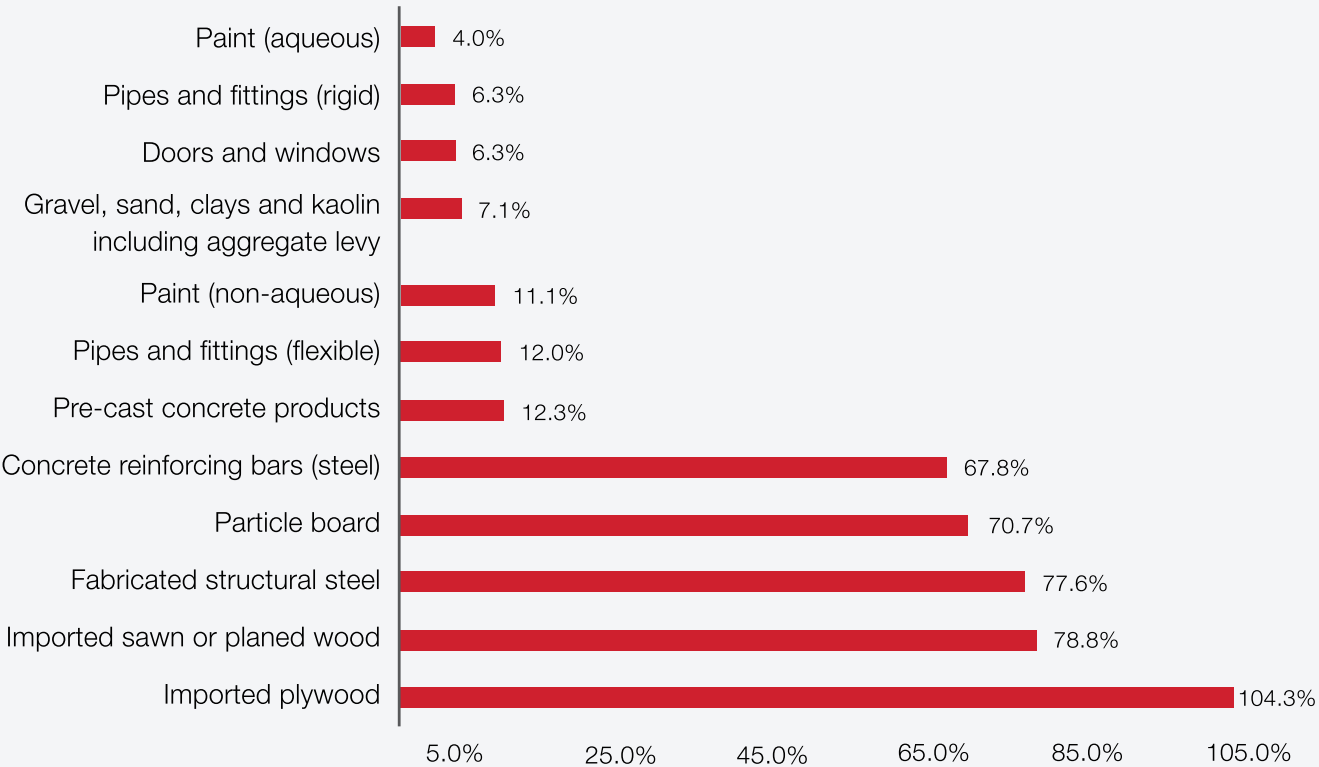


Package	Commentary	Looking ahead
Joinery and doors/timber generally	There is global demand for timber (particularly a large increase from the USA); price increases and longer lead-in times are being seen for timber products	It has been suggested that there are some signs that supply is improving in some areas at the start of the quarter, but timber battens and chipboard reportedly remain in short supply
Finishes	Some increased delivery costs/materials costs being seen	There are reports that ongoing shortages of chemical-based raw materials (pigments, polymers, pulp and tin cans) are impacting supplies, along with the wider delivery issues
M&E services and lifts	Production of electronic components is being impacted by extended lead times for steel, copper and plastics/resins. There is also an impact from the global shortage of semi-conductors Generally, the availability of raw materials is causing longer lead-in times and pricing volatility	Widespread price increase notifications are being received, many effective from September/October/November 2022
Fitted furniture, fittings and equipment	Some increased delivery costs/materials costs being seen due to raw material pressures	Extended lead-in times and price increases



Data from the Department for Business, Energy and Industrial Strategy (BEIS) shows that there have been significant price increases, with the 'All Work' material price index increasing by 24.1 percent between February 2020 and August 2021.

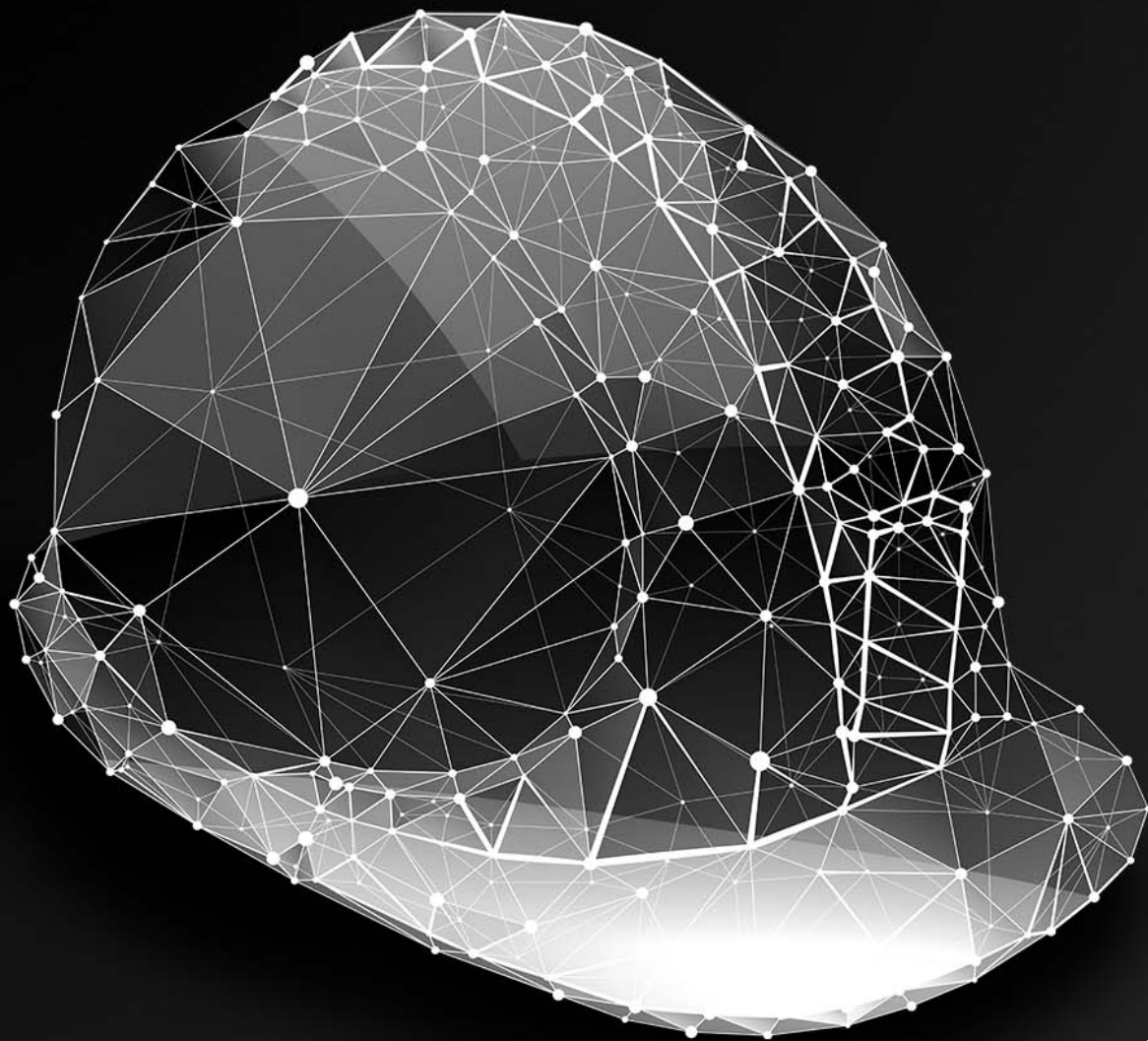
Percentage change in price of construction materials between February 2020 and August 2021 (BEIS)



Why are there issues?

There is a perfect storm of factors behind the materials issues:

- Weather has had an impact. For example, timber production in Scandinavia has been affected by a warmer winter and the cold winter weather in Texas affected the production of chemicals, plastics and polymer
- Commodity price increases have been seen as industry around the world has restarted following lockdowns during the pandemic
- Major economies have seen increases in demand as they try to revive their economies e.g. timber (USA), steel (China), which has contributed to shortages and price inflation
- Lockdowns have seen a dramatic increase for DIY and garden project materials across most G7 countries
- COVID-19 cases are continuing to have an impact with operating restrictions and interruptions where workers need to self-isolate
- Delays from materials imports, and time and cost to fill out customs and due diligence paperwork stemming from Brexit
- Shortages in shipping containers driving up shipping prices and a widespread shortage of HGV drivers is increasing delivery costs and extending delivery times
- With a shift to renewable energy and electric vehicles there is increased demand for materials such as copper and aluminium.



How long are issues expected to continue?

Materials issues and price increases are expected to continue for at least the remainder of this year and into 2023 as a result of pent-up demand, and economies investing in infrastructure to support economic recovery.

While the situation will improve as supply and demand is restored, it is not anticipated that prices will fall as steeply as they rose since strong profit is required to support investment, particularly for decarbonisation.

In addition, with sustainability high on the agenda, greener materials such as cement replacements, recycled steel and the like, are expected to increase in price as demand increases.

Labour rate increases

For much of the year, the focus has been on materials. However, as construction activity picks up, labour issues are becoming more noticeable. According to the Construction Products Association (CPA), there were 28 percent fewer EU-born construction workers in 3Q20 than in the same period a year earlier. There is a danger of price spikes if there is particular demand for packages.

Data from the Office for National Statistics (ONS) shows that the level of vacancies in the construction industry is the highest for 20 years, with an estimated 37,000 vacancies between June and August.

What is the impact on projects?

Pre-construction

- Materials availability and price increases are affecting project budgets and increases to tender prices are being seen. As always, inflation on projects should be considered individually, taking into account the particular factors and make-up of the project
- Depending on the materials make-up of projects, the impact may be greater (e.g. for projects with large proportions of steel)
- Lead-in times are increasing and may push back start dates
- Quote validity is reducing and main contractors may reduce the period that tenders are open for acceptance
- Main contractors will be cautious on projects with longer programmes, and will carefully consider risk premiums, particularly for fixed price, and may look for contract amendments/liquidated damage holidays, etc.

Construction

- Materials availability may impact site progress and programme
- Some subcontractors and contractors may be under pressure due to material price increases if they have given a fixed price for a project.





Are there any ways to mitigate issues?

Advanced orders

Advanced orders can be placed to secure key materials ahead of project start.

Understanding lead-in times

Information on lead-in times can be factored into programmes, to give contractors an extended period to place orders and consider float in programmes.

Use of digital technology and data

Better use of technology and project data can help to alleviate some of the issues by increasing efficiency, reducing wastage and automating more tasks.

Be open to alternative suppliers

Supply chain engagement and collaborative working can help to establish alternative suppliers for products, to reduce some lead-in time issues.

Fluctuations

For projects with a long programme, fluctuations can be considered to reimburse the contractor for price escalation during the contract.

Robust tender documentation

Ensuring that tender documentation is well considered and robust to secure engagement and interest from the supply chain.

Summary

There are significant pressures currently being seen with materials. These are expected to continue into 2023, due to large global demand as infrastructure is used to support economic recovery and support the transition to net zero carbon.

Delivery and labour availability issues are also having an impact on construction projects. It is important to understand the issues and to consider strategies to mitigate these, where possible. Collaboration across the supply chain will be important to ensure best project outcomes and to minimise the impact.

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