mace

UK MARKET VIEW

RESPONDING TO THE ENERGY CRISIS

Q3 2022

"As energy prices continue to rise and the cost of living crisis mounts, clients, contractors and the wider construction industry face a tricky balancing act. In response we have already started to see projects delayed and pushed back due to viability as well as the supply chain adjusting their pricing strategies in order to secure their order book. With real incomes now falling rapidly, consumer facing sectors are some of the most at risk from these challenges, but the ripple effect from higher energy prices will be far reaching.

"Given higher input costs, there is limited scope in the medium term for tender prices to do anything but continue to rise, and pressures will come from all sides to keep projects progressing. This is likely to be easier said than done. While many suppliers may be forced to cut margins and discount work to secure their orderbook, this is only likely to have a limited impact on rising prices – and at what cost? Suppliers who have invested in innovation to improve productivity will be those who will be able to offer the most credible solutions to keep projects viable."

Andy Beard
Global Cost & Commercial Practice Lead for Consult, Mace

	2022	2023	2024	2025	2026
National	8.0%	3.5%	2.0%	2.0%	3.0%
London	8.0%	3.5%	2.0%	2.0%	3.0%

The table gives our current tender price inflation forecast. The figures should be treated as averages and there will always be variations due to procurement methods, project type and local factors.

The Bank of England raised interest rates 0.5% taking them to...

1.75%

CPI inflation now stands at...

10.1%

while material price inflation increased 10.6% over the past quarter, leaving the annual rate at 26.4%

Construction output had another good quarter, rising...

2.3%

Construction pay continues to steadily pick up, and in June it was...

5.5%

higher than a year ago

While GDP fell...

0.1%

in Q2, partly due to the extra bank holiday, the real concern is how it performs later this year and next, once higher energy bills start to bite

SETTING THE SCENE

For the first time in a while, we have decided there is no need to revise up our tender price forecasts for the year. However, with prices still set to rise 8% this year, and CPI already hitting double-digits, the turbulence facing the industry is not getting any better. In addition, while we expect a further large increase in tender prices next year, the gathering headwinds and potential for a recession mean that we feel the need to bring these down slightly, to 3.5%. Usually, as the economy slows, one would expect tender prices to ease as competition between contractors grows and margins are slashed. However, there is only so much that prices can be cut in the face of rising input costs. While some commodity prices have fallen over the summer, higher energy costs and gradually accelerating labour cost increases mean short of a recession or an end to the Ukraine war leading to a large reversion in these factors, prices will continue to increase. Instead, we do anticipate inflation to cool-off in 2024 and 2025, but if the economy slows faster and further than expected, then we may need to bring forward and revise down these figures. More worryingly, if inflation becomes embedded, as the Bank of England fears, then later years could also see high levels of inflation. The decision to raise interest rates by 50 basis points at the start of August, and that additional rate rises are highly likely, is in large part down to trying to avoid such a situation.

A recession is usually defined as two consecutive quarters of negative growth and the slight fall in GDP in Q2 means that if there is another decline in the third quarter, then technically the UK will be in one. Yet with construction output growing robustly in Q2 it is clearly feasible that the sector would continue to grow in Q3 even if the economy contracted again. In such a situation, one would be hard pressed to say the worsening state of the economy was materially impacting construction. Two consecutive quarters of -0.1% growth would not be the end of the world. What is more worrying are forecasts from the Bank of England about growth from the fourth quarter of this year and throughout next year. They suggest GDP may fall by more than 2% and in this scenario, construction will almost certainly come under a lot more pressure. As part of this report, we take a more in-depth look at how the various sectors are likely to fare as consumption slows and potentially falls significantly.

One issue appearing in the media a number of times over the past quarter, is the lack of success for modular construction firms. Notably, Mid Group and Urban Splash went into administration, following Caledonian Modular suffering the same fate in March. Additionally, Countryside have put up for sale one of its factories while Top Hat recently reported significant losses, as did Legal & General's modular housing arm last year. What makes these difficulties particularly interesting is that the industry's labour problems appear to be worsening. We discuss some of these labour challenges later in the report but given that some view offsite construction as a panacea for the skills shortages, we are clearly still a long way from it being successful.

Modular firms are not the only ones facing insolvency. This is a problem for the whole of the construction industry as well as the wider economy. In Q2, total insolvencies were at their highest since 2009, with construction the worst affected sector. The main risk for construction projects is that a sub-contractor on the scheme goes bust, but the threat of the client facing difficulties shouldn't be ignored. Higher energy bills will hit many businesses hard, and not only will this damage demand in the commercial sector, but it may also lead to some failing to pay contractors. Much of the recent increase in insolvencies is likely to be due to the ending of government support, which prevented far more companies failing in 2020 and 2021, and only came to a complete end in March of this year. Yet as interest rates continue to rise, credit conditions tighten, and higher inflation pushes down on profits, it is hard not to imagine more projects than usual suffering delays and problems as a result of insolvencies.

Such an introduction paints a fairly worrying picture for both the economy and construction, and there is no doubt challenging times lie ahead. That some forecasters are now saying CPI inflation will almost get to 20% would have been considered absurd even a few months ago, and the swing in gas prices, once again, as with Brexit and Covid, makes this a fairly tricky report to write. Added to this, the new Prime Minister, Liz Truss, has set out an extensive package to get the cost of living crisis under control, but with inflation already so high, it may not be enough to prevent a recession. Despite the coming challenges, for the moment, it is not all bad news, and construction output is holding up incredibly well – growing strongly in the second quarter, taking the sector to more than 2% its level in Q4 2019.

TIPS FOR PROJECT TEAMS

With so many challenges to juggle, we felt it would be useful to provide a few key pointers on the areas of most concern and what could be prioritised.

Collaboration is key

Collaboration and working closely with the supply chain to solve problems is once again incredibly important, as is understanding the risks and uncertainties which drive price and schedule. Fortunately, many contractors will already have considerable experience with such a hands-on relationship with their supply chain after the complications of Brexit and Covid. As with these challenges, clients should be aware of the need to be responsible with sharing risks. Simply passing risks on when suppliers may be hungry to secure work is likely to lead to problems throughout delivery.

Don't be short-sighted

While the current energy crisis should prove temporary, the mega trends of sustainability and decarbonisation are not going away, and in many cases interventions are needed now. Where possible, project teams should aim to take a longer-term view and assessment on a broader set of metrics extending beyond the financial. At times of high inflation, it is prudent to focus effort on optimising project solutions to remove waste and optimise value across the whole life of the asset.

Work with your supply chain

As supply chains adjust their pricing strategies, risk appetite and approaches to projects in order to secure their orderbook, project teams must remain objective in assessing the offers and favour the most credible and realistic solutions. This will help to avoid commercial gamesmanship and problems during delivery. Typically, suppliers and supply chains who have worked together and invested in innovation to improve productivity are those which are likely to be able to offer credible solutions which lead to positive project outcomes, as opposed to those who choose to discount prices as their costs increase.

Insolvencies remain a significant risk to projects and supply chains with the number increasingly steadily over the past 18 months. The continued resilience of suppliers and supply chain will remain an important factor.

COSTS RISING AS OUTPUT HOLDS UP

GDP

The UK economy slipped 0.1% in the second quarter, in part due to the Queen's Jubilee resulting in one less day of work than usual. Additionally, with coronavirus testing no longer free, there was a large drop in human health and social work activities contributing to the fall. As a warning of things to come, household consumption declined 0.2%, and further falls seem almost certain as discretionary incomes drop. It was not all negative though with business investment rising by 3.8%. This was particularly good news for construction with there being a 1.2% increase in investment in dwellings alongside a 3% rise in investment in other buildings and structures.

Construction output

The Jubilee meant that construction had a fairly volatile quarter, but overall, growth in the past three months was 2.3%. This shows a remarkable level of resilience given how rampant material price growth has been over the past two years. With output also rising 2.2% in Q1, excluding when the industry was recovering from the pandemic, it was its best six months since 2017. Growth was also fairly broad based with only public new housing and private housing repair and maintenance declining. The shrinking repair and maintenance sector is likely to be as much about some level of normalisation following its surge after the pandemic as households cancelling projects. However, this is set to be a major problem going forward.

Private industrial had another spectacular quarter, growing by almost 16%. In June, the sector was 22.31% higher than in February 2020 putting it at a marginally stronger position than infrastructure's 22.26%. Following two successive quarters where the sector shrank, infrastructure was one of the better performers in Q2, growing 3.9%.

Despite the sector appearing to come off the boil from where it was in the middle of last year, it still appears in a very healthy position. Private housing, which grew a similar amount in Q2 would struggle to make the same claim. Falling 6.1% in June, meant it was the weakest sector moving into Q3, and with some signs of falling house prices, the headwinds are stark.

New orders

Having had several strong quarters in 2021, new orders slumped 10.4% in Q2. Taking a fairly positive spin on this, nearly all of the drop was due to a weaker private commercial sector, which had rebounded well over the past year. Furthermore, as this was primarily because of a poor showing in the offices' component, rather than entertainment and shops, it wasn't being driven by expectations of a consumer slowdown. Nonetheless, given the ongoing push for retrofitting offices for net zero, and the need to adapt for hybrid working, the fall is disappointing.

New orders for private housing declined 5.4% in Q2, the third successive fall, and are now 15.3% smaller than a year ago. Given the issues around energy costs and consumers having to tighten their belts, it is possible that they will fall considerably in the coming quarters. But for the time being, based on the level of new orders relative to historic figures, as well as on the number of new housing starts in Q1, the sector is just about holding up. Two sectors more than holding up were infrastructure and industrial. While growth in infrastructure was modest, this followed previous more robust ones and the level remains high, helped by a large increase in spending on roads. There was also no evidence of a slowdown in demand for new warehouses as private industrial had another very positive quarter.

	Current Position	Likely change over the next year	Impact on tender prices	Reason
GDP	↔	↔ or ↓	↔ or ↓	There are a variety of forecasts, but the average is that GDP will be flat in 2023 although significantly, the Bank of England is forecasting a recession. A recession would hit tender prices hard.
Construction output	↑	↔ or ↓	↔ or ↓	Currently output is supporting tender prices but over the next year, its performance will be strongly linked to the wider economic one. The worse the economy does, the worse construction will do. While new orders have fallen recently, they remain at a reasonable level.
Margins	↔ or ↓	↓	↓	Even if the economy doesn't fall into a recession and growth is flat, uncertainty is likely to make firms competitive with their bids. If there is a recession, then they will be even more competitive. It also appears some contractors are already buying work.
Gas prices	↑↑↑	Difficult to forecast the weather and war.	↑↑	Having risen substantially earlier in the year, these have shot up again and will be pushing up material prices. Currently at record highs so could easily fall from them, however if Russia cuts off supply and there is a cold winter, all bets are off.
Oil prices	Have risen a lot from earlier in the year but currently falling.	↔	↑	Consensus forecast points to oil prices being roughly unchanged in coming months but that petrol prices are so much higher than earlier in the year will provide some inflationary pressure towards material and thus tender prices.
Material prices	↑↑↑	↑↑	↑↑	Inflation is likely to come down from its current level of over 25% but this doesn't mean prices will fall. Higher gas prices will affect many products, pushing material prices up further.
Labour costs	↑↑	Depends on how the economy performs	Depends on how the economy performs	Currently regular pay is at 5.5%, and excluding the furlough period, this is the highest for a while. If construction performs well over the next year, then this is likely to become a major issue. However, if construction weakens significantly, then it is likely to be much less of an issue.
Insolvencies	↑↑	↑↑	↑	Increased risk of supply chain failures will push up tender prices. Insolvencies may also reduce competition which would increase tender prices as contractors are able to increase their margins.
Interest rates	↑↑	↑↑	↓	Higher financing costs will have an impact on viability assessments and make getting approval for projects harder. This will lower tender prices as clients will want to spend less and it will force firms to be more competitive with their bids.

Material costs

Between Q1 and Q2, material prices rocketed 10.6%. This was on the back of the Ukraine crisis which has led to rapid rises in the cost of fuels and energy. In addition, once again steel products rose substantially. Rebar rose 30.1% in the quarter and prices in June were almost 60% higher than 12 months earlier and over 120% higher than the 18 months before this. Similarly, structural steel is up 26%, 46% and 118% respectively over the same periods. However, while steel is exceptional, the excessive levels of inflation are also broad-based. In our previous report, we mentioned that 19 of the 29 products that BEIS (Department for Business, Energy and Industrial Strategy) report on, had inflation levels of over 10%. This has now increased to 21 out of 29.

Due to these broad-based price rises over the past 12 months, the 'all work construction material price index' has risen 26.4%, and with considerable inflation in the previous 12 months, it is now over 40% up over the past two years. That the annual rate of inflation eased from 27.2% in May to 26.4% in June, even after a month-on-month increase of 1.3% will be of little comfort to contractors. While we discuss later that there are some signs of global commodity prices coming down, these are so far not showing up in the material price data that BEIS produce.

Labour costs

Nominal regular construction pay had a strong second quarter, with earnings increasing by 2.3%. Over the past few months, earnings have been steadily rising and are now 5.5% higher than in Q2 2021. By contrast, there has been a reasonable amount of volatility in total construction pay growth with bonuses jumping about. In both March and May, there were new nominal records for the size of construction bonuses, as the trend of firms using large one-off payments to retain and bring in new employees continued. Yet while total construction pay has grown 6.3% over the past year, with inflation rising to 9.4% by the end of Q2, real incomes are falling rapidly. For employees, real incomes are what matters, and a fall in their spending power will lead to them trying to get higher pay. Short of a considerable downturn in the industry, further pay rises are likely.

Interest rates

The Bank of England raised interest rates 0.5% at their latest meeting on 3 August. This was the first time they had increased rates by 50 basis points since its independence and took interest rates to 1.75%. In addition to now forecasting that CPI inflation will peak at over 13% by the end of the year, the Bank also said they are worried about inflationary pressures becoming more persistent. This is a clear indication that they are choosing to prioritise trying to bring inflation down over growth. With further rate increases likely, firms and households looking to borrow and re-mortgage, will face higher costs. This will clearly have a negative effect on developers trying to finance new schemes as well as construction firms looking to invest and grow.

WHAT MIGHT A RECESSION MEAN?

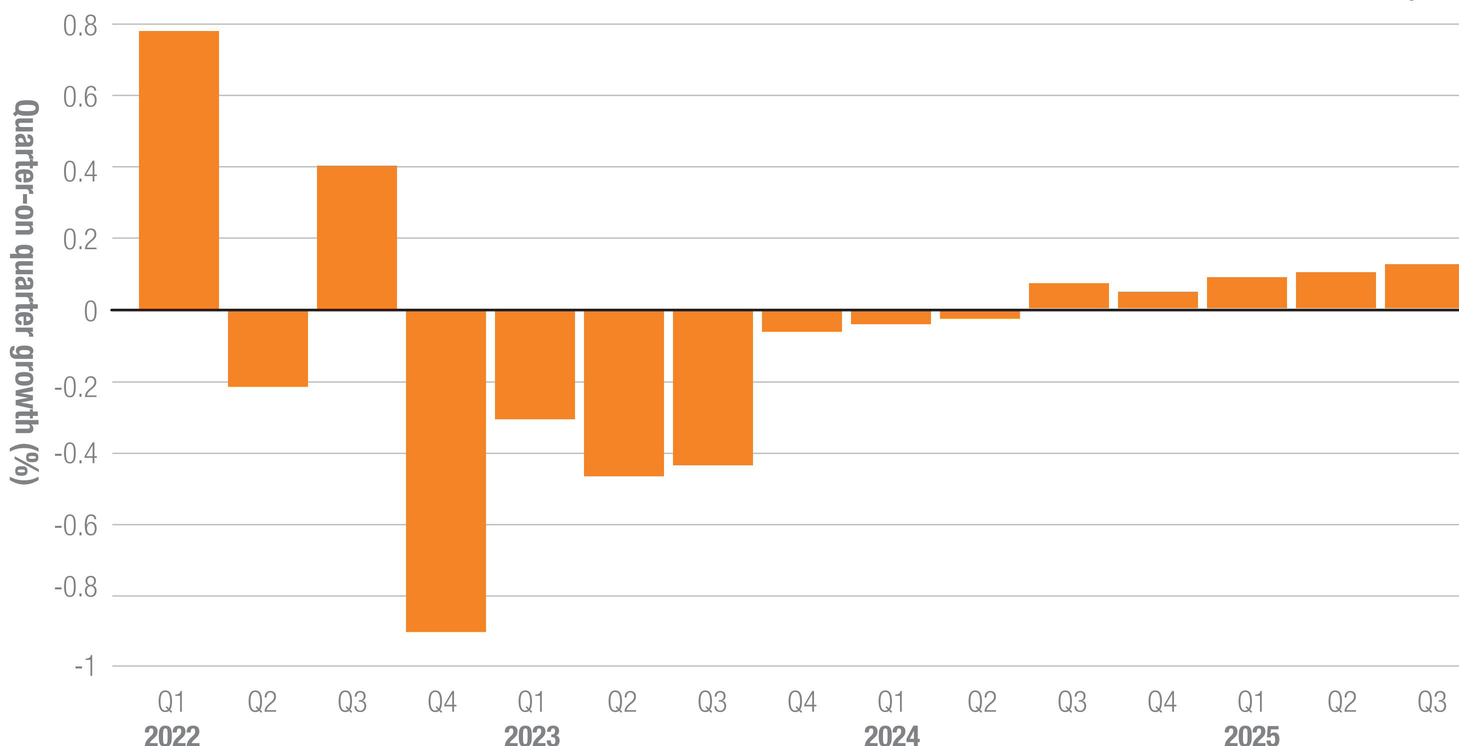
One of the most sobering recent economic releases came from the Bank of England in their Monetary Policy Report. Contained within the document were their forecasts for economic growth in the coming years, including that GDP would start to fall in Q4 2022, and continue declining throughout 2023 and into 2024. In such a scenario, GDP would fall by over 2% and despite unemployment only starting to pick-up slowly, by the middle of 2025, it will have reached 6.3%. The report recognises some of the limitations with the assumptions including the new prime minister not loosening fiscal policy and energy prices not falling in line with their futures prices after six months, both of which would support the economy. Other forecasters are also less pessimistic and anticipate that GDP will still grow next year. Nonetheless, the latest consensus of 0.3% growth is substantially lower than in February, when economists were forecasting GDP to rise 2% in 2023 and it wouldn't be a surprise if in the coming months, there are further downwards revisions.

Despite the slightly problematic methodology the Bank of England adopts, taking its forecast at face value, and assuming the UK does slide into a serious recession next year, would have severe implications for construction. Construction is a cyclical sector and when the economy fares badly, it tends to do even worse. During the global financial crisis, when GDP fell 4.2%, construction output shrank 13.2%. Whereas no-one is currently forecasting that next year will be as bad as 2009, any slowdown is likely to disproportionately hit the sector.

With no two recessions alike, simply saying there may be a recession next year, which will damage the construction industry tells us little. Additionally, even if the Bank of England is wrong about their being a recession, the reasoning behind these forecasts is important in understanding how different parts of the sector will perform. In particular, higher inflation, which is already hurting real incomes and will damage them even further when the new energy price cap comes in in October, will result in a reduction in consumption. With households set to cutback, it would therefore seem reasonable to expect the two private housing sectors, covering new build and the repair and maintenance sector, to be two of the most vulnerable ones to the headwinds ahead.

GDP FORECASTS

Source: Bank of England



Repair and maintenance in particular would seem to be at risk from lower household spending. Having surged as a response to Covid and the desire for additional space, growth in the sector started to fall in Q2 2022. While there is undoubtedly a division between those who will struggle most with the increase in energy costs and those most likely to be undertaking home improvements, that real incomes are already falling by 3% means the vast majority will be having to think more carefully about their budgets. Even where homeowners choose to carry out work, they may decide on smaller, more affordable projects, which will also negatively affect the sector. If, as seems likely, there is a large drop in demand from the sector, then this will also have some implications for material prices. Relative to other sectors, BEIS data indicates housing repair and maintenance is a particularly large user of softwood carcassing and structural members as well as painting and decorating. With wood being one of the materials seeing the largest increase in prices recently, lower demand could be a benefit if it helps bring these down to a more even keel.

How the new build residential sector behaves is harder to gauge. At the moment, annual house price growth is still robust and while the ONS reported a 1% increase in June, more timely data from Halifax suggested there was a very small drop in prices in July. This is a sector notorious for being able to delay and pare back projects quickly and in both 2009 and the pandemic, housing output slumped more than any other. As such, it is likely that if house prices do start to see widespread reductions, developers will rapidly turn their back on new schemes, causing output to decline. They may even do this if house price growth continues but at a slower rate than build cost inflation. While private housing repair and maintenance makes up almost 15% of construction output and is comfortably large enough for a slowdown to noticeably affect the industry, new private housing's share is over a fifth, and the largest single sector. Any drop in output would act as a significant drag on the industry. With the current average forecast for house price growth in 2023 at 0.7%, at best we can expect caution and increased due diligence from house builders. This forecast is beneath what we anticipate seeing tender prices do next year, resulting in a decline in profitability. Even though substantial house price growth in recent years, may make this less of an issue, and supply shortages should help prevent a crash, 2023 has the potential to be very tough going.

Parts of the commercial sector will also face challenges, most notably those with direct links to consumption such as retail and entertainment. Lower spending will deter businesses in these sectors from investing while they will also face their own difficulties from higher energy bills. Lower household spending may also hurt the industrial sector. Having grown rapidly since the pandemic, mainly as a response to online spending, the squeeze on household budgets could damage this sector. Furthermore, a recent report in the FT highlighted how rising interest rates was negatively affecting profitability, with the spread between borrowing and yields falling.

One area likely to be key in limiting any downturn in construction if there is a recession, is the public sector and associated projects. Were it not for this part of the industry, and we include infrastructure in that, output would have been much weaker in 2009 and 2010. The Conservative government's manifesto of 2019, where there was a focus on issues such as levelling-up as well as promises for 40 new hospitals, would be a great starting point for a bout of Keynesian stimulus to support the industry. With public housing, public non-housing and infrastructure accounting for 25% of all work, an increase in spending on these sectors would certainly help offset the challenges facing others. New orders have dropped in each of the past two quarters and output was 10% lower than in Q4 2019. Liz Truss's comments also suggest such spending is unlikely, and higher construction costs as well as general inflation will impair local authorities and other public sector departments. Nonetheless, given the widespread issues facing the economy, it would seem an ideal time to push forward the levelling-up agenda. Similarly, with the Ukraine war having elevated the importance of energy security, greater spending on infrastructure projects and retrofitting houses would be desirable.

WILL LABOUR COSTS BE NEXT YEAR'S BIG PROBLEM?

The main challenge for contractors over the past 18 months has been how to deal with higher material prices. Despite some commodity prices starting to ease, higher gas prices mean we aren't out of the woods on this front, and now, adding to this, there is growing evidence of labour cost pressures. In some ways ever since Brexit, labour problems have been like the boy who cried wolf. We have mentioned them as a major risk in a number of our reports since 2016 and while for several months in both 2018 and 2019 pay growth was above 5%, it has never fully taken off. Whether this time is different, may depend on if we fall into a recession, however if we avoid one and construction output continues growing, then it is a risk. Indeed, in a recent Construction Leadership Council report, they suggested next year, labour costs may become the biggest problem. Admittedly, this was before the recent jump in gas prices, but the point remains, the tight labour market is not going away.

As mentioned earlier in the report, in June regular pay growth hit 5.5% with total pay, including bonuses 6.3%. Total pay growth was even higher in May when it reached 8.1% but bonuses slipping meant it did as well. What is most important for tender prices, is how fast regular pay is rising and having picked up from 2.1% at the end of last year to 5.5% in the most recent release it will add to the problems caused by vastly increased material costs. Even with material price inflation so high, one issue that is even more problematic than costs is not being able to do the job. In a recent survey by the Federation for Master Builders, they reported that 10% of firms had cancelled projects due to a lack of tradespeople. Even with all the difficulties currently associated with materials, only 7% of firms reported they had to cancel projects due to a lack of them. In order to continue to deliver, some businesses may feel they have no choice but to offer better pay.

REGULAR CONSTRUCTION PAY

In the past few months, the number of construction vacancies has started to come down, but they remain noticeably higher than at their pre-pandemic levels. Still at over 40,000, the impression is if employees do want to seek better paid work at a competitor's company, they will probably be able to achieve this. Similarly, a common theme in the S&P Global / CIPS UK Construction PMI is the difficulty firms are having filling vacancies and with wage pressures. Fortunately, for the time being, neither Mace Construct nor Mace Consult have encountered many of these issues on our projects, although it is a risk we are managing carefully. One impressive feat by the construction labour force is that despite the number of workers having shrunk 4.5% between its peak in March 2020 and March of this year, output had increased slightly over the same time. Impressive this may be, and also suggesting an improvement in productivity, it is another sign that it is currently an employees' market.

While there are some good fundamental reasons as to why construction workers could push for higher pay, general inflation will only provide greater justification. Most employers want to keep staff happy in order to retain them, but with real incomes falling so significantly, this won't be easy. As CPI inflation is already over 10%, and set to climb even higher through the winter, employees will be asking for greater pay. Even though pay rises are almost certain to fail to keep up with CPI, the pressure will be on for it to not fall too far behind, and this is the wage-price spiral the Bank of England is worried about. All businesses across the economy, will be facing the dilemma of how much can they increase wages without losing too many staff while also managing client expectations and the price of goods sold. For the construction industry, with high levels of skills shortages and vacancies alongside the current robust level of output, there may be less scope than in other sectors to limit pay over the next 18 months and this is a large reason why we expect tender prices to rise 4.5% next year. Weaker pay growth probably won't be a good thing if it happens as a result of declining construction output and an economy in recession.

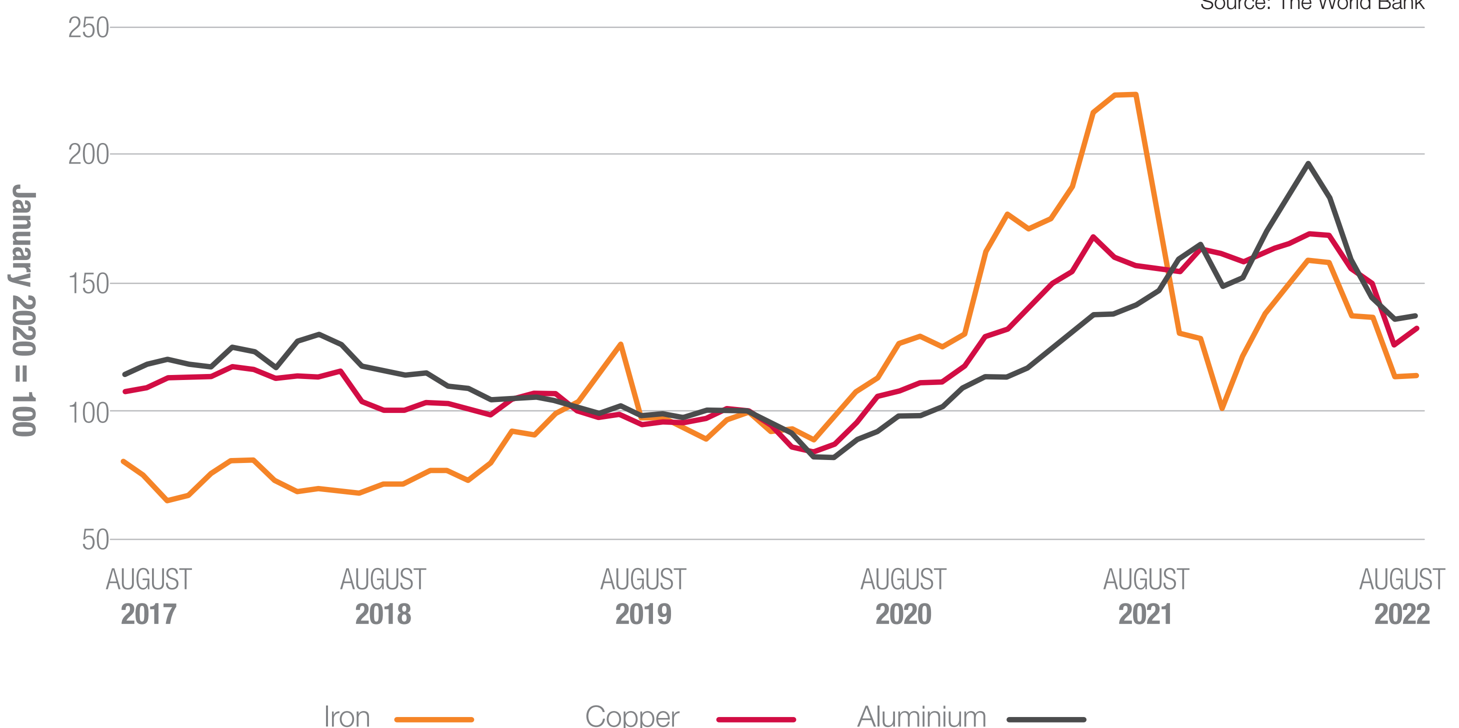
HIGHER GAS PRICES TO LIMIT BENEFITS OF OTHER COMMODITY PRICE FALLS

Following the incredible rise in many commodity prices over the past couple of years, some are now starting to decline. The global economy is slowing and demand for various commodities is dropping or not living up to earlier expectations. Similarly, with fears that economic conditions will worsen, the response has been for prices – some of which potentially overreacted to the Ukraine war – to slip from their peaks. With any luck this will feed through and help alleviate pressure on construction materials, but unfortunately rising gas prices may offset much of this.

As usual, it makes sense to look at Brent crude oil prices first, and they have recently been as low as US$92 per barrel, their lowest since Russia invaded Ukraine. Having been over US$120 earlier in the year, this is a sizeable drop and despite only slowly working their way through to lower prices at the pump, this too is now happening. Such a drop should provide some respite to hauliers, albeit with petrol prices in the middle of August around 170p still well up from the 145p at the start of the year, there is a limit to the relief. Shipping costs are also noticeably down from last year's highs, which will help lower overall transport costs. Nonetheless, with China's Covid problems still seemingly a long way from over, and a strike at Felixstowe Port, supply chain challenges persist.

It is not only oil which has slumped. A number of other global commodities, including steel, iron ore, aluminium and lumber have. While these prices appear that to have bottomed out over the summer and are still considerably higher than where they were several years ago, that they have fallen will help ease some pressures. Key drivers behind these movements include troubles with the Chinese real estate sector whereas higher interest rates in the US are also dampening its real estate sector.

ALUMINIUM, IRON AND COPPER PRICES

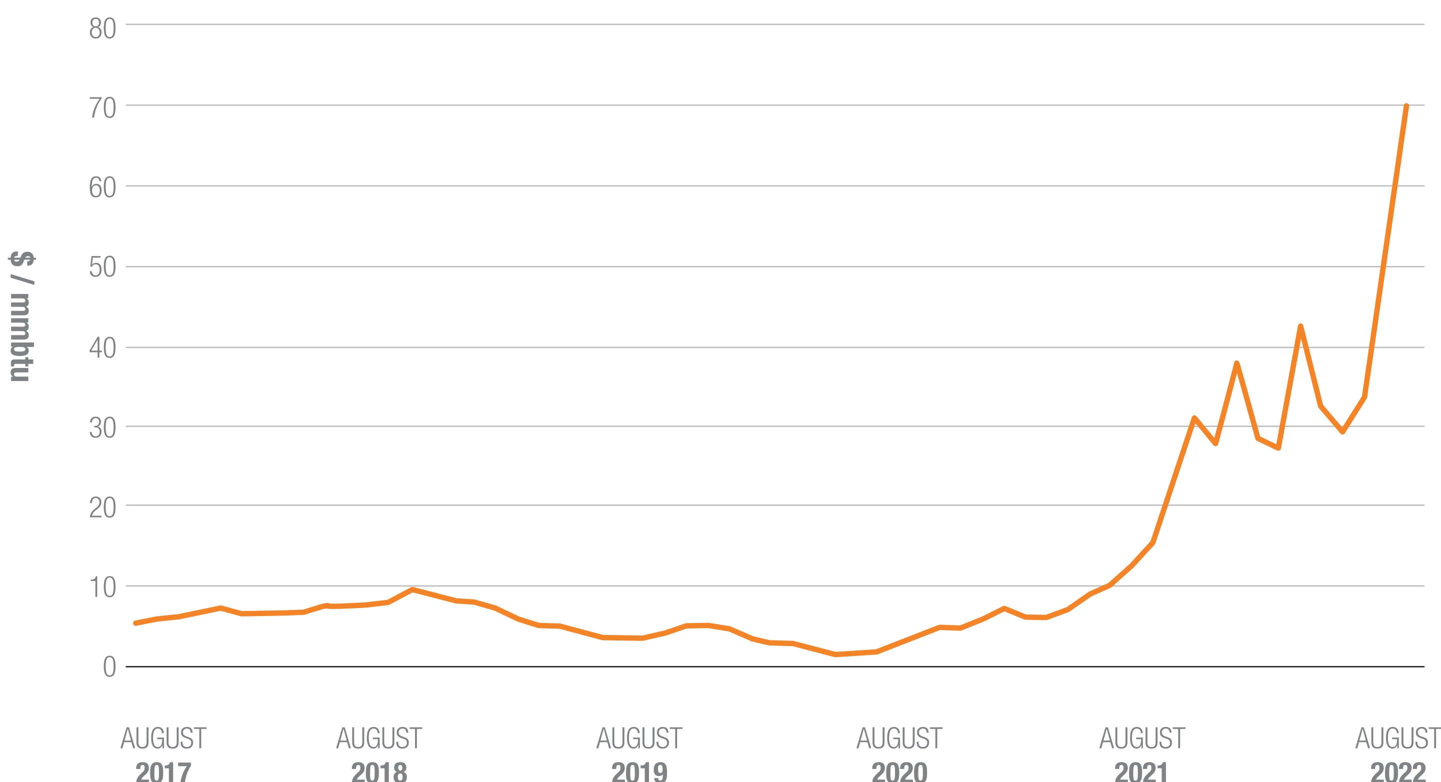


Increases by the Fed have also strengthened the dollar, which most commodities are priced in. As a result, prices have come down somewhat in order to make the shift in local currencies less pronounced.

Materials which use substantial amounts of energy in their production are likely to have any benefit from lower transport prices more than offset by rising gas and electricity prices. The majority of the news has focused on energy bills for households, but for businesses, there are no caps. As with consumers, businesses will have to make difficult decisions and there are already anecdotal reports of some retailers choosing to open less often. Makers of construction products such as steel, bricks, cement and glass, often cannot do this due to the damage temporarily closing down does, and all will be having to pass on higher input costs. Even where energy costs are not involved in production, such as wood, factories' electricity costs will be rising rapidly. These issues are already a problem, and despite global steel prices easing, a recent letter from British Steel announced that they were putting up structural sections by £100 per tonne as a result of increased energy costs. If gas prices stay near their current record highs throughout winter, let alone continuing to soar, the damage to the economy will be significant.

It is not only gas prices that are a problem; a lack of supply could become one as well. Over the winter, countries within the EU will attempt to cut gas consumption by 15%. While protecting households, and for the time being voluntary, this will affect industrial users. However, the real threat is that Russia cuts off the supply of gas to Europe, in which case the 15% target may become compulsory, and industrial users have to significantly scale back production. They have already done this for short periods several times over the summer and if they do this for a lengthier time over the winter, energy prices will rocket even further. Additionally, Germany, which in 2021 was the UK's second largest import market for construction goods, accounting for 10% of total imports would seem most at risk from Russia cutting off supplies. There have already been issues around Nord Stream 1, a major pipeline to Germany, and lower supplies than usual could mean production of key materials falls, resulting in construction programme delays. Following the supply chain problems of Brexit and Covid, we are once again having to highlight the importance of being aware of where materials are sourced and the risks of lengthening lead times if shortages occur.

EUROPEAN NATURAL GAS PRICES



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