Supply Chain Sentiment Report

Q3 2025

Introduction

In our bi-annual sentiment report, we analyse the market mood, giving PfH members a heads up on what to expect from their supply chain over coming months.

Dozens of manufacturers, merchants and contractors have shared their concerns and confidence levels so we can give you, our valued members, an accurate measure of the market, its ups, downs and changes in direction.

We've divided our revamped report into three easy-to-digest sections:

1. **Market Summary** (If you are short on time, then this is the section to read)
2. **Price Predictions for 2026**
3. **Market Sentiment**

We hope that by reading the mood of where the market is heading, social landlords can better prepare for the future.

Neil Butters,
Operations Director,
Procurement for Housing

1 MARKET SUMMARY

Fragile environment remains, with concerns on skills, growth and government impact, yet there's quiet confidence in 2026, if conditions hold.

Survey results

- Overall supplier confidence shoots up 0.79 to a reassured 9.31, highest figure for 3 years
- More consensus from suppliers on price forecasts, indicating lack of disruptive pressures
- Suppliers also cite usual suspects as inflation drivers, rather than unexpected factors
- Supply chain rates customer relationships as strong 8.6, up 0.7 from 12 months ago
- Contractor concerns about labour gap gather pace, climbing 0.71 to 7.06
- Government growth policies score an underwhelming 5.22, same as last quarter

The macro-economic construction environment - six quarterly indicators:

FTSE 350 Construction and Materials Index – up

Construction output – small increase

Construction output prices – weak increase

Construction vacancies – decrease

Construction firms: net births and deaths – small decline

Construction materials prices – no data*

**ONS has paused release of CMPI data. Read more below.*

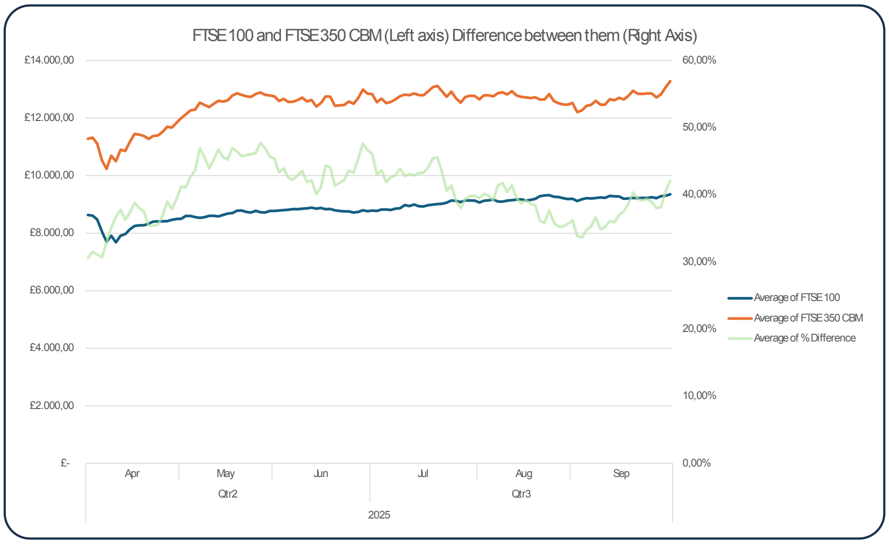
Measured optimism returns

This quarter, the feeling from suppliers is one of pragmatic confidence. Largely, things are looking up and there is a hopeful mood. The uncertainty of previous years is finally lifting, replaced by a grounded optimism - tempered, of course, by the turbulent geopolitical backdrop. Barring new invasions, tariffs or any other global shocks, 2026 looks set to be the steady growth year everyone has been waiting for since Covid.

There are still some contractors struggling - a handful of high-profile failures took place in the last quarter - but in general, those building firms that have made it through the rollercoaster of the last few years are now feeling more confident, particularly with less volatility on the horizon.

Market metrics line up with this buoyancy. The FTSE 350 Construction and Materials index is up compared to last quarter and in recent weeks, the rate at which it outperformed the broader FTSE 100 has also risen, indicating a more confident outlook for the building sector.

Graph 1: FTSE 350 Construction and Materials compared to FTSE 100 (Source uk.investing.com)



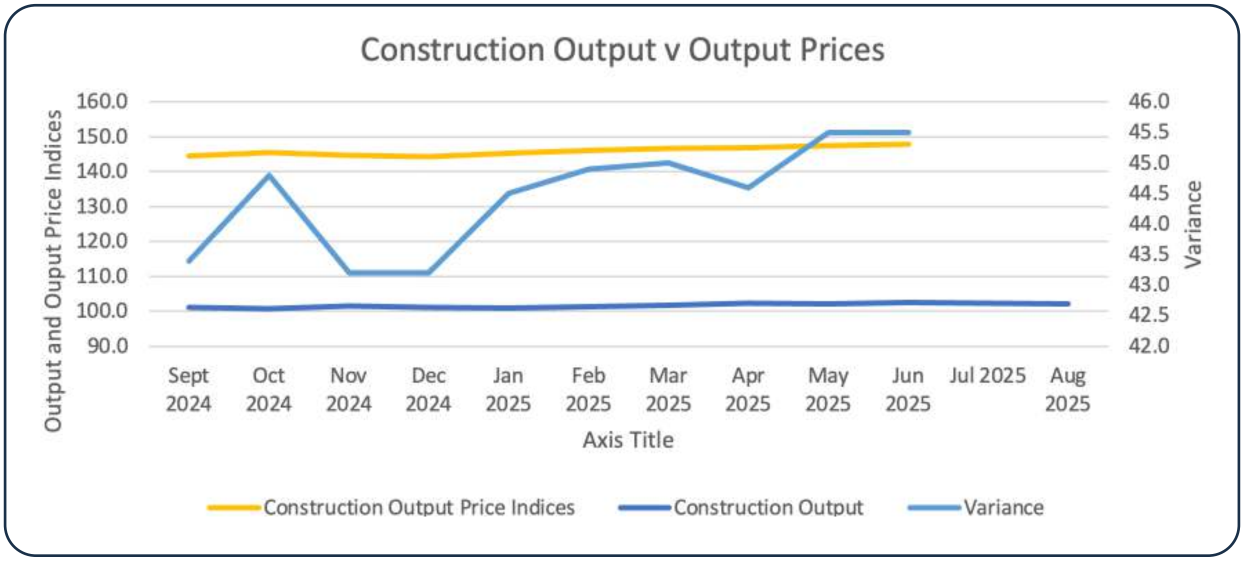
Recent predictions from the Internal Monetary Fund (IMF) support this overall optimism, identifying the UK as the second-fastest-growing of the world's most advanced economies this year, weathering the economic storm better than most other G7 nations.

However, this picture is dampened by persistently high UK inflation. Although recent figures show that price growth held steady at 3.8% - a touch under the Bank of England prediction of 4% for September - it is still well above the central bank's target of 2%.

The optimism of IMF projections, overlaid with a poorer picture on inflation, is played out across different indices. For example, although the FTSE 350 Construction and Materials index is climbing, the rate is sluggish. Construction output - which can be variable - is currently increasing, but modestly right now.

Prices still rising faster than output

Graph 2: Construction Output vs Output Prices (Source: Office for National Statistics)



We have consistently spoken about the expanding gap between prices and output, meaning that prices carry on rising, while output remains flat. That picture continued in H1 of 2025, with output remaining flat, while prices notched up by one point. This is to be expected in the current high inflationary environment with companies edging up their margins to create stability and combat cost inflation.

ONS pauses CMPI data publications

The Office for National Statistics (ONS) has paused the release of Construction and Materials Price Index (CMPI) data due to an error in the chain-linking methods used for Producer Price Indices (PPIs). This mistake affects indices from 2008 onwards, with a particularly significant impact on 2022 and 2023 data. Publication is expected to resume after the issue is resolved, with revisions to the back data expected.

As a result, we have limited information on construction materials pricing. However, we are monitoring the Builders Merchant Building Index (BMBI) for relevant data and you can read their latest report here which shows that builders' merchants' value sales for Q2 2025 were up 2.8% compared to the same quarter last year. Volume sales were up 4% year on year, but prices offset this rise by dropping 1.1% across the period.

Graph 3: Builders Merchant Building Index (BMBI) Q2 2025

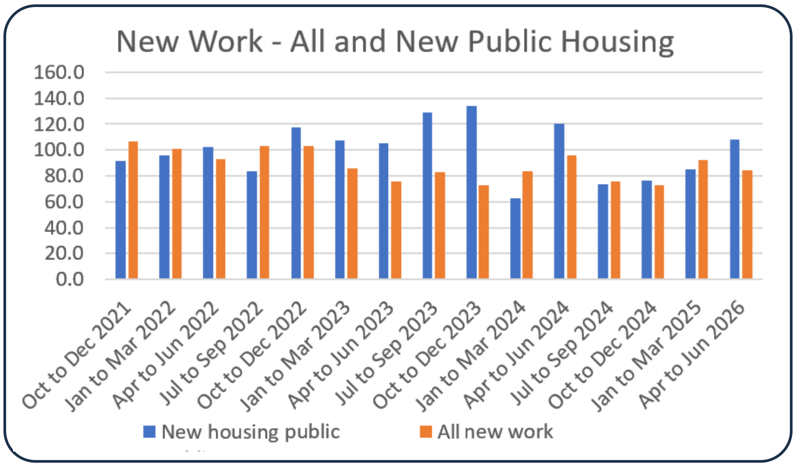
Supply chain churn stabilises

There has been a slight decline in the births and deaths of construction companies, but nothing significant. And compared to Q1 and Q2 last year, we've actually seen more stabilisation across construction supply chain births and deaths which contributes to the steadier overall picture that is emerging.

Orders up, yet confidence in government lags

Although orders for all new housing work, across sectors, are flat, demand for public housing has seen an uptick, in line with government policy. It remains to be seen whether levers being pulled by government manage to unlock public homes and tackle the housing crisis in the longer term. Sentiment from the market indicates that suppliers don't have the confidence it will. This could be due to new orders for public housing, made in recent months, not yet filtering through to the supply chain. We may see a jump in confidence once this happens.

Graph 4: New construction work (Source: Office for National Statistics)



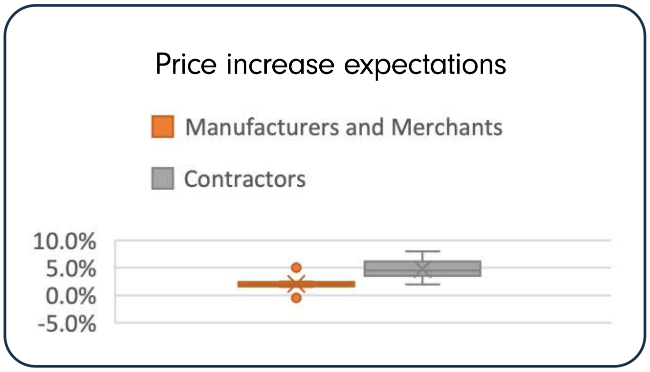
2 MARKET PRICE PREDICTIONS FOR 2026

Greater alignment on price forecasts

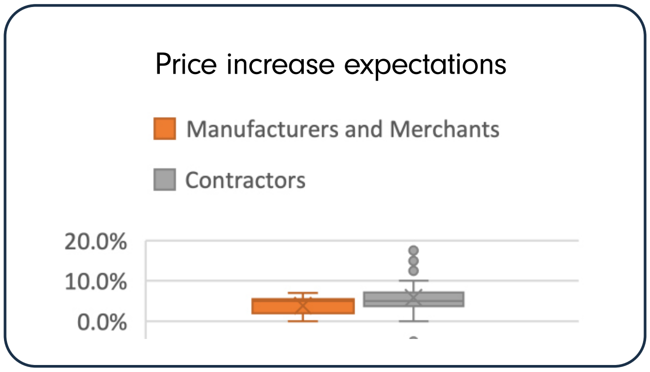
Our data shows there is a greater degree of certainty amongst manufacturers, merchants and contractors on what next year will hold.

Graph 5: Supplier price predictions for next 12 months: 2026 and 2025 (Source: PfH)

Forecast for 2026



Forecast for 2025



Six months ago, manufacturers and merchants were anticipating price rises of between 0% and +8%, with contractors predicting a wider range of -5% to +18%. But this quarter, there was much more consensus. The majority of manufacturers and merchants told us that prices would rise by around +2.5% - in line with standard inflation. Contractors, who always predict higher increases than the rest of the supply chain, were more aligned too, with most forecasting increases of between +4 and +6%.

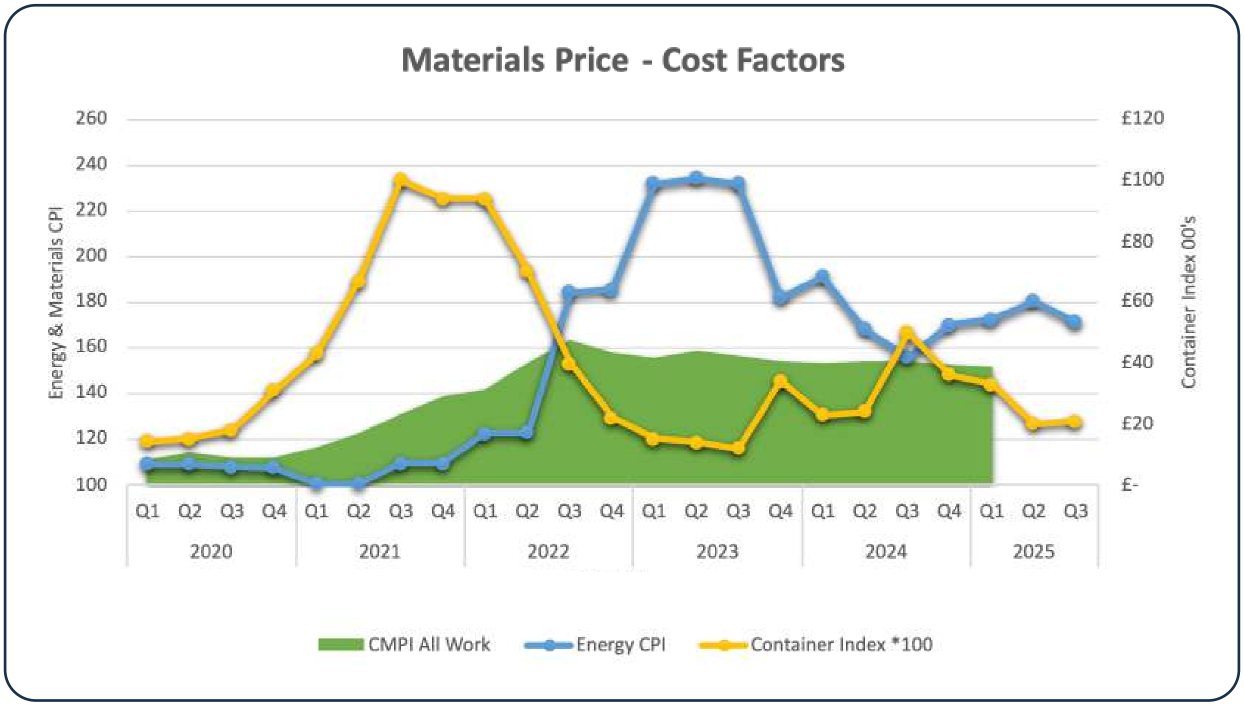
These results indicate there are no fundamental challenges in the supply chain driving pricing behaviours, so suppliers are reverting to standard inflationary metrics. Most activity has been priced in, and the market feels more resoundingly consistent about - and confident in - next year.

"I do not predict a decrease in prices at present" – Supplier

"[Price rise] percentage currently unknown whilst we work towards mitigating any increases. If an increase is required, we are working to keep it at the lowest level possible" – Supplier

Construction materials prices

Graph 6: Construction and Materials Price Index (Source: Freightos)



Although container costs picked up in Q2 last year, they have been falling for months now and in recent weeks, they've been at their lowest for 18 months.

Energy prices remain high, driving up some costs across materials supply, but they are far from their peak in 2023, when the fallout from Russia's invasion of Ukraine really hit.

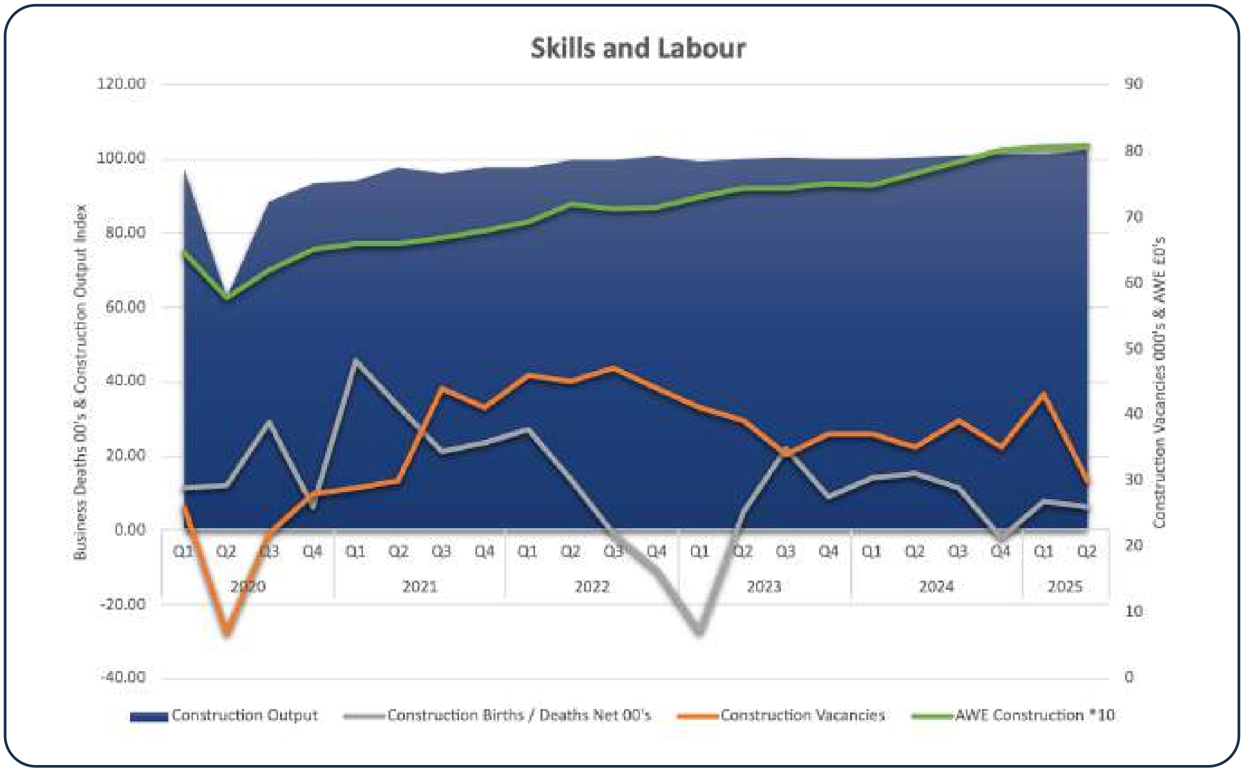
"We believe that the rising cost of energy, alongside the Government's rise in Employer's NI, will be passed along the supply chain for both materials and labour, and compounded for each step along the supply chain - as is usual" - Supplier

"Increased energy costs remain a factor and demand remains high in some product groups" – Supplier

The latest Construction and Materials Price Index figures aren't available due to ONS chain-linking data errors mentioned earlier, but overall, we are seeing materials pricing begin to stabilise.

Vacancies fall but wages climb

Graph 7: Skills and labour (Source: Office for National Statistics)



Construction vacancies have shrunk over recent quarters, bringing down a spike in unfilled roles (which peaked in December 2024) to around 30,000 in July-August 2025 – the lowest it's been since 2021. This signals that demand for new recruits is cooling significantly.

Despite the fall in construction vacancies, construction employment actually rose by 2.5% to 2.21 million jobs in June.

Does this point to construction businesses winding back on recruitment or have they just got better at identifying talent and bringing candidates through? It's likely to be the former, in line with other indicators around the ongoing skills gap.

Adding to this, we are seeing wages continue to rise in the face of plateauing output. They may not have risen as fast as they did in 2024, but this imbalance is still a concern, pointing to underlying challenges around skills and labour.

This is backed up by the latest data from the Construction Industry Training Board (CITB), which shows the industry needs to recruit 239,300 extra workers between now and 2029 - the equivalent of an extra 47,860 per year - to meet future demand.

"SJIB [Scottish Joint Industry Board] already posted 3.95% increase for electricians from 5th January 2026" - Supplier

If the market does heat up in 2026, with new public housing orders flooding in, then wages and vacancies will shoot up too, exposing the structural weaknesses that have yet to be addressed around construction skills.

Key advice

Don't assume contractor capacity will match demand. With skills concerns rising, social landlords must be realistic about delivery risk. If your pipeline includes large retrofit, planned maintenance or new build programmes, consider evaluating contractors on their approach to workforce capacity, training investment, and financial health. A proactive approach at tender stage could prevent stalled projects later.

3 MARKET SENTIMENT

Labour anxiety rises amongst contractors

Workforce worries are reflected in the responses from manufacturers, merchants and contractors this quarter. When we surveyed suppliers for our last Sentiment Report, asking on a scale of 1-10 (10 being most concerned) how concerned they were about a current or future skills shortage in their organisation, the average answer was 5.96. This has now risen to 6.31. But the more telling insight lies in the contrast between different areas of the supply chain. Manufacturers and merchants have dialled down their concerns, from 4.83 to 3.38, but contractors, typically requiring more skilled labour, have jumped from 6.35 to a significant 7.06.

"The ongoing skills shortage is a real concern, but we're actively working to address it. Through our social value commitments in tenders, we regularly pledge over £2,000 towards training and qualifications to help grow and support the workforce in our sector" *- Supplier*

"I don't have any worries over skill shortages in our business, but I do have worries over skill shortages in the industry. Lack of qualified tradespeople will affect our own business - no kitchen fitters = no kitchens to supply. We are offsetting this by setting up training courses in-house where once trainees are fully trained up, we will work with local contractors to find employment opportunities" – Supplier

Key advice

Social housing organisations must take the lead in closing the construction skills gap, especially if demand surges in coming months. Now is the time to forge partnerships with local colleges, universities, contractors and fellow housing providers to co-create construction training academies, apprenticeships and graduate pathways. Focus on future-critical skills like external wall insulation, fire risk surveying and modern methods of construction. This isn't just about attracting new talent, it's about showing experienced workers that there's a viable, rewarding route into a sector that's evolving fast.

Supplier confidence rebounds despite doubts on sector growth

On a more positive note, the overall confidence of the supply chain is back in the 9s, jumping from 8.52 to an assured 9.31, the highest it's been since Q3 2022. This marks a real shift, with the market's structural steadiness laying firm foundations for a more buoyant 2026.

However, this rosiness isn't matched by the sentiment around construction growth over the next 12 months. Suppliers are predicting only a sliver of progression here, up just 0.49% to 6.8% this quarter.

These figures tell us the reason for a more buoyant outlook isn't the government's approach to stimulating growth. Indeed, when we asked suppliers how positive they are on the government's actions, their answer remained a lukewarm 5.22, almost exactly the same figure as last quarter.

> *"Growth in construction is a concern with the current Government we have in place"* - Supplier

Supplier optimism is likely driven by other factors. Manufacturers, merchants and contractors have overcome a number of torrid years for trade and geopolitical tensions. They have restructured, resized and reinforced their businesses and on top of this, economic headwinds are now looking more favourable. It's these dynamics that are responsible for their more upbeat mood.

"While the current landscape is undeniably unpredictable, this isn't unfamiliar territory for us. With over 25 years in the industry, we've weathered many periods of uncertainty—including the fluctuations of the ECO scheme and the challenges brought on by the COVID-19 pandemic. Each time, we've adapted and come through stronger" - Supplier

"Our business is built on multiple income streams, giving us the flexibility and resilience to continue delivering quality services even in challenging times. We're very aware that not all contractors are in the same position, and it's deeply disheartening to see skilled, knowledgeable, and hardworking businesses forced to close due to gaps in funding and shifting government policy" - Supplier

"We believe that our business will continue to experience growth as we have created new streams to allow us to undertake activity in both the public and private sector, however, businesses in general are going to have to be able to work leaner if they are to maintain a profit margin whilst being able to pay staff fair wages" - Supplier

Improved supplier-customer dynamics

For the first time in 12 months, we asked the supply chain to rate their strength of relationship with public sector customers. In Q3 2024, their answer was 7.9 but this has risen to a decent 8.6. This might be a result of better contract management, transparency and pipeline visibility brought about through procurement reform.

On the other hand, it might be the slow return of public bodies working with suppliers like they used to pre-Covid, with more face-to-face meetings and meaningful communication.

An alternative theory might be that in times of greater certainty, suppliers feel more confident in their relationships with public sector clients because other factors are on the up too.

"We have a good working relationship with all our clients and work well with the public sector" - Supplier

"I believe we have [a] very strong relationship with Public Sector customers in UK and Ireland and look forward to more opportunities...." – Supplier

Key advice

Strengthen supplier relationships further before the next upturn. With supplier confidence in public sector relationships on the rise, now is the time to deepen those ties. Don't wait for demand to spike - invest in regular, transparent communication, revisit your contract management practices, and ensure your organisation is seen as a reliable, collaborative, 'good' client. Stronger relationships now will pay dividends when competition for capacity intensifies.

Inflation is driving inflation

Finally, we asked the supply chain about factors contributing to their price rise forecasts for 2026 and there were no surprises.

Despite materials prices falling by 1% over the past year, a resounding 90% of suppliers still cited the cost of products and materials as the biggest drivers. This might be because national insurance increases have overridden the benefit of materials cost reductions.

“Difficult to predict with volatile world politics but inflationary [pressures] and with Government NI contribution hikes, [we predict] 6-8% [rises]” - Supplier

“Increased national insurance costs and materials costs will both impact upon prices in the future, particularly with tariffs and increased import costs” – Supplier

“Increased national insurance costs still have to filter through for some of the later products price reviews” - Supplier

“Raw materials are due to increase as well as Labour costs” – Supplier

The cost of labour was the second most common factor driving price rise forecasts, with 80% of suppliers naming workforce costs.

Rather than external shocks or novel pressures, suppliers point to inflation’s usual drivers - materials and labour - suggesting a self-reinforcing cycle of cost increases.

“Inflation will be the driver [of price rises]” - Supplier

Key advice

Be aware of the vicious circle of inflation begetting inflation. Being in a high inflation environment doesn't mean that all costs are going up. Arm yourself with the right data to challenge suppliers on price rises. Don't just let them tell you their reasons for hikes – research their cost base yourself.

Take a closer look at the supply story behind the price. Some materials, for example, are manufactured from countries like China, where domestic power supply buffers against global fuel price spikes. Add to that the falling cost of shipping containers from the Far East, and the case for blanket price rises starts to weaken. In many instances, product costs should be coming down, not up.

"Confidence in the construction sector has certainly been affected by domestic uncertainty and global pressures. There is a cautious approach from housebuilders as house sales slow, however this is largely tempered by the drive and demand from social housing providers. Preparing for the worst and hoping for the best seems to sum it up best"
– Supplier

"One of the rumours about the 2025 budget is an increase on the tax of quarried materials. If that's the case, anything that has quarried materials i.e. sand, cement, aggregate etc will increase" – Supplier

We are seeing certainty and assurance returning to the construction supply chain, with 2026 shaping up to be a year of steady growth. But this optimism comes with caveats. If demand surges, labour costs could rise sharply as firms compete for scarce skills - and those costs will be passed on. Workforce gaps may widen before they close.

This sentiment report was written ahead of the Chancellor's Autumn Budget on 27 November. While last year's tax changes increased employment costs, we don't expect further employer cost rises this time. The government remains committed to growth through construction, but remember, all forecasts here are subject to change.

Finally, everything in this report assumes global conditions remain stable. If new disruptions emerge, the sector's strengthened foundations - built over years of restructuring - should, hopefully, support a faster return to normality.

All things considered, the outlook for 2026 is positive. The sector is ready. The question now is whether the world allows it to deliver.

How we can help

We are PfH, a technology-enabled procurement partner. We work with leading organisations in the social housing sector to help manage spend better, drive sustainable value, and improve operational efficiency. At the heart of everything we do is our commitment to positively impact people's lives.

We provide procurement consultancy, compliant solutions such as frameworks and Dynamic Purchasing Systems (DPS), and procurement technology and analytics through our Quantum platform across the social housing sectors.

Get in touch to discuss your challenges or to find out more about how we can add value to your organisation.

Get in touch!

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