Supply Chain Sentiment

Q2 2023 report



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In our quarterly market sentiment series, we take an in-depth look at the confidence and attitude of the social housing supply chain and what this means for PfH members.

Every three months, we speak to a range of manufacturers, merchants and contractors from across the country to understand the challenges they face now and how they feel about the future.

We hope that by reading the mood of where the market is heading, social landlords can better prepare, particularly in such volatile times.

Cautious optimism from prudent suppliers due to lower costs, steadier demand and stable supply, but they are still preparing for the worst

Key findings

Overall supply chain confidence remains steady at

8.95%

(down slightly from 9.05%)

18%

of suppliers anticipate supply shortages (down by 22%)

Demand picture is stable

59%

of suppliers predict an increase in demand (down 8%)

68%

of suppliers still predicting prices rises in next 6 months (down 12%)

The national picture

We are moving from the gloom and nervousness felt at the start of the year to guarded positivity.

Suppliers have budgeted prudently for what they feared would be a difficult 12 months, but the predicted recession never transpired. The Truss budget 'hangover effect' has settled somewhat and there is more financial and political stability all round.

> ***"We are still being cautious regarding the decisions we make, but on the whole, we are optimistic about the rest of 2023 and beyond. Our commercial team are working closely with supply chain to negate any demand issues & each branch is continuing to keep stock levels high to ensure we can deliver for our customers"***

Most of the manufacturers, merchants and contractors we spoke to this quarter have been quietly positive, but they have caveated this confidence. We've all been in this 'green shoots' situation before and recent years have shown that we don't know what's around the corner.

Demand

Towards the back end of last year and into January 2023, we saw a short dip in construction demand and output, triggered by political and economic instability.

The fall in private sector building has been offset by public sector work – something that often happens in turbulent times.

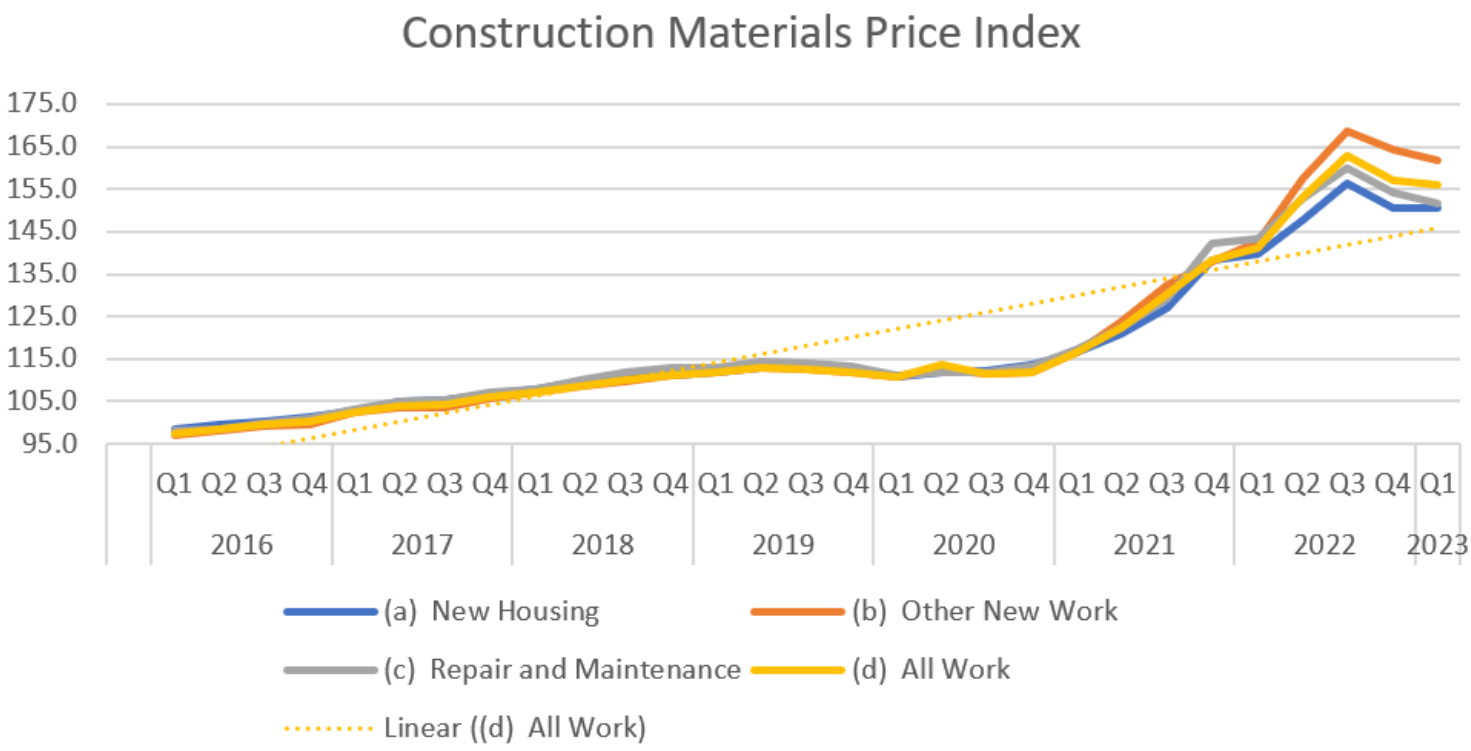
This is no bad thing for social landlords. More contractors are interested in working with housing associations and councils to fill their order books and it creates a competitive environment, driving down prices.

However, a downturn in construction demand, even in the private sector, isn't healthy in the long term for housing providers. It could lead to a drop in investment in the sector and this nervy point is one to keep an eye on.

> ***"Demand is pretty much on par with where we forecasted and we don't envisage that changing a great deal throughout the rest of this year"***
>
> ***"From a social housing sector perspective, we are forecasting a continued strong demand for products, however the wider housing and construction markets are less buoyant which is leading to careful risk management...and ensuring that our teams are focussing on the right customers and priorities"***
>
> ***"Demand has slowed down due to the hangover from the global component shortages. Budgets appear to have been spent in other areas in the last quarter of their financial year. We do anticipate an uplift once 2023 budgets are realised"***

Prices

Graph 1



Figures show that materials pricing peaked in Q3 last year and we began to see a downward trend in Q4. This has continued, albeit less markedly, into Q1 2023.

That's good news for social landlords, but, interestingly, the suppliers we spoke to this quarter are still predicting a price increase in the next six months.

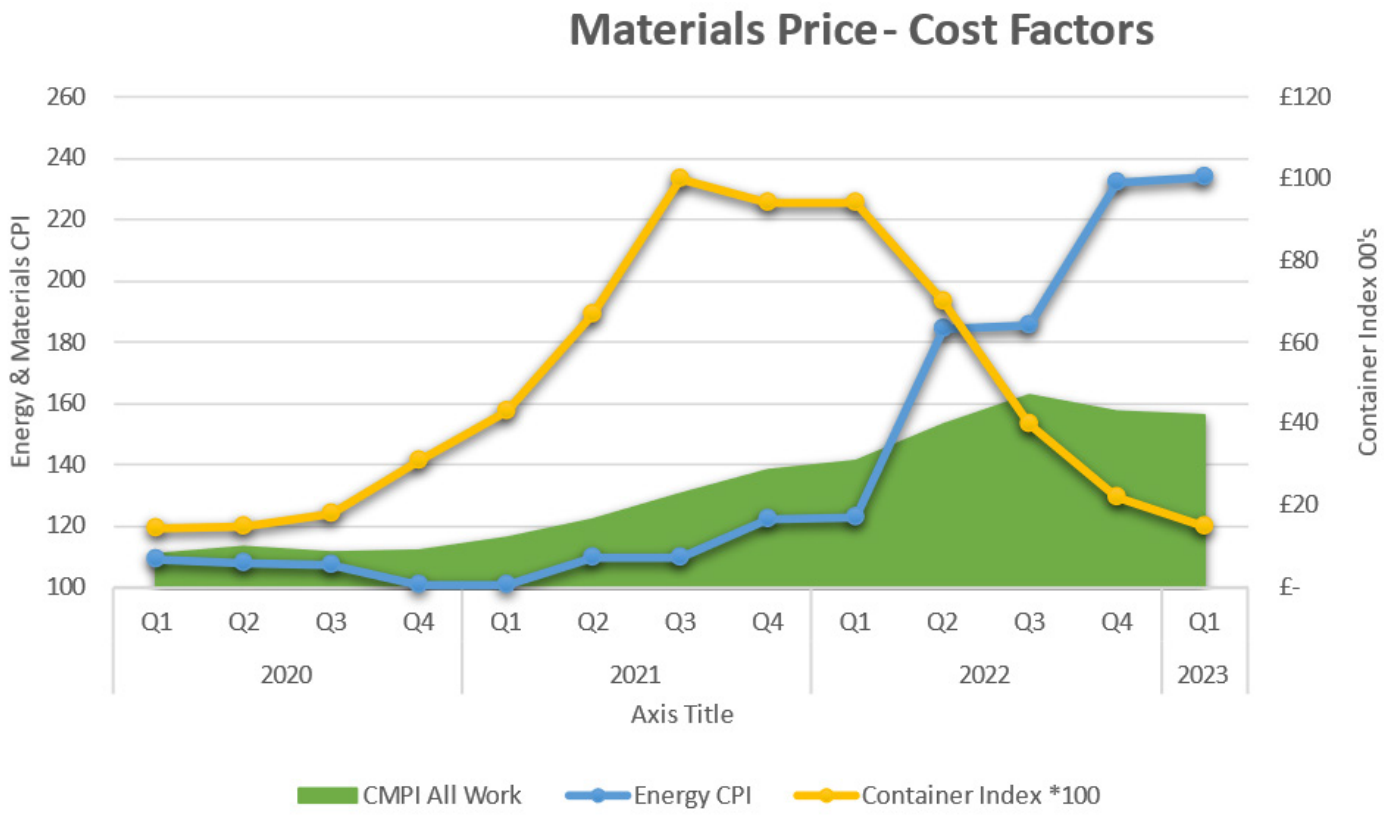
> ***"... still operating as normal, costs have slightly been increased"***
>
> ***"We will propose an annual increase as normal. No other increases are forecast"***
>
> ***"Products costs have stabilised but still seeing increases"***

In our last Sentiment Briefing, 80% of the supply chain said they were anticipating price hikes. Although this figure has now dropped to 68%, the expectation of rises in certain category areas still lingers.

Generalised inflation is the biggest contributing factor again this quarter. A significant 68% of suppliers said it was driving price rises, compared to 60% in March.

Materials

Graph 2



Assuming the picture remains stable, we expect to see materials prices continue to fall across the remainder of the year. This is partly due to energy prices which seem to have peaked and will likely drop from Q3 2023 onwards.

> ***"Energy costs will be a driver in prices of materials still, however we do not believe it will be anywhere near the scale of previous material increases and there has definitely been a lot more stability in pricing over the last 6 months"***
>
> ***"Energy costs are still a concern"***

Shipping

But the more stable price picture is also down to the fall in shipping costs which began back in Q4 2022 and has continued, to a lesser degree, through to Q1 2023. The shipping container index now stands at pre-pandemic levels.

We're still seeing volatility in exchange rates and the price of raw materials, but as an overall proportion of the cost of finished goods, raw materials have less impact than energy and shipping.

> ***"We believe most product areas have stabilised overall. we are seeing commodity fluctuations in some raw materials but for finished product this is resulting in a general overall flat picture. However, I would caveat that with...the last 3 years have been somewhat unpredictable so flat may not last if any new curve balls arrive!"***

> ***"Again, we are seeing stabilisation in most finished products with decreases in other areas such as currency and diesel which impacts delivered costs more than product cost"***
>
> ***"We have taken measures to reduce our cost base and ensure that all new contracts are sustainable and profitable"***

Insolvencies

Lower materials costs and a static demand environment is positive. However, we did see a big readjustment last year in terms of construction business births Vs business deaths. And in Q1 2023 there's been a further dip in the number of construction firms operating in the UK economy. Between Jan – Mar 2023, there were 11,600 construction business births compared to 14,100 business deaths, a major loss of 2,500 building firms.

Labour shortages, energy and materials costs and inflation are all factors driving these figures. In fact, construction companies made up nearly 20% of all company insolvencies in the first quarter of 2023, higher than any other sector.

China and Taiwan

It's also worth keeping an eye on tensions between China and Taiwan and being aware of the supply chain risks for your organisation. Fallout from the conflict could be significant due to the sheer volume of products they both manufacture. In our next Sentiment Briefing we'll update you on the numbers, including goods and raw materials produced in these regions and how this could impact materials supply chains.

People

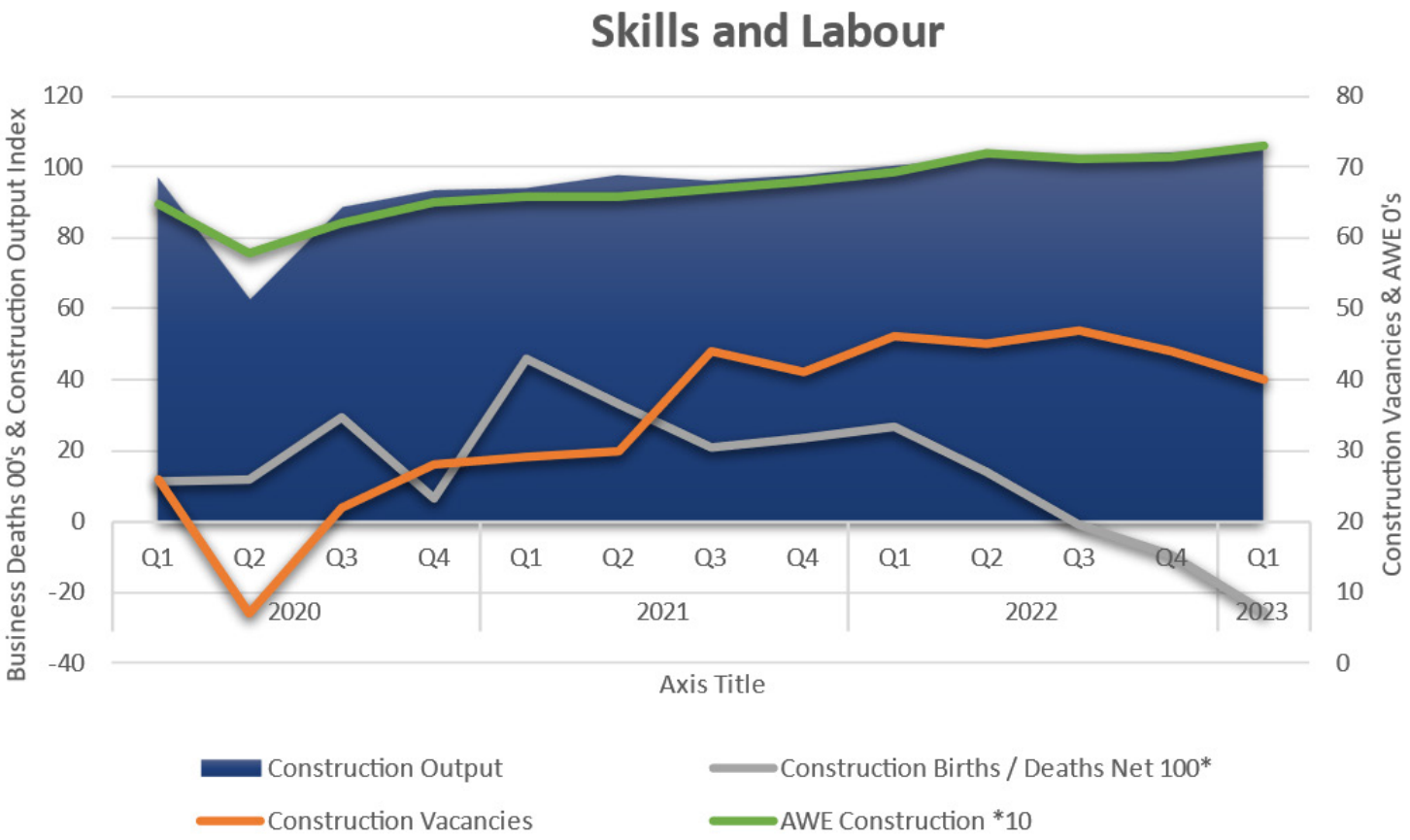
The slowdown in construction work across the private sector is a key driver around labour supply. As construction business deaths rise, vacancies, paradoxically, fall. Although there are still some skills shortages (as shown in our supplier comments below), these aren't currently as severe as we've seen in recent periods. But this won't last. As the construction sector picks up again, it will be at the detriment of labour availability, and we'll return to the labour gap we're all so used to.

> ***"Recruiting skilled labour is challenging at the moment"***
>
> ***"Looking to recruit more labour"***
>
> ***"Currently on the lookout for staff, labour and interviewing all levels in an effort to bolster resources"***
>
> ***"Taking on trainees and looking to employ full time staff members"***

Average weekly earnings track output and this close connection shows just how sensitive the construction labour market is. As soon as we see output increase, average weekly earnings will shoot up again as tradespeople can demand more pay.

> ***"Labour rates ...went up due to inflation. However, depending on the PPM [planned and preventative maintenance] contract, it is not passed onto the client as we are on fixed term rates"***
>
> ***"Upward cost for skilled labour"***

Graph 3



Supply

Back in March, 67% of manufacturers, merchants and contractors predicted an increase in demand for products, works and services. But those suppliers we spoke to this quarter were more cautious, with only 59% expecting a rise.

It's clear that due to the downturn, suppliers are more confident they can meet demand. A substantial 40% were anticipating supply shortages last quarter and this has dropped by over half to 18%.

> ***"No major issues in the supply chain"***
>
> ***"No issues on supply"***
>
> ***"Product supply is generally good at the moment"***
>
> ***"Some suppliers in our market are still experiencing shortages when it comes to product. Although it has improved significantly on 2022, there appears to still be a delay in availability catching up with the ongoing demand"***

From a manufacturer perspective, the component shortages are, by and large, resolved. And wider availability issues affecting merchants, such as when British Gypsum products were on allocation, have settled.

> ***"Equipment and machinery lead times continue to be longer than usual and costs have increased significantly above inflation over the last 3 years. Staff resources also remain challenging"***

Optimism Score

Manufacturers: 8.86%



Merchants: 9%



Contractors: 9%



When we asked manufacturers, merchants and contractors how confident they feel about the success of their business in the next 12 months, the average response: 8.95%, was similar to last quarter: 9.05%.

In March 2023 we'd seen a dip in supplier optimism due to Q1 recession predictions. But this time, although supply chain positivity hasn't shot back up to where it was pre-Truss, it's not getting worse. This supports the overall sentiment of wary confidence.

Planning for a downturn

For this report we asked suppliers how their organisation is coping with the recession that never arrived. We wanted to know how it's impacted their decision-making and the responses we received are interesting.

There is a clear theme of fiscal prudence. The supply chain was careful when setting budgets and targets for 2023 and this has paid off. Everyone planned for the worse and in the end, circumstances delivered just above that.

> ***"Working mainly in the social housing and student accommodation markets... we are a little more recession proof. Working with clients to confirm budgets allows us to plan well ahead, helped by long term contracts through frameworks such as PfH.... Should there be a downturn for whatever reason, our business model allows us to resize our business in an efficient manner"***
>
> ***"We have managed our business by setting cautious budgets for 2023. The actual business volume is performing better. We will adjust budgets for volume for the rest of the year in a month by month basis"***
>
> ***"Business costs are continuing to rise while some are reducing, we are trying to take a balanced view of overall costs to try and mitigate any price inflation on our products"***
>
> ***"Our Directors will take sensible decisions on headcount to ensure we are sufficiently staffed to cope with day to day business"***
>
> ***"We have identified an opportunity to reduce our stock levels on non-key lines, reducing our exposure to excess stock levels"***
>
> ***"We are managing our cost base well. We still plan to invest in our digital propositions and branch expansion"***
>
> ***"We have taken measures to reduce our cost base and ensure that all new contracts are sustainable and profitable"***
>
> ***"Having to carefully balance business costs with varying demand is a challenge. We believe the potential for sustained growth is on the horizon"***

Analysis

So, what does all of this mean for social landlords?

> *"Everybody is used to disaster planning – we've had three solid years of it. Supply chains are now much better prepared for volatility, so if (or when) it does happen, they'll be more able to cope. PfH has been engaging with companies right across our supply chain and we can see that business models have become more robust and more agile."*
>
> *"From a product perspective, supply has stabilised significantly from recent months. From a labour perspective, shortages have also stabilised due to a flat lining of construction demand. It's a far more balanced position from the supply chain than we've seen in recent years."*
>
> *"The materials cost base is slowly coming down although it might not be easy for all organisations to see this yet, depending on when they conduct price reviews. The message is, you will begin to see falling prices across the rest of the year if you haven't already seen them."*



Checklist for PfH Members

What actions should social landlords consider in response to this market intelligence?

Understand pricing complexities

Social housing budgets have been significantly challenged this year at the same time as costs rising. Everyone is trying to do the same with less or do more with the same. And although the direction of travel for prices is positive, you may see a slight rise before you see a dip - depending on when your price review is.

My advice this quarter is to follow the supply chain's lead and act responsibly and prudently. When setting budgets, plan for the worst. Just because it hasn't arrived yet, doesn't mean any unfettered spend reviews should take place.

With the complexity of pricing, you may have already seen the peak, or you might feel it in coming months. But be patient, price reductions may not have come through at line level with immediate effect.

For example, if you have annual reviews, prices could have been last set in June 2022. Think of the increases your supply chain will have seen over the last 12 months. They will need to recoup that so be realistic, don't expect too much, but manage pricing carefully. As ever, close communication with your suppliers on their pricing cycles and expectations is critical

Challenge unsustainable bidding

> *"There remains a disturbing pattern of housing clients accepting abnormally low bids at procurement, driving down service budgets (potentially for the long term) and resulting in service failure"*

Housing providers are telling us that some suppliers are trying to bolster their public sector order book through 'race to the bottom' tactics. This vicious cycle, where contractors tender for work at unsustainable levels, and then have to continue doing so, is bad news on a number of levels. It brings back memories of Carillion's collapse and could potentially push good firms (pricing jobs realistically) out of the market.

This type of bidding also has major implications for the quality of work that social landlords receive. By slashing their margins to win the work, contractors have no wriggle room to deal with market volatility.

And if there's anything the last three years have taught us, it's to have a rainy-day fund to cope with what's around the corner.

If you receive an abnormally low bid, there is a process to follow. Start by questioning the supplier. Is it a mistake, have they factored in all the costs of supply? If it's a genuine price, then you can remove them from the formal tender process if necessary.

Low bids are attractive, particularly when social housing budgets are being squeezed, but consider how they might lead to a strip-back on servicing and overall performance.

There's also the risk of a contractor walking off site if market costs climb again and they just can't deliver for the price they've promised.

Think carefully about genuine reduced costs and 'fake' reduced costs. If it looks too good to be true, it probably is.

Contact

PfH's procurement team reviews prices on behalf of Members. For more information on how PfH can support your organisation today, get in touch:

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www.pfh.co.uk

Or alternatively you can request a call back from a member of our team **here.**

Report contributors

Thank you to the following organisations for their continued support in contributing to knowledge pool across the Social Housing landscape.







































