



# Supply Chain Sentiment

## Q1 2023 report





**Neil Butters, Head of Procurement**  
Procurement for Housing

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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.

Delicately balanced economy is prompting positive green shoots, although nervous supply chain knows that big risks still loom large

## Key findings

Contractor confidence has climbed again to

**8.82%**

(up from 6.9%)

**67%**

of suppliers predict an increase in demand (up 6%)

**36%**

of contractors expect demand to outstrip capacity (up 36%)

**55%**

of contractors think they'll face supply shortages (labour) over next six months (up 15%)

**80%**

of respondents think prices will rise in next 6 months (down 2%)

## The national picture

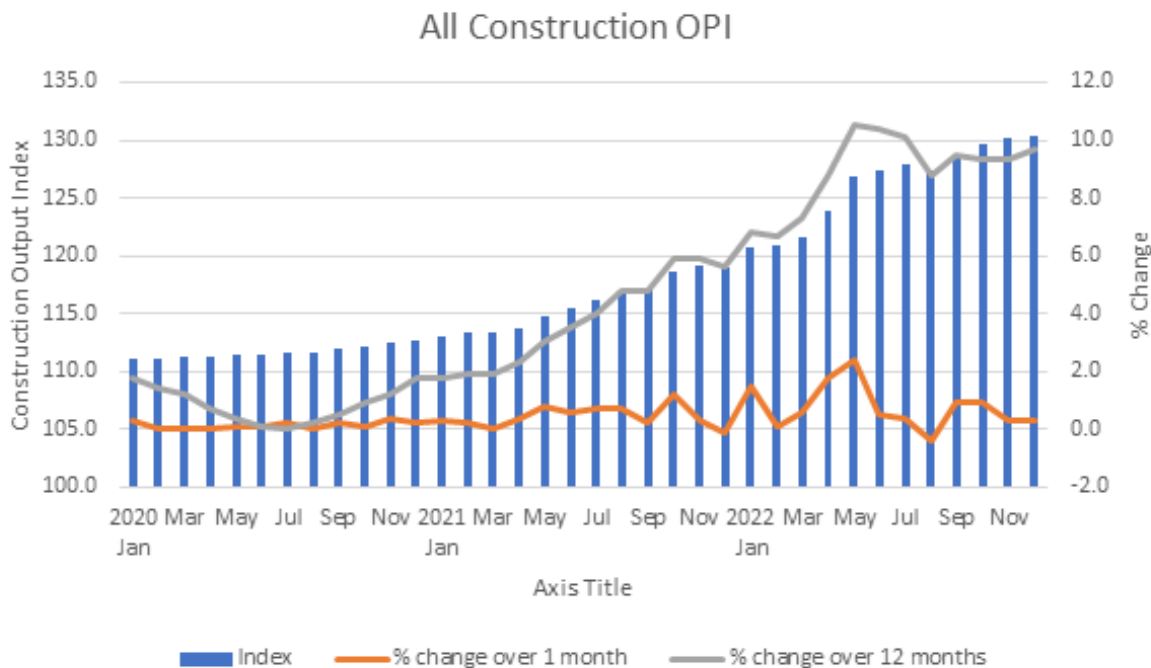
Looking at the wider macro-economic situation, it feels like we're in the land that the recession forgot.

We've all been preparing, but it hasn't really hit. Despite this, businesses are being told to behave like there's a downturn because that could soon be the reality. It's a confusing position.

This is compounded by the fact that we've got used to the geo-political uncertainty of the past 12 months. The war in Europe has been going on for over 12 months. It's still having an impact on the supply chain and price volatility (energy prices in particular) but it's also become the norm. It might sound like a contradiction in terms, but we are in a long and settled state of flux.

This Construction Output Prices Indices (OPI) graph from the Office for National Statistics shows what's been happening since January 2020.

Graph 1



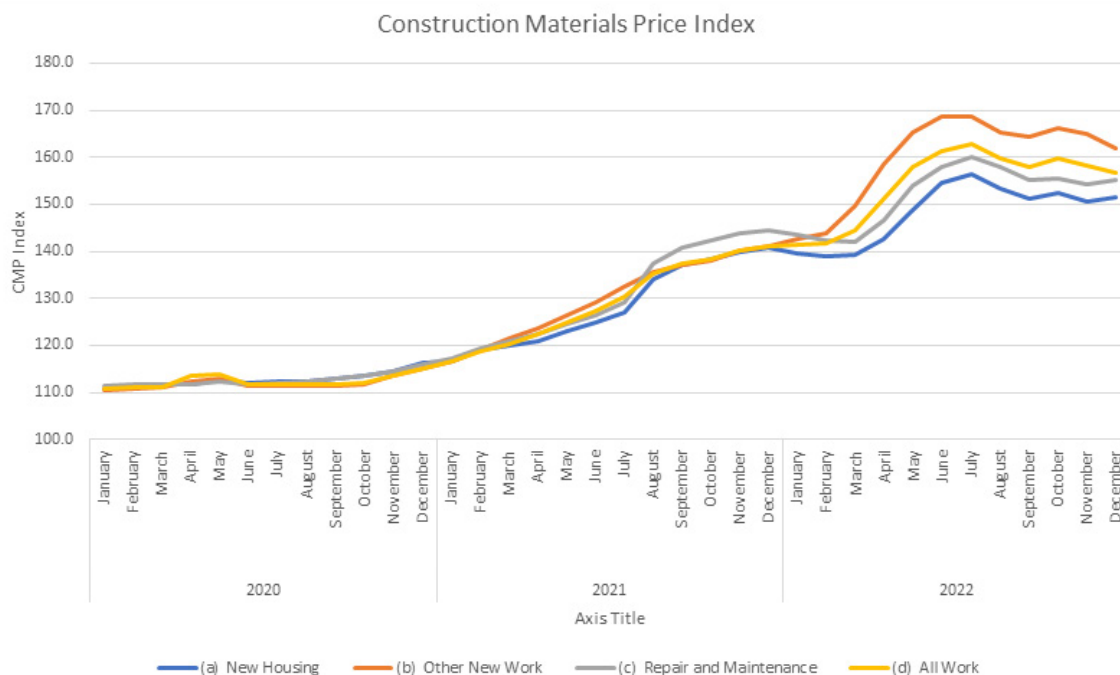
Price hikes tailed off in the final quarter of 2022 – something that still has to be confirmed as the last three months are always provisional - but this graph feels realistic. It also chimes with the preparations that everyone is making for the recession, without us actually being in a slump.

While the construction sector has been putting up prices to cope with volatile conditions, getting ready for a downturn is all about shoring up order books and having a pipeline of opportunity booked in. From graph 1 you can read the pricing mentality of construction firms. They need to win contracts to stand their businesses in good stead if a recession hits and that means being more realistic on pricing.

## Prices

The good news is that materials pricing in general seems to have peaked and is now beginning to stabilise.

Graph 2



From January 2020, we can see an unprecedented ascent on this Construction Materials Price Index (CMPI) graph. Prices started at 116 points and rose to a substantial 162 points in July 2022. We then had the Liz Truss effect in October last year, but pricing steadied quickly after that.

As a result, it looks like we have a greater degree of economic security. But this is false really, as we don't know where things will end up. More than ever, it's tricky to predict the economic direction of travel. Things may feel more settled but there are still so many 'balls' in the air. All we need is for one to drop and everything could come crashing down.

### Materials price drivers

Graph 3



Container and shipping costs have fallen and are now back to pre-pandemic levels. China is out of localised lockdowns, no longer closing its major shopping ports due to Covid. The supply chain has got more certainty now than at any stage over the past three years. Suppliers know that when they order a product it is likely to be there within the lead times stated and at the right port.

Although wholesale energy prices have fallen significantly in recent months, the energy price index continued to rise significantly in quarter 4 last year. This means that prices on certain products (where ongoing energy costs are built in) haven't yet settled.

Indeed, when we surveyed the supply chain this quarter, 80% of respondents still predicted price increases in the next six months. Although this is only down 2% from last quarter, it still demonstrates a growing confidence not seen since before the pandemic.

In terms of cost drivers, it's a similar picture to last quarter. On both occasions the most common reason for price hikes given by suppliers was inflation. Although in this survey, that was less so for manufacturers (50% compared to 66.7% in December 2022).

Could this show that adjustments at production-line level are beginning to stabilise? Although this isn't something that's filtered through to merchants yet who have a slightly different cost base with transport and final mile solutions. Every single merchant we spoke to this quarter - and last - said that inflation was a contributing factor.

*"Freight costs and raw materials have stabilized however, we are now receiving notification of changes in costs due to energy price."*

*"Increased rise in energy costs"*

We can cautiously predict, at this stage, a more settled year ahead than this time last year from a materials price perspective.

Graph 4



This box and whisker graph shows less variability in the price hike forecasts coming from manufacturers, merchants and contractors this quarter.

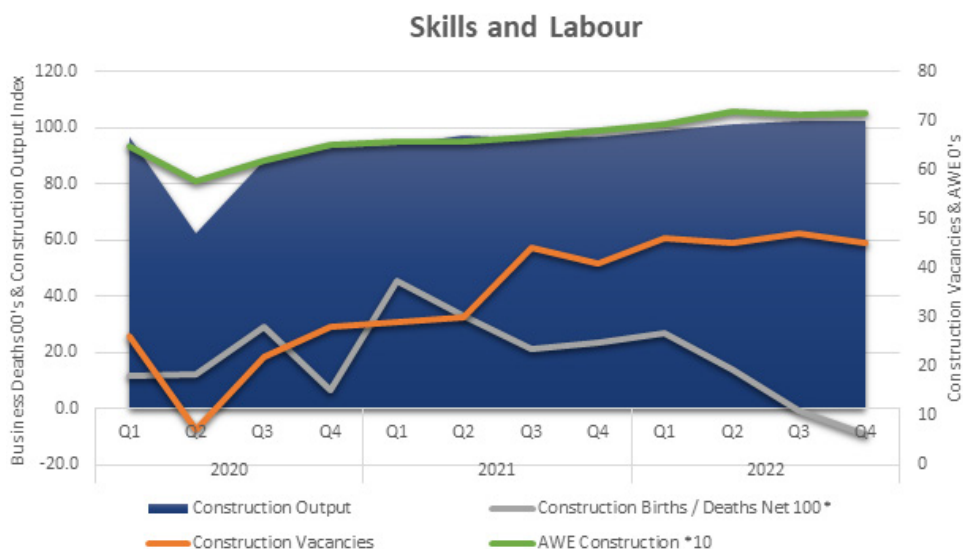
Surprisingly, one supplier we spoke to even predicted a 6% cost reduction in their pricing over the next six months – a significant change in sentiment.

Merchants too, are more aligned on price increase predictions than they have been in the last six months. This indicates that the cost of energy and shipping are now steadier.

Contractors are the only outlier. There is a greater degree of uncertainty amongst this section of the supply chain, possibly linked to their reduced foresight and control over materials and labour inflation and fear of a looming recession. As a result, contractors showed the biggest variation in expected price rises.

We know with contractors, if they have a solid order book, they will pass costs on and if not, they will absorb these hikes and squeeze their margins.

Graph 5



The graph above shows that average weekly earnings (green line) have settled. We're no longer seeing the steady climb in wages from previous quarters. This is reflected, to an extent, in the steadying of building sector vacancies since the start of 2022 (see orange line). It's also linked to redistributed labour in construction (grey line) which shows construction business births Vs business deaths. Tellingly, from Q3 to Q4 2022, that figure dipped into the negative as pre-recession demand petered out and organisations that haven't been able to pass on price increases have been increasingly going out of business.

This all points to the settled state of flux I mentioned earlier. There are a range of impacting factors all counterbalancing each other to provide a relatively stable picture in a volatile time. No one really knows which way it's going to end; hopefully the right way, with materials prices falling, the construction market stabilising and output growing gradually, in a sustained manner. But will this actually happen?

## Demand

Looking at demand, it's a more positive outlook this quarter. In the last survey, 60% of the supply chain were forecasting an increase in demand for their services. This time that's crept up to 67%.

But when it comes to having enough capacity to cope with demand, the picture is very different from last quarter. In December 2022, when we asked contractors the question, 'are you currently experiencing demand that exceeds capacity?' they were bullish. Not one said they were having capacity issues. But this time around, over one third said yes and another 18% said no, although they are expecting to have capacity problems in the next six months.

These bandwidth issues may be down to recession planning and a lack of investment in staff and infrastructure – meaning that holes in capacity could crop up this year.

Interestingly, 90% of contractors told us that they'd seen an increase in their labour costs. Although this isn't borne out by national weekly average earnings figures (see graph 5), these staffing costs could be specific to contractors as they try to encourage workers back into the public sector, from more lucrative employment/works.

We asked contractors what they were doing to cope with increased demand:

*"Looking at new supply chain, additional resource and skills particularly in the retrofit space"*

*"Recruitment drives and additional in house training"*

*"Actively recruiting direct labour and developing supply chain capabilities"*

*"Pro-active recruitment techniques to attract new talent and supply chain members"*

*"We are continuing to work hard in our recruitment drive to secure the required resources across the business"*

## Supply

Despite a steadying of supply markets, the suppliers who answered our survey in February 2023 actually predicted bigger shortages in the next six months than they did last quarter (40% Vs 24%). This is down to concerned contractors whose gloomy predictions on shortages have pushed figures up.

However, in terms of the production and distribution of products, feedback shows that things are reasonably well settled and manufacturers are adapting to semi-conductor shortages and energy price hikes in order to sustain their post-pandemic recovery.

*"Only [certain] boilers that continue to cause supply issues. All other manufacturers and products are [in] stock [and] in a healthy position."*

*"We currently have issues sourcing semi conductor chips for some products (mainly smart controls) but for the products we offer on your contract we are generally ok."*

## People

Contractor worries over delivery are backed up by their feedback on skills shortages. Manufacturers and merchants don't seem troubled about current or future labour shortages in their organisations, but contractors, when asked about their concerns on a scale of 1-10, came out at 6.18 – almost exactly the same score as last quarter.

*"Lack of skilled labour"*

*"Quality labour is harder to find therefore we've started a Fire Risk Assessor academy to assist the industry in training new Fire Risk Assessors"*

*"To attract skilled labour we have to increase the financial package in line with our competitors"*

*"Currently seeing a lot of movement in the labour market which is driving up salaries"*

*"Increase in pressure for additional wages from engineers..."*

*"Lack of decent engineers"*

*"There is currently a considerable shortage in skilled operatives, which appears to have been exacerbated by Brexit"*

We know it's difficult for contractors to invest in skills given the cost of borrowing and general financial uncertainty right now. This capacity issue is something to keep a firm eye on.



## Optimism score

**Manufacturers: 8.33%**



**Merchants: 10%**



**Contractors: 8.82%**



Last quarter the overall confidence score of the supply chain was 8.37%. This time around, suppliers were slightly more positive, with confidence rising to 9.05%.

This tentative optimism is reflected in some of the comments we received from suppliers:

*"We remain positive that 2023 will be another good year, however given the last 2 years' experience, it's difficult to forecast potential plans"*

*"We have put a conservative budget together and are keeping a tight control on costs so our business can remain profitable in an uncertain market"*

*"Year has started well but not expecting massive growth, probably flat. We are being conservative... Getting inflation under control is paramount, need to put the country back on a steady footing"*

*"Hopeful...hopefully no boiler shortages in 2023"*

*"With clients' pressures, funds will be taken from other pots before compliance, so it will be tight, but should be fine"*

Contractors, particularly, had a big jump in mood. Their gloomy-ish score of 6.9% last quarter has shot back up to a buoyant 8.82% this time around. Such optimism could be down to the latest economic figures which indicate that energy costs are dropping, inflation is falling, and the recession will be shorter and less substantial than previously thought.

Again, contractor confidence is reflected in feedback this quarter:

*"Positive - believe there will be considerable uplift in demand for low carbon technologies"*

*"We are expecting a successful year. We have some new products to the market due and are focusing more on the Social Housing, New Build & Installer sectors"*

*"Very positive for 2023, no issues to note"*

*"We are positive for a strong 2023 with additional work coming from retrofit, fire safety and damp and mould"*

*"I am positive about the 2023 outlook.... We have experienced recessions before and given our spread of clients and sectors are able to navigate any downturns by focusing in the right areas."*

*"Whilst we have experienced some potential signs of a recession or slow down in some sectors, demand appears to still be outstripping supply at the moment"*

# Analysis

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

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*“The current situation is like a very delicately balanced set of scales. If you remember what happened with Liz Truss, that showed how finely balanced we are as an economy. You only need one fool hardy budget or economic statement, and it sets the financial markets off in turmoil. And that has a knock-on impact of many months. In fact, we’re still paying for that Autumn 2022 mini-budget now.”*

*“But it’s not just nerves around domestic politics, it’s also global supply markets. It may sound ridiculous, but we just don’t know what’s around the corner in terms of macro events. Everyone is skittish. We’re all wishing that nothing untoward happens over coming months. And hopefully, that will remain the case, but we must still plan for an unsteady year.”*

*“The outlook does appear more positive but it’s really hard to say that with any degree of certainty. We are still on a potentially volatile cusp. There is a fragile equilibrium involving a number of factors. I’m seeing tentative green shoots – there is the general expectation and hope that things are settling down and we might just see a pre-pandemic, atypical year. But something could come along and easily rock this balance, so we must all be ready.”*



# Checklist for PfH Members

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

## Remain agile

Be prepared to respond quickly and decisively to emerging supply chain opportunities or issues. We've all been through so many volatile macro and socio economic rollercoasters over the last two years that we should be really good at responding. Prepare for volatility – we are still in choppy waters even if things feel calmer.

## Scenario plan

Don't let your guard down - be ready for all situations. Think all possibilities through carefully, because, as we know all too well, it's hard to predict what will happen next. That means scenario-planning for two opposite ends of the spectrum and everything in between. If X happens what does that mean for your suppliers and your organisation? The same with Y – how would it affect your supply chain and your operations? Planning now will help you keep one step ahead.

## Know your supply chain

It may sound obvious, but communicate meaningfully with your supply chain. Your suppliers live and breathe their markets. Ask them about their cost base, listen to their potential issues and industry observations. Having this dialogue will help you deepen relationships but also build your supply chain knowledge base, alongside your own market research.

## Adopt a commercial mindset

Opportunities abound right now, and your procurement team is ideally placed to harness them. For example, contractors may want to secure long term projects to sure up their order books. That means they might be more willing to negotiate on prices. Consider how you can use the current economic outlook to your advantage.

## 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:

 0800 031 5405

 [info@pfhscotland.co.uk](mailto:info@pfhscotland.co.uk)

 [www.pfhscotland.co.uk](http://www.pfhscotland.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.

