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Supply Chain Sentiment Report

Q2 2025

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Introduction

In our new look bi-annual sentiment report, we analyse the market mood, giving Inprova 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 2025**
3. **Market Sentiment**

We hope that by reading the mood of where the market is heading, pubic sector organisations can better prepare for the future.

Neil Butters,
Operations Director,
Procurement for Housing

1 Market summary

Calm yet weary market, fatigued by endless flow of geo-political shocks, is divided on Trump's tariffs, but united on feeling of malaise, uncertainty and indifference

Survey results

- Optimism around business success is at its lowest for two years: 8.52
- Confidence about overall construction sector growth dips to 6.3, from 7 last quarter
- Worry around workforce shortages reaches 5.96, up from 4.94 in the last survey
- Tackling skills shortage is primary way suppliers think government can drive construction growth
- Supplier price predictions vary widely, reflecting volatility they are coping with
- Despite all of this, construction indices are up, and order volumes are slowly improving

The macro-economic construction environment - six quarterly indicators:

↑ FTSE 350 Construction and Materials Index – up

↗ Construction output – small increase

↗ Construction output prices – small increase

↗ Construction vacancies – small increase

↘ Construction firms: net births and deaths – small decline

↓ Construction materials prices - down

Supply chain confidence dips

There is no doubt that we're now living in a global era of instability. The Covid pandemic, Russia-Ukraine War and Gaza-Israel conflict have all affected energy and food security, pushing up prices, creating high inflation and impacting a wide range of supply chains.

But it was Trump's tariffs in Spring that confirmed volatility is the new normal. Ordinarily, this type of shock would be met by alarm and then a rallying cry, with merchants, manufacturers and contractors moving fast to adapt, innovate and mitigate. That hasn't been the case this time.

Suppliers are more immune to geo-political and economic disruptions. For the last five years they've had to continually reimagine their business models and operations, and the result is attrition and now a new sentiment: apathy.

Although the market is reacting, their response is more 'laissez-faire' than a few years ago. They've already made structural changes to boost resilience, and if they've survived thus far, they must be doing something right. There isn't panic, just a sense of 'here we go again'.

This quarter, our supplier survey reflects this malaise. Confidence levels are the lowest they've been for around two years, something borne out by Travis Perkins' 2024 results, announced this Spring, which saw profits suffer further decline – in line with the general merchanting trend. In times gone by, news like this would have stimulated competition, but we're not seeing that spirited response right now.

"The impact of a trade war on the UK construction industry is likely to be multifaceted and largely negative, potentially causing delays, increased costs, and uncertainty in project planning. While some opportunities for UK firms might arise from shifts in global supply chains, the overall effect is anticipated to be detrimental" - Supplier

"The present state of flux may cause global recession which may affect all parts of our economy including construction, this will mean it will be more important than ever for our government to fund and stimulate construction as much as possible" - Supplier

"UK may manage to miss the worst of the direct impacts on tariffs however anything that affects the global economy will have knock-on effects for the UK" – Supplier

"The rising tariffs and global trade tensions could weaken consumer spending. However, experts suggest the tariffs could prompt the Bank of England to cut UK interest rates sooner than expected, which would have a positive impact on the construction industry" – Supplier

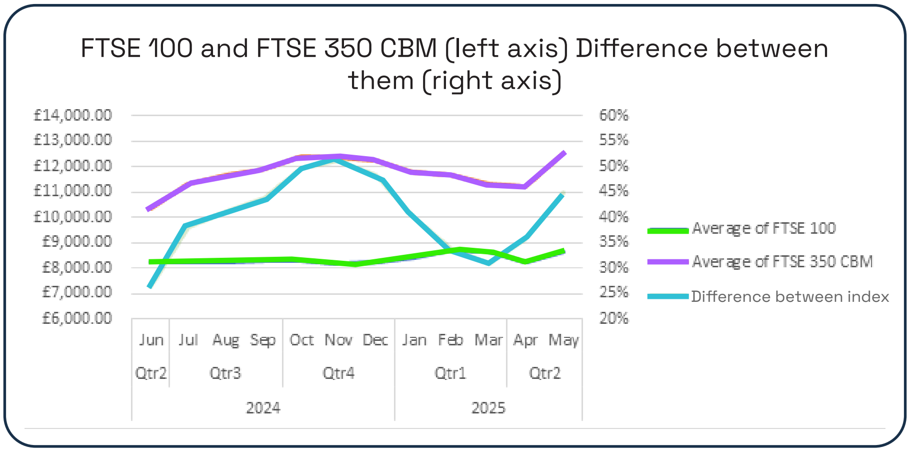
"The trade concerns of the global community will certainly restrict market confidence and temper the growth of UK construction" – Supplier

Money markets remain buoyant

In contrast to this ground level weariness, the financial markets are more optimistic. For the first few months of 2025, the FTSE 350 Construction and Materials index had been performing lower than the FTSE 100. With construction output deflated, this is where we expected this building industry stock market to be.

However, since April, the FTSE 350 Construction and Materials index has begun to rally, outperforming the broader FTSE 100 and indicating a welcome confidence boost.

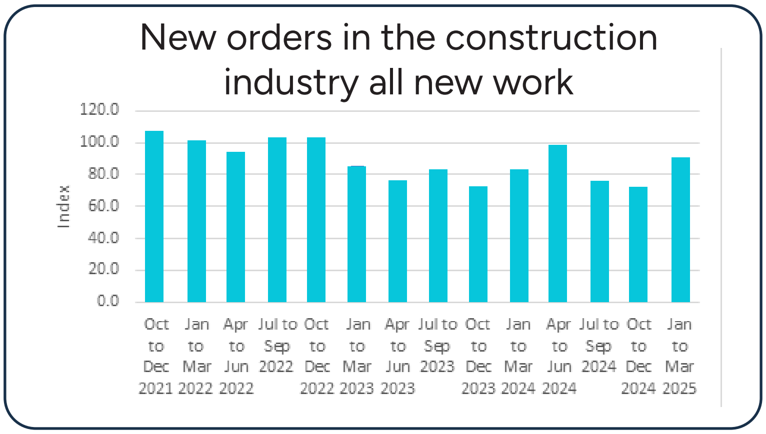
Graph 1: FTSE 350 Construction and Materials compared to FTSE 100 (Source uk.investing.com)



Green shoots in construction output

This confidence is also reflected in the direction that construction output is heading. Although current figures remain flat, it's a more hopeful picture when you home in on new order volumes. Whilst Q1 2025 numbers are still below historical levels, they have picked up from a very static H2 2024.

Graph 2: New construction work (Source: Office for National Statistics)



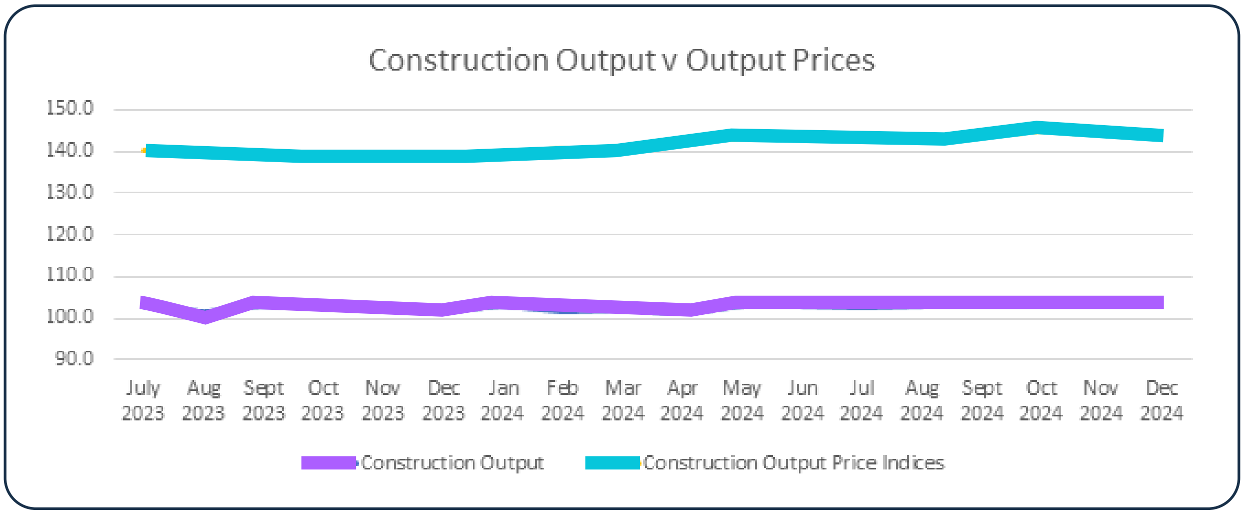
> *"The erratic swings cause insecurity, however the money markets see the situation differently"* – Contractor

Markets react more positively to this type of movement than suppliers at the coal face, where new orders take time to filter through. So, this might represent the beginning of green shoots if everything remains the same. But with unpredictability now standard, it's important to remember that we just don't know what's around the corner.

Construction output prices

In our last Sentiment Report, we talked about the widening chasm between construction prices and output, meaning that although output remained flat, costs were climbing. That picture continued in H2 of 2024, with output plateauing, while prices notched up by one point.

Graph 3: Construction Output vs Output Prices (Source: Office for National Statistics)



The worry is that when rising order levels filter through, output will increase, and prices will shoot up even further. With structural issues around construction labour still not resolved, it could be problematic if demand picks up fast.

Key advice

My advice in the last report was to lock in suppliers before that starting pistol is fired. With recent funding announcements in the spending review, that starting pistol may just have been fired, but it may not be too late. Suppliers still want to fill their order books and protect the medium term, so act now, lock in those prices and be a 'good' customer.

2 Market price predictions for 2025

Supply chain's price forecasts vary

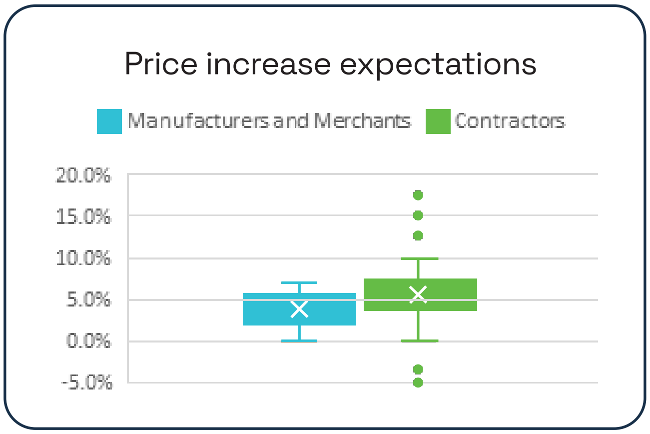
Some of the anxiety around mounting prices can be seen in the figures below.

Suppliers are predicting price increases of 2 – 5%, which is in line with their forecasts from our last report, published in November 2024.

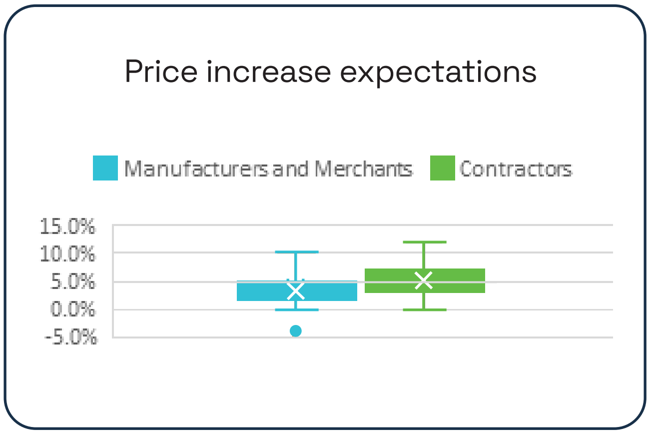
But what's interesting is the feedback from contractors. In Q3 2024, this side of the supply chain were anticipating price rises of 4 – 7% with a few outliers forecasting 0 - 12% growth. But this time around, responses ranged more widely. Some contractors told us that prices would fall by 5% and others estimated growth of up to 17.5% - a spectrum of answers that represent the unpredictability suppliers are constantly battling.

Price predictions fluctuate depending on what part of the construction sector a firm works in, their size, the shape of their order book and skill set. There are many contributing factors and different opinions, with some companies far more exposed to volatility than others.

Graph 4: Supplier price predictions for next 12 months (Source: Inprova)



Graph 5: Last Sentiment Report's supplier price predictions for next 12 months



“Manufacturers may use this [the global trade war] as a reason to inflate pricing. However, we don’t see an issue with product supply against demand” – Merchant

“Most of the products we use are UK manufactured or from Europe with exception of Solar PV panels which are predominantly from China. This being the case unless individuals merely use the current situation as a reason to falsely increase costs it should not have too much of a bearing” - Contractor

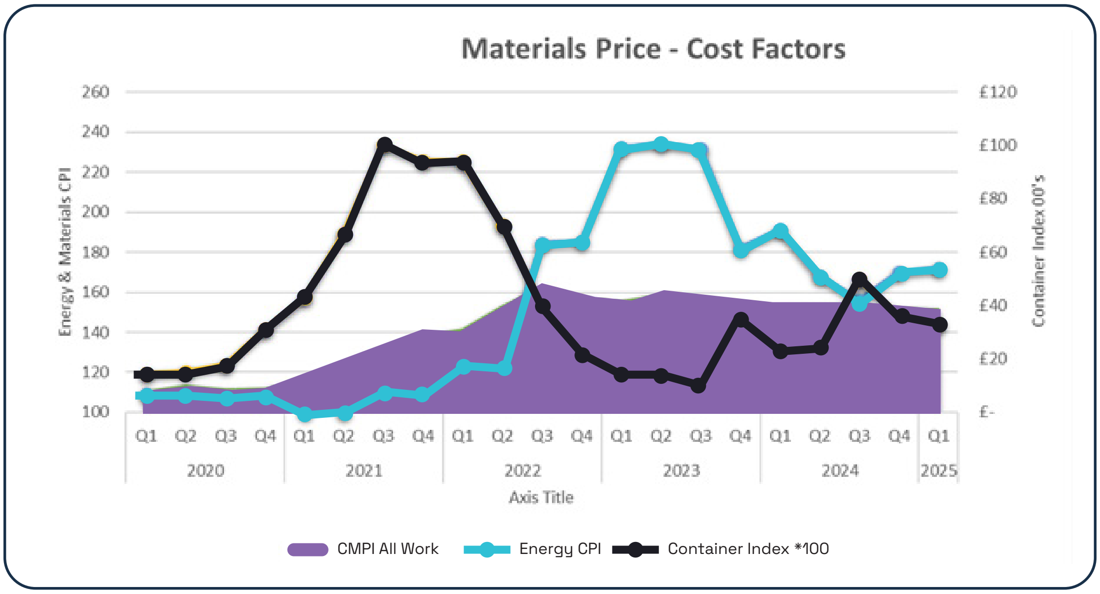
Key advice

If we accept volatility as the new norm, we may start to accept the outcomes of that instability. This is dangerous territory and something procurement teams must be alive to. If a supplier says they’re putting up their prices due to Trump’s tariffs, scrutinise this. Are source products coming from America? If not, a contractor’s costs shouldn’t be impacted. It’s your job to do your research and question price rises.

Construction materials prices

There is one area stabilising more than others: construction materials prices. Despite the political and economic turbulence of the past year, including global trade wars, the cost of materials has remained relatively steady going into 2025, as outlined in the Construction and Materials Price Index below.

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



There are some substantial, structural challenges ahead, particularly with the Russia-Ukraine crisis still affecting energy prices. Responses from manufacturers in our survey reflect this issue, with their confidence trailing because of the energy-intensive nature of their industry.

Countering this, it's a more positive outlook for merchants and contractors as the cost of shipping is falling, having a knock-on effect on the price of global materials.

Overall, sentiment still varies in the supply chain, depending on the type of firm and its susceptibility to risk.

Key advice

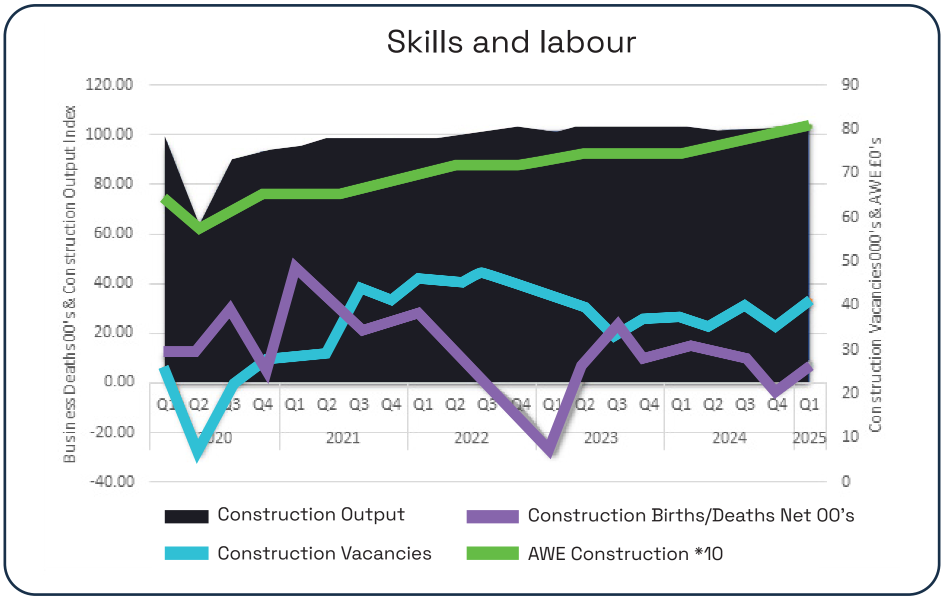
Over recent months, we have seen more requests from our customers asking for evidence that they're getting value for money. Scrutinising suppliers and their prices is vital when you are reprocuring a product or service. But remember, a robust competitive process isn't the only way to maintain value.

Strong contract management is key to stemming value leakage, but it's something that can be forgotten by procurement teams who usually hand this role over to the people leading a service. Make sure these busy staff members have the training required to challenge incumbent suppliers on price rises and negotiate new terms. This links with the Procurement Act 2023, which places a big focus on the ongoing management of supply chain performance for the lifespan of a contract.

Static picture on skills

There is no real change around labour with average weekly earnings continuing to climb.

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



With construction output still flat, job vacancies and the births and deaths of construction companies remain fairly benign and in line with recent trends.

We're hopefully past the worst when it comes to new construction businesses starting and closing down. Those companies that survived the last four to five years are reasonably well set to survive ongoing challenges.

"In the Plumbing and Heating sector, we have proven many times over that we are resilient to global fluctuations. We are often able to resource product across alternate countries" – Manufacturer

Anxiety grows over looming skills shortage

This quarter, there's been another uptick in concern around the labour gap. We asked suppliers how worried they were about a current or future skills shortage on a scale of 1-10 (with 10 being most concerned).

Contractors were more apprehensive than manufacturers and merchants, but there is worry right across the supply chain. The average score was 5.96, up from 4.94 in the last survey. Interestingly, skills was the number one concern raised by the supply chain when we surveyed them this quarter.

"There needs to be large incentives to get people into the skilled trades to complete the works required. There isn't enough labour now" – Supplier

"Investment in training to deliver the numbers they keep referencing across many sectors including new homes (300,00 per year)" – Supplier

"Additional revenue provided to training and apprentice placement" - Supplier

"Increased investment in training and stkills" – Supplier

"Support for skill sharing and upskilling opportunities in the industry" - Supplier

"Promote Apprenticeships & retraining. I consider the skill shortage in general one of the biggest concerns in construction & in general" – Supplier

"[We want] further investment into funding for apprentice and training within companies" - Supplier

"Better paid apprenticeships to encourage more people into trades as we need them for future growth" – Supplier

"Help/supplement with additional training needs" – Supplier

"Need to invest more in skills development" – Supplier

"Greater confidence is required in the economy to encourage construction to invest in skills, people and projects" - Supplier

This rising anxiety reflects a problem that refuses to go away, despite the Chancellor announcing £600m of investment back in March to train construction workers, with the aim of getting younger people into the sector.

Concerns remain about whether the plan to train 60,000 apprentices will be enough to build the government's target of 1.5million homes, especially after increases to employers' National Insurance Contributions and the minimum wage, along with the government's immigration crackdown.

With suppliers still raising jobs as a major worry, more significant steps must be taken, centrally, to make construction attractive to a new generation of UK workers. And if that can't be done then those skills must be brought in from abroad.

Key advice

With construction growth stagnant, now is the ideal time to build your workforce capacity. Consider joining forces with local colleges, universities,construction firms... to develop training academies, apprenticeship programmes and graduate schemes focusing on the areas with the biggest skills gaps. Part of this is capturing the imagination of young people but also demonstrating opportunities to established workers looking for a career change.

3 Market sentiment

Falling confidence

When we asked suppliers, on a scale of 1-10, how confident they are in the success of their business in the next 12 months, the average response was 8.52. This is down 0.48 from our last report, but worryingly, it is the lowest score since our survey back in Q2 2023.

We also questioned the supply chain on their confidence in construction growth over the next 12 months. In our last survey their response was a cautiously optimistic 7, but this time around, confidence has dipped to a more uncertain 6.3.

A new question in this quarter's survey was how positive suppliers felt about the government's approach to stimulating growth in construction, again on a scale of 1-10. The response came back as a flat score of 5.25, indicating a mixed picture.

After the Labour government got into power there was real hope in the supply chain that economic storm clouds would part, but that optimism has gradually diminished and we're seeing malaise creeping in.

"I do not have confidence in this Government to achieve much at all to be perfectly honest" - Supplier

"There needs to be confidence that the government will inject monies into construction projects and councils" – Supplier

A number of suppliers we spoke to felt there was a lack of uncertainty from the government around the direction of travel on decarbonisation and this was impacting construction growth.

"[I'd like to see] additional funding on the shortfall on Wave 3 Funding" - Contractor

"Revise the…reasoning on ECO funding and Government funding not being allowed to be blended. The government also [need] to make additional funding available to ensure that the retrofit measures required to improve … housing stock can be installed to ensure the proposed targets can be achieved" – Supplier

"[We need] clarity on the direction of travel for renewable heating technologies" – Contractor

"Assistance to Councils and Housing associations [is needed] to promote a move into renewable technologies, i.e. ASHP's" – Contractor

"We would like to see increased funding for decarbonisation projects to stimulate growth within the construction industry. Not only would this drive energy efficiency improvements, but it would also encourage long-term investment and support the government's efforts to meet its Net Zero targets. The introduction of the Social Housing Decarbonisation Fund has already led to significant growth in the sector, and we hope to see this trend continue" - Supplier

Spending review

Remember that our survey was conducted before the summer Spending Review. In the Chancellor's announcements on 11 June, she confirmed a 'transformative' £39bn Affordable Homes Programme, a 10-year rent settlement at CPI + 1% from 2026, and £950m to expand the supply of local authority temporary accommodation. It will be interesting to see how contractors, manufacturers and merchants respond to this longer-term investment over coming months.

International trade conflict

This quarter, we wanted to find out how worried manufacturers, merchants and contractors were about the new global trade war. Their response was a relatively calm 6.23, with some suppliers feeling the impact was negligible and others feeling it was catastrophic.

"Increased Material Costs - Tariffs on imported construction materials like steel, timber, and cement could lead to higher prices, potentially squeezing profit margins for contractors on fixed-price contracts" - Supplier

"I feel that the impact will be low" – Contractor

"Costs could quite easily go through the roof as they did in the Covid era" - Contractor

"Limited impact" – Contractor

"Too disparate to say at this point and US is already beginning to row back on some positions. (Ukraine war is more of a concern)" – Contractor

"It's difficult for the government due to international tariffs being introduced by Trump. A very uncertain time for companies due to rising material costs" - Supplier

"If anything, positive. I think Trump will back down as is starting to be the case" – Contractor

"Could be catastrophic with rising material costs" – Contractor

"Massive material increases" – Contractor

"While we do not see a huge impact at present, we do anticipate some impact on our supply chain, which in turn, affects our business. Rising costs for materials that are sourced from outside of the UK may put pressure on our margins, and potential delays could disrupt project timelines, both of which have financial implications for the business. Although we prioritise local suppliers/spend where possible, changes in global markets will influence pricing within the UK" - Contractor

Supply chain apathy

There is danger around the desensitisation we are beginning to see. Institutionalised volatility isn't good for the public purse. It breeds a sense of acceptance, with suppliers and potentially public bodies becoming acclimatised to macroeconomic turbulence and no longer adapting or scrutinising as before.

When shocks keep coming, it's hard to maintain such high levels of energy and imagination. People switch off, they're no longer so engaged because they haven't had the time to recover from the last disruption, before the next one comes along.

Key advice

I'm not advocating that pubic secto organisations perpetually remain in fight or flight mode. But there are robust systems, methodologies and processes that can be put in place to manage this new heightened level of turbulence without burn-out.

If you haven't already, consider building indices into your price review mechanism. Cap your price increases to the most relevant indices. That way, suppliers won't be able to simply increase their prices arbitrarily in the event of changing global circumstance – they will be limited to general market conditions. They will therefore be incentivised to negotiate increases with their own supply chain, mitigating impact and managing price volatility.

Weak growth and a lack of confidence in government policies, combined with Trump's tariffs and ongoing geo-political unpredictability all point to a general sense of deflation in the supply base. There isn't flat out fluster or abject pessimism. Instead, it's a feeling of detachment and possibly resignation. Remember, if suppliers are becoming acclimatised to global shocks, it's vital that procurement teams buck this trend and stay alert at all times.

How we can help

We are Inprova, a technology-enabled procurement partner. We work with leading organisations 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 public and private 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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