Supply Chain Sentiment Report

Q3 2026



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.

Nearly 130 contractors, manufacturers and merchants 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 2027**

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

Flatness across supply chain as cost pressures intensify while pockets of resilience persist - creating a holding pattern as the sector waits for clarity on prices, policy and demand

Survey results

- Price forecasts for 2027 are highly volatile, with far more suppliers breaking from usual range
- Global market conditions are now the dominant driver of expected price rises
- Suppliers call for government action on housing delivery, employment costs and fairer procurement
- Despite the challenges, 36% of contractor order books are slightly higher than 2025
- Supplier business optimism is relatively unmoved, edging down slightly from April's 8.72 to 8.65
- Confidence in construction growth also largely unchanged, nudging up from 6.28 to 6.40
- Sentiment toward government similarly stagnant (+0.02 to 4.63) with no 'Burnham bounce' felt yet
- Suppliers also relatively relaxed on workforce availability

The macro-economic construction environment - six quarterly indicators:



FTSE 350 Construction and Materials Index
– steady increase



Construction output
– down



Construction materials prices
– increasing



Construction vacancies
– small increase



Construction firms: net births and deaths
– up



Construction output prices
– increase

Geopolitical uncertainty keeps the sector stuck in a holding pattern

A lot has happened since our last Sentiment Report in April 2026. No one knew how the Iran war, which began in late February, was going to affect supply chains, and the last six months have made that all too clear, with the impact felt most sharply in sectors tied to the oil industry.

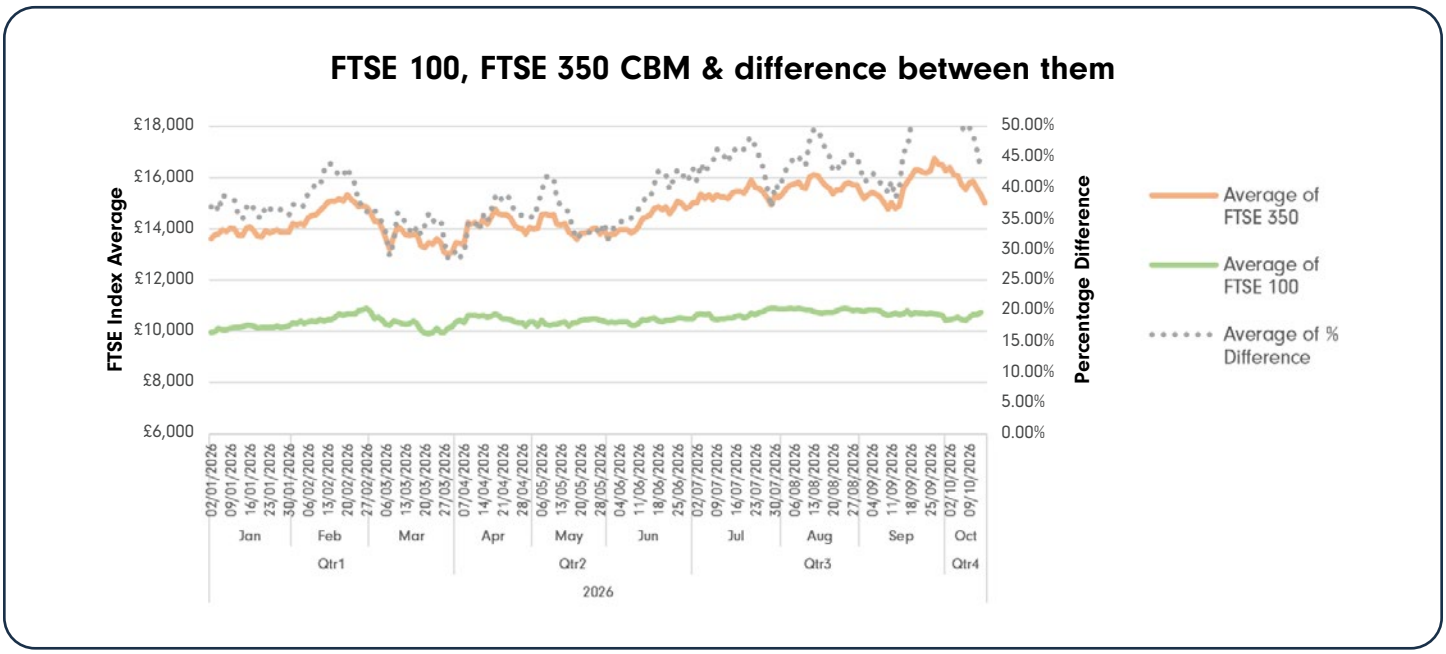
July marked the arrival of a new prime minister with strong ambitions around devolution and council housebuilding. But with it still too early to tell whether a 'Burnham bounce' will materialise, the industry remains flat, stuck in the same difficult operating conditions that have persisted for months.

In our last Sentiment Report we highlighted the widening chasm between construction output and construction prices, and six months on, this is still the picture with less work being delivered but at a higher price. The question is: how long can social landlords and their supply chains sustain this?

Signs of underlying strength emerge in an otherwise flat landscape

On a positive note, there are some encouraging indicators that should not be ignored. For instance, the FTSE 350 Construction & Building Materials Index has outperformed the FTSE 100 since the start of 2026. Although it tailed off after reaching a September peak - and we need to monitor it in the medium term for a measure of true confidence - this is a promising sign.

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



In addition to this, the figures for net births - new building firms minus closures - were up in Q2, suggesting the sector still has underlying strength.

There has also been a clear uptick in repairs and maintenance, driven by new rules around Awaab's Law, building safety and the countdown to the updated Decent Homes Standard.

Overall, though, the construction market is flat: new build is down, merchanting is subdued, and the result is a shift towards building order books in the public sector, which offers a safe harbour as suppliers navigate tough times. Public sector projects are sustaining the sector for now, with suppliers largely concentrating on retaining existing work rather than pursuing investment or growth.

The result is a holding pattern, with UK manufacturers, merchants and contractors waiting to see what will happen. Will there be a ceasefire in Iran, so oil begins to flow? How will the Autumn Budget affect social landlords and their suppliers? N.B This Sentiment Report is written just before the Budget and published just after.

Six months on from our last report, structural pressures in different categories continue to shape the market, with business failures, consolidation, rising costs and record prices pushing volatility and strain onto social landlords.

Kitchen sector faces sustained strain as energy and raw material costs bite

We reported on the collapse of kitchen manufacturer Moores Furniture Group in our last report and following that, Magnet Group had a Company Voluntary Arrangement (CVA) approved by creditors in the summer, paving the way for the closure of 15 stores.

Many other kitchen manufacturers are feeling the squeeze too, affected by the impact of the Middle East crisis on global energy, raw material and logistic infrastructure. Chemical raw materials are particularly affected, especially melamine, methanol and urea, all of which are critical to producing wood-based materials, edging and surface-based products used by kitchen manufacturers.

Structural demand and mine disruption keep copper costs elevated

Copper, too, remains a source of volatility, with new developments reinforcing structural pressures. Prices have climbed over the past six months from their March - April low, driven by tightening mine supply, concerns over potential US tariffs and sustained longer-term demand from global electrification and infrastructure projects.

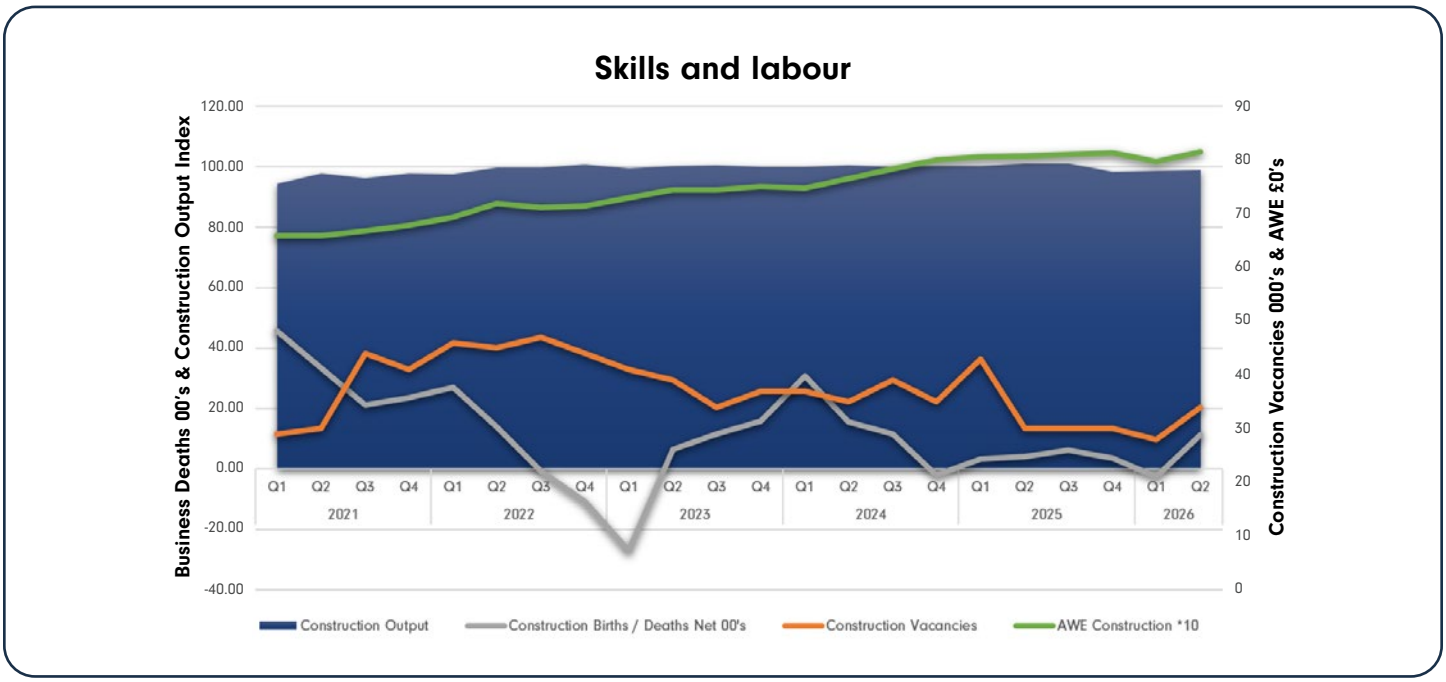
While copper remains inherently volatile, our sense is that it has either topped out or is close to doing so, and we hope to see greater stability across Q4 and into Q1 next year rather than a repeat of the sustained rise we've seen over recent months.

Skills concerns ease - but only because demand has softened

Construction vacancies dipped in Q1 following the start of the US-Iran conflict, but we've seen a rise in Q2, so this is something to keep a close eye on over coming months.

Generally, though, we have seen a flattening in concern around construction skills. With little growth in the sector and vacancies only just beginning to rise, labour shortages aren't keeping the supply chain awake at night. It's worth monitoring Andy Burnham's technical education reforms over coming months to see if they have any meaningful impact, easing workforce worries further.

Graph 2: Skills and labour (Source: Office for National Statistics)



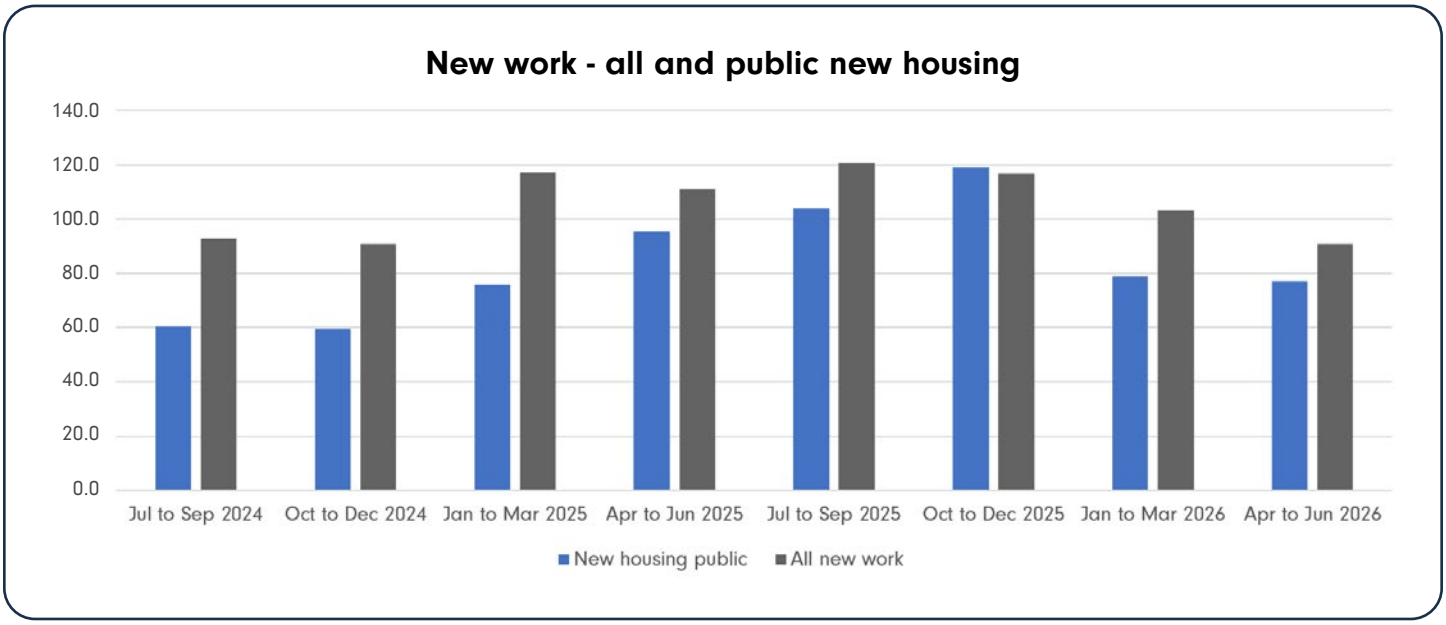
The rise in construction vacancies and net births indicates that the sector is getting ready to pick up again, however the numbers on new orders and outputs don't reflect this.

New build activity drops sharply as compliance work absorbs capacity

New work dropped sharply in the first half of 2026, down 18% compared to the same period last year. Public housing, which performed strongly in 2025, fell off a cliff in Q1 and then flatlined in Q2, while all new construction work followed a more staggered but still decisive downward path - a clear sign that the market is facing some major challenges.



Graph 3: New construction work (Source: Office for National Statistics)



The only area bucking the trend is repairs and maintenance, driven by Awaab's Law, fire safety requirements and the countdown to the updated Decent Homes Standard. But this surge in compliance-led activity is absorbing the supply chain's capacity and budgets, leaving little room for new build programmes.

It's also worth highlighting an issue that a number of suppliers mentioned this quarter: the cost of compliance work. Naming the Building Safety Act, Awaab's Law, PAS 63100, the new Microgeneration Certification Scheme (MCS) standards and Construction (Design and Management) Regulations, suppliers said the cost of evidencing compliance is growing while social housing pricing rates stay the same. One contractor put the annual increase in compliance and administration costs at 30%.

> *"The introduction of BSA and Awaab's law is a good thing - it will save lives so we must be onboard with that. The issue is there is no allowance to us as employers to fund this... our rates do not increase to compensate for it."*
>
> - Contractor

> *"We are seeing pricing increasing both due to the increased [r]egulatory compliance on things such as PAS63100 and the new MCS standards."*
>
> - Contractor

On new build, despite £39bn being earmarked, the sector still lacks clarity on how this funding will be allocated. Combined with uncertainty over how the new prime minister will channel support - particularly his emphasis on council-led delivery - the market remains in a state of pause around development.

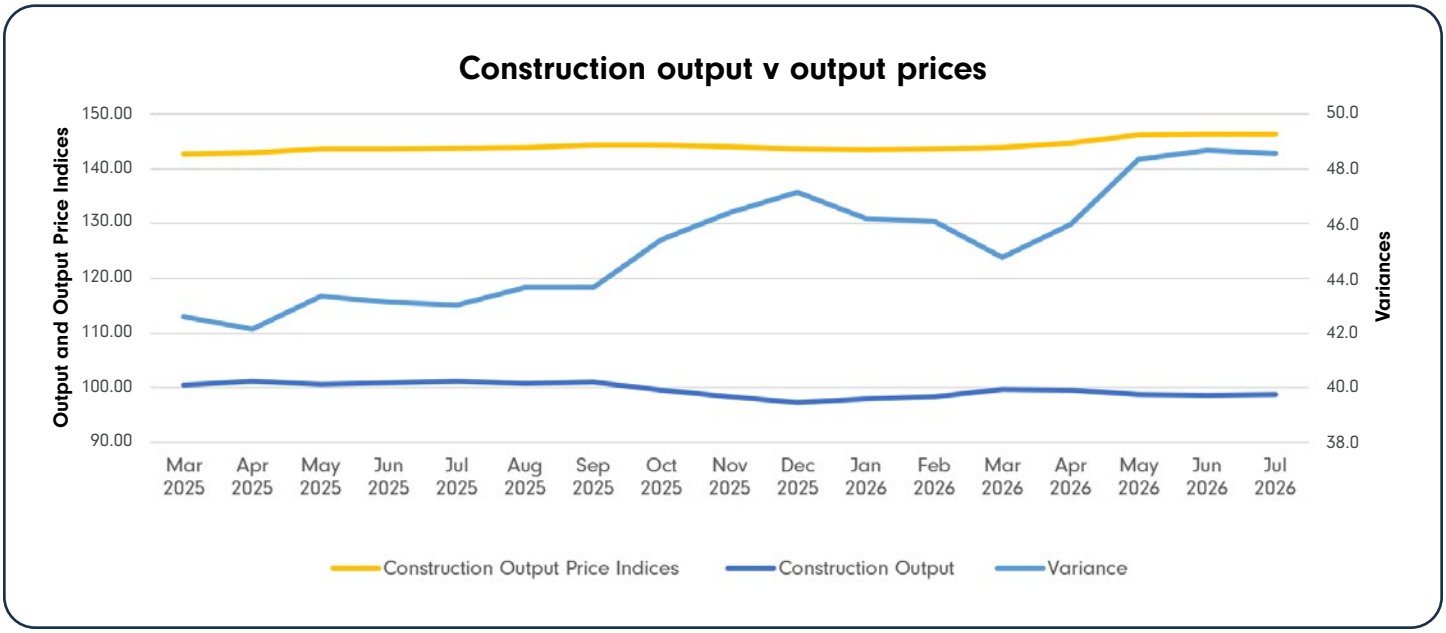
Output stalls while prices and wages climb, tightening pressure on delivery

As we mentioned earlier, output is flat, yet prices are on the rise - something outlined in the chart below. This isn't a surprise considering the Iran war's impact on the price of work.

At the same time, average weekly earnings continue to climb (see graph 2) and it's this, combined with the dip in work completed that isn't sustainable long term.

> *"Labour costs are a principal driver. Wage drift from shortage, plus the full-year effect of employer NI and NLW increases now embedded in subcontract rates have added to wider inflationary increases. Prices of energy-intensive materials are very volatile, with upward trends all round for the likes of steel, cement, blockwork, plasterboard, glass and bitumen products; plus ongoing effects of global copper scarcity and cable demand."*
>
> - Contractor

Graph 4: Construction Output vs Output Prices (Source: Office for National Statistics)



There needs to be a fundamental change for the market to get moving again. The previous government tried to pull various levers to make that happen, but it just didn't work. The question is whether Burnham can make a difference around construction this time. We'll have to wait and see.

2 MARKET PRICE PREDICTIONS FOR 2027

Price expectations for 2027 reach unprecedented volatility

Graph 5: Supplier price predictions for next six months (Source: PfH)

April survey for 2026:



Current forecast for next 12 months:



Price forecasts for 2027 are the most volatile we have ever seen, with one contractor forecasting a 30% increase and others anticipating hikes of 20% and 15%. Although these are obvious outliers, we saw many more suppliers than normal deviating from the standard range of 3% - 7.5% for contractors and 3% - 5% for merchants and manufacturers - an indication of wide market uncertainty. Tellingly, not one supplier predicted a price reduction.

These figures reflect not only the rising cost of materials - especially those linked to the oil industry - but also the rising cost of labour, something that hits contractors particularly hard.



Key advice

As landlords prepare their budgets for 2027, it's important to set realistic expectations around price movements - and to negotiate them with confidence. For materials-only contracts, a sensible starting point is to plan for increases of around 4%, rising to 5 - 6% where annual reviews took place before the Iran conflict fully fed through. Many contracts renewed in March, or early April, will not yet reflect the latest pressures on freight, petrochemicals and energy-linked products.

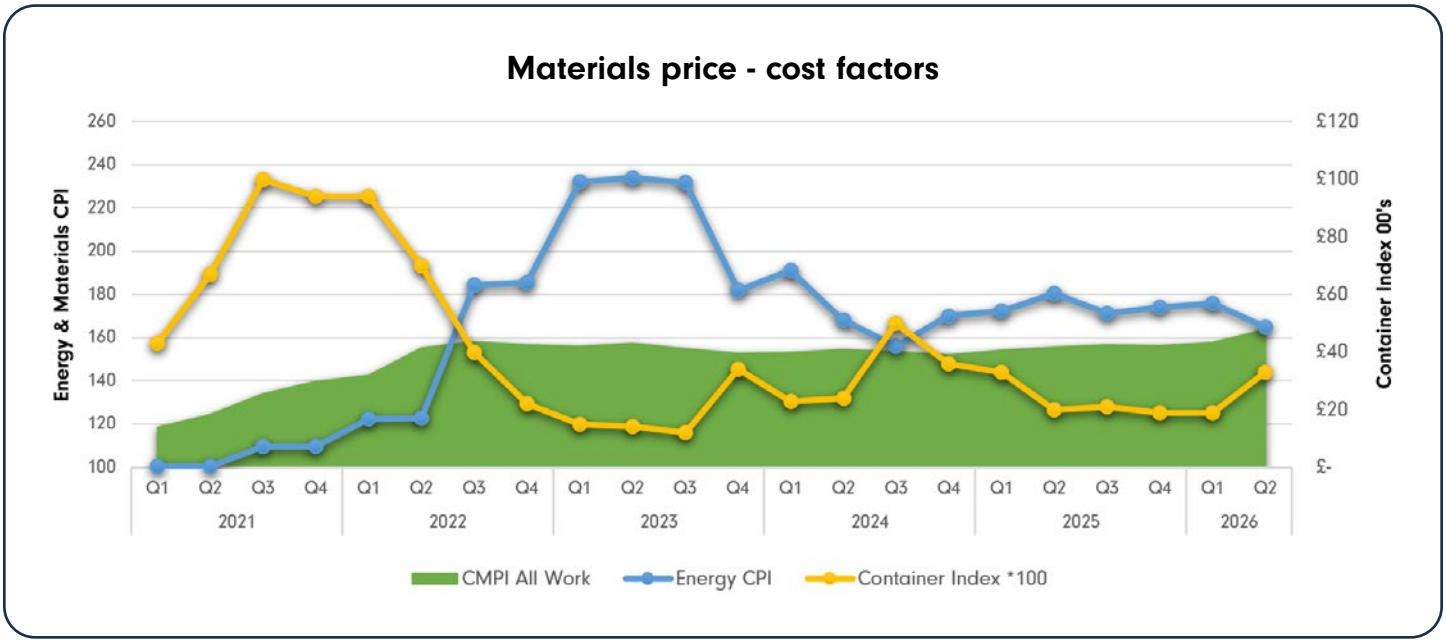
For contractors, the picture is more variable, but a 6% uplift is a reasonable rule of thumb across most works and services. We are seeing more suppliers request increases outside formal review cycles, often mooted as temporary measures linked to geopolitical disruption. After several years of continual shocks - from Covid to supply-chain crises to conflict - housing providers are more open to these conversations, but that doesn't mean accepting them at face value. Evidence, transparency and proportionality still matter. See page 15 for advice on negotiating price rises.

Cost pressures intensify as prices on energy, freight and oil-linked materials all move upward

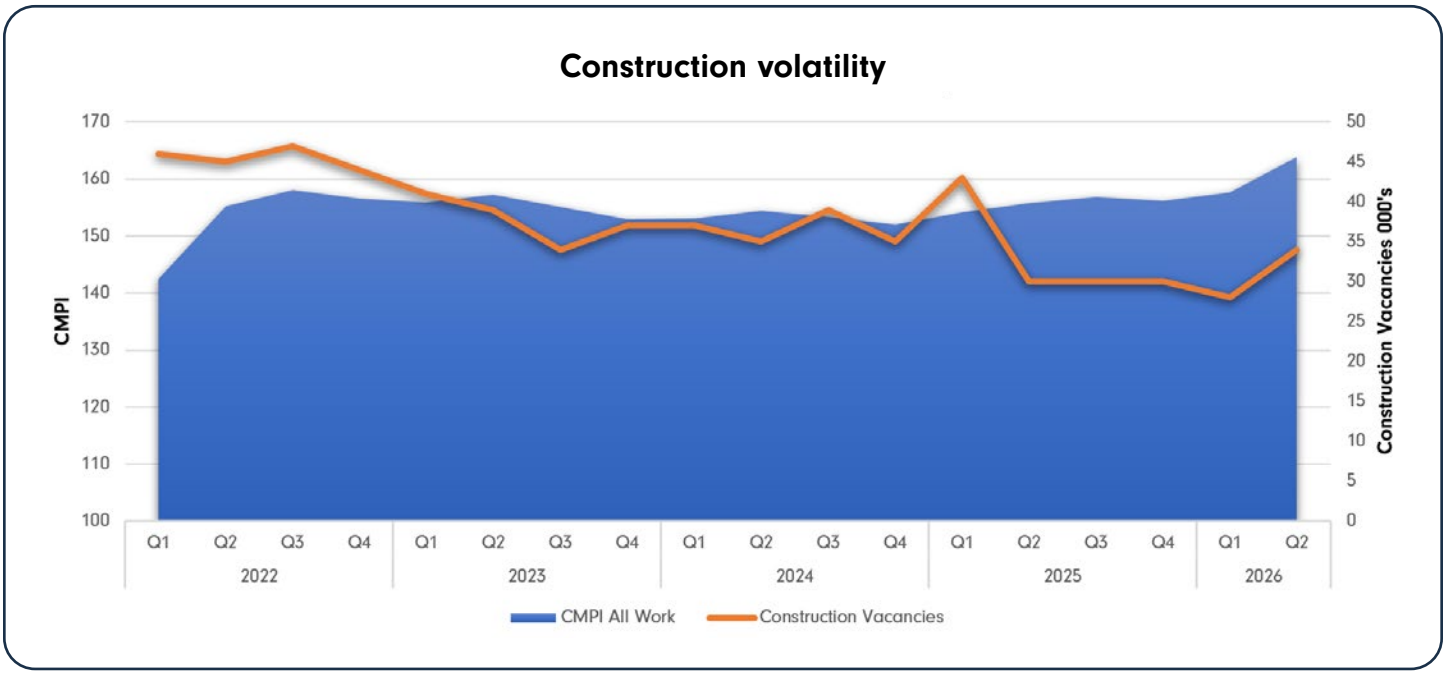
Although energy prices unexpectedly dipped in Q2, they have shot up in the early Q3 results we've seen, and this is the likely direction of travel for coming months. Shipping costs climbed sharply in Q2 too, as indicated on the Container Index line in graph 6. Construction materials prices also rose in Q2, largely due to challenges related to oil based products. All of this points in one direction - cost pressures that were building earlier in the year are now fully feeding through.



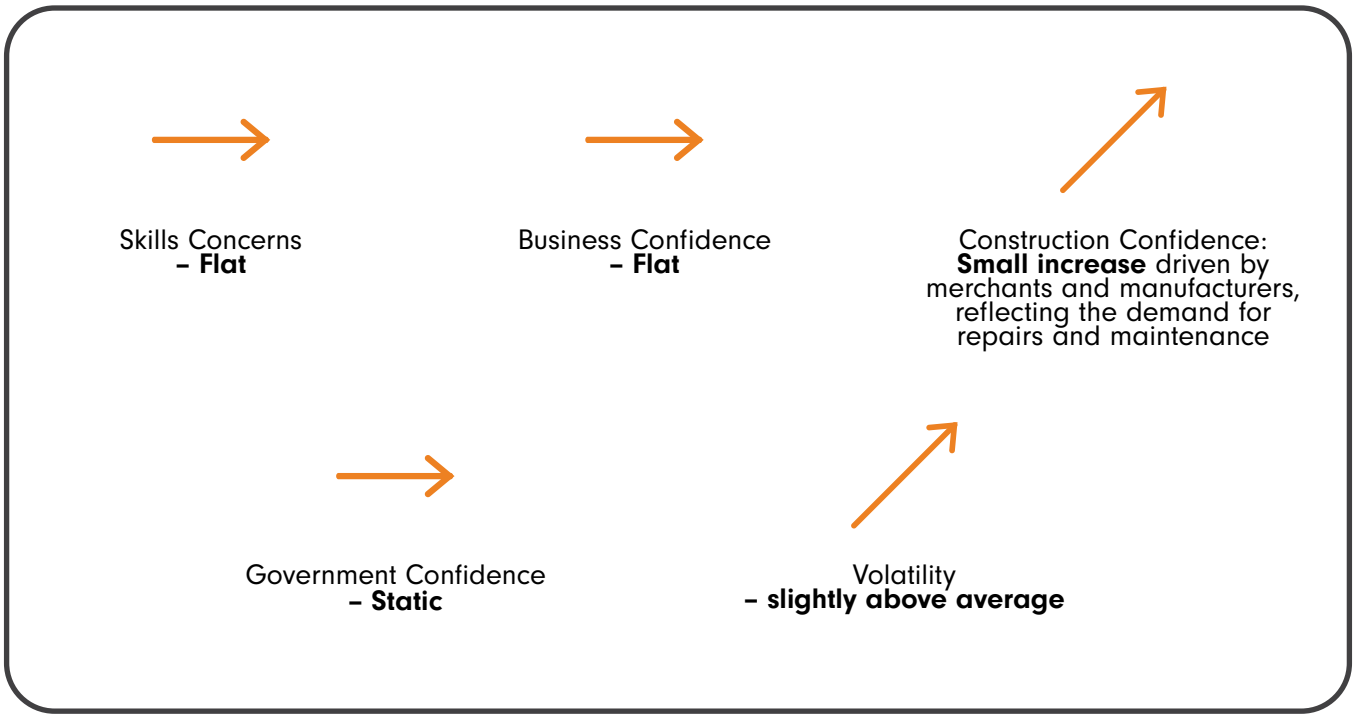
Graph 6: Construction and Materials Price Index (Sources: Freightos, Office for National Statistics)



Graph 7: Construction Volatility (Source: Office for National Statistics)



3 MARKET SENTIMENT



Little change across the board, signalling a sector stuck in neutral

When we asked suppliers, on a scale of 1-10 (10 being most concerned) how they felt about a current or future skills shortage, the average score was a relatively relaxed 4.36 for merchants and manufacturers (+ 0.36 from our last report in April 2026) and 6.17 (- 0.94) for contractors.

Despite this broad feeling of calm, some suppliers did talk about the pinch points around labour that they were seeing:

> *"The shortage bites hardest for qualified gas engineers, electricians and engineers with low-carbon skills such as heat pumps. It is increasing recruitment costs and wage pressure, and it sometimes means we rely more on subcontractors."*
>
> - Contractor

> *"We have stopped apprenticeships due to the cost."*
>
> - Contractor

> *"It's evident there's a skill shortage within the housing and contracting sector. This deficit is having an impact on jobs being completed which will reduce sales."*
>
> - Supplier

> *"Massive skill shortages in retrofit following the winding down of ECO and the slow update for Warm Homes."*
>
> - Contractor

With construction vacancies beginning to rise again, it will be interesting to see if the sector's relatively sanguine attitude now continues to hold or whether anxiety grows in coming months.

There haven't been any huge changes around business optimism either. When we asked suppliers how confident they are in the success of their business over the next 12 months, the overall score moved a touch down from 8.72 in April to 8.65 six months later.

Expectations around construction growth have picked up slightly, mainly driven by responses from merchants and manufacturers whose score rose from 6.07 in April to 6.50 this quarter. Contractors were less positive, with their April score, 6.39, falling marginally to 6.38.

The positivity amongst merchants and manufacturers could be explained by the uplift in repairs and maintenance spend, which is keeping volumes moving through their businesses despite wider market flatness.

Confidence in the new government is also flat. We surveyed suppliers in September, a few months after Andy Burnham took office so there was a small window for new sentiment to filter through. However, when asked how optimistic they are that the government's current policy will support their business over the next 12 months, the consensus was a non-committal score of 4.63, up just 0.02 from April.

Expectations around market volatility follow the same pattern. We asked suppliers how they would rate the current state of volatility within the materials supply market (for merchants and manufacturers) and the contractor market (for contractors). The summary score was 6.39 with little movement from when we asked that question back in April.

Global market pressures dominate 2027 price expectations

When we explored factors driving 2027 price rise expectations, the number of suppliers citing fuel and energy is up slightly, but the most striking change is merchants and manufacturers citing global market conditions: up from 53.3% in April to 85.7% this quarter.

> *"Higher energy costs will feed through to manufacturing as well as distribution. Middle Eastern war continuing to have an impact."*
>
> - Supplier

Other interesting changes include the cost of labour, which was cited by 100% of contractors in April but only 82% for this survey - reflecting the more relaxed sentiment around skills shortages discussed previously.

The biggest price driver by far was the cost of products and materials, cited by 92.9% of merchants and manufacturers and 86.5% of contractors.

"Some of our products are glycol based (antifreeze) and some are made from 'plastic'. As both are by-products of oil production they are affected by global fuel prices... and the uncertainty in the Middle East has led to a larger than average increase in raw material costs (especially glycol) in 2026 and we suspect this could continue into 2027 if a resolution isn't arrived at."

- Manufacturer

"World oil prices, packaging legislation, demand for copper and other raw materials, continue to effect manufacturing and suppliers transport costs... as an industry manufacturing is still heavily dependent on oil."

- Supplier

"Until the uncertainty of the situation in the Middle East is resolved & stays resolved pricing will continue to be volatile."

- Contractor

"P&H [plumbing and heating] pricing market is in turmoil, repeated and consistent price increase are coming in from all angles, fuel and rates increases being passed on and multiplied in a manufacturer to merchant to contractor market place."

- Contractor

"As a group we are under intense pricing pressures due to cost of fuel, electricity, materials and labour. Whilst we are constantly looking for economies, some rise is inevitable."

- Supplier

"We know price increase[s] are coming so it kind of doesn't feel volatile. Volatility has become the new normal to manage."

- Supplier



Key advice

As price-rise requests become more common in a volatile market, social landlords need clear, practical ways to manage them while maintaining strong supplier relationships. The most important step is to ask for evidence. If a supplier cites resin, PVC, fuel or freight as the driver, request the underlying data and make any acceptance conditional on that evidence. Price rises should be specific, justified and time-bound - not broad uplifts that quietly become permanent.

One effective approach is to agree a temporary increase linked to a defined cost driver, with a clear mechanism for reversal. For example: if a window supplier cites PVC inflation, ask them to provide a monthly PVC cost chart and commit to reverting to the previous price once their costs fall back to an agreed threshold. This prevents the 'forecourt effect', where prices rise quickly but fall slowly, and ensures uplifts reflect genuine volatility rather than margin expansion.

Context matters too. If a contract was let two months ago, suppliers should already have priced in the impact of the Iran conflict - and landlords should challenge any attempt to reopen terms. But if a contract was let last year and the supplier has absorbed rising costs for several months, a temporary, evidenced increase may be reasonable.

Above all, keep the burden of proof with the supplier. Transparent, time-limited adjustments protect both parties: they support sustainable delivery in the supply chain without locking landlords into long-term price inflation.

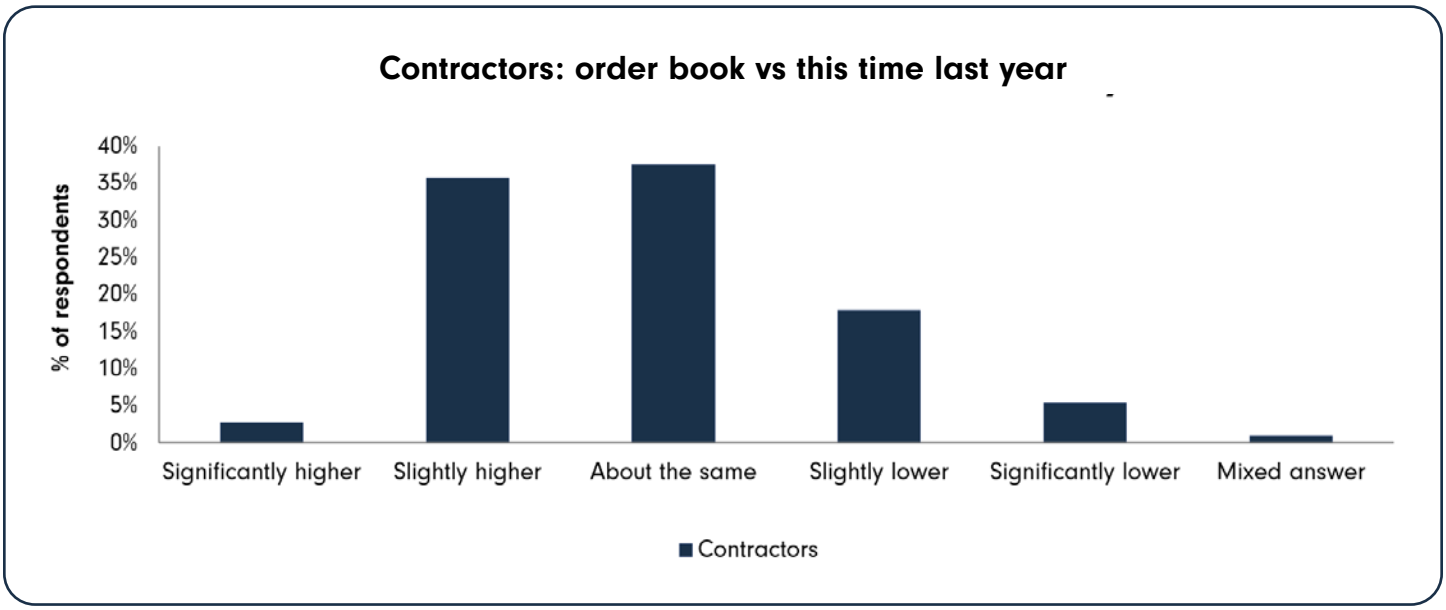
Order books show possible green shoots, driven by stable public sector demand

One question we asked this time around was how contractors' current order books compare with this time last year. Just over 37% said they were the same and nearly 36% said their current order books were slightly higher. Interestingly, only 18% said they were slightly lower and just 5% said they were significantly lower.

There were a few outliers but in general, contractors are in a relatively strong position from an order book perspective compared to 2025. This points to the potential green shoots we are seeing crop up across this report.

The caveat, however, is that our survey respondents all operate within the public sector - the safer end of the sector that many suppliers transition to during choppy times. Would they be demonstrating these encouraging signs if it wasn't for this public sector work?

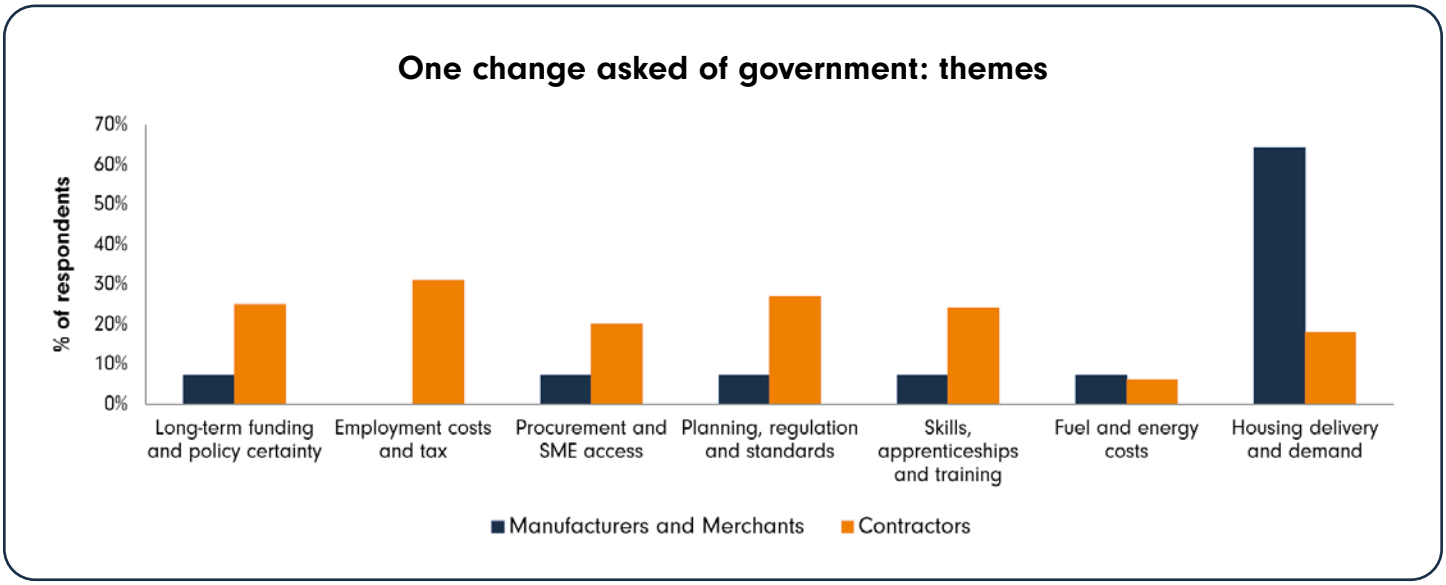
Graph 8: Order book comparison (Source: PfH)



Suppliers call for fairer, simpler procurement and better SME access

For this report, we invited suppliers to identify one change they would like the government to make to UK construction - and explain why.

Graph 9: One change asked of government (Source: PfH)



Housing delivery and demand was a recurring theme, with just under 24% of all respondents highlighting it, but it was a particular focus for merchants and manufacturers, with a substantial 64% choosing it. Given housing's importance as a driver of demand in their sector, merchants and manufacturers overwhelmingly focused on measures to get homes built: lower interest rates, stamp duty reform, faster planning decisions and the delivery of promised new homes.

Employment costs and tax was a key area for contractors, with 31% of them saying it would be the one change they would ask Andy Burnham to make.

Planning, regulation and standards along with skills, apprenticeships and training were two more areas receiving significant focus. Another was procurement and SME access. Over 18% of all suppliers (particularly contractors) said they would ask the government for fairer, simpler procurement and better access for SMEs. They talked about procurement now being a pressure point in its own right, with contractors raising four recurring issues:

- tenders being awarded on lowest price
- abnormally low bids going unchallenged
- tier 1 contractors chasing smaller refurbishment and retrofit work
- procurement timescales that feel longer than ever

> *"Procurement activity continues to place significant emphasis on lowest-price submissions. Rather than robustly challenging abnormally low tenders, many clients appear to be accepting them... Failure to adequately scrutinise unsustainably low pricing risks driving a race to the bottom."*
>
> - Contractor

> *"The volatility for us come from Tier 1s still chasing smaller contracts to fulfil turnover targets then putting pressure on the supply chain to retain their margins."*
>
> - Contractor

> *"Difficult to get to contract, feels like procurement teams are taking longer than ever."*
>
> - Contractor

Although we are now 18 months into the Procurement Act 2023 - a regime designed to simplify processes, improve transparency and open the door wider for SMEs - suppliers aren't yet feeling the benefits. Despite national guidance urging buyers to be more SME-friendly, many contractors told us that procurement feels like a source of strain in its own right. Their feedback raises a difficult question for the sector: are we genuinely building SME access into our decision-making, procurement strategies and evaluation processes, or are the principles of PA23 failing to filter through to day-to-day practice?

Key advice

Making procurement more SME-friendly is not about lowering standards - it's about designing delivery models that give smaller, specialist firms a fair chance to participate. The first step is recognising that the traditional approach to capital and repairs procurement - aggregating large programmes into single, high-value contracts - inevitably favours large tier 1 contractors. They then subcontract most activity to tier 2 firms, often at squeezed margins, limiting the benefit SMEs gain from the work.

Social landlords can shift this dynamic by re-thinking contract geography and scale. Instead of one large, all-property contract covering responsive repairs and capital works, consider breaking delivery into estate-level or postcode-level lots, aligned to the capability of the local supply chain. The work remains the same, but the packaging becomes more accessible.

This still aligns with a whole-house approach, where properties are viewed as a single entity and every interaction becomes a chance for a contractor to spot hazards outside their normal trade. Social landlords should actively ask: are there local SMEs who could deliver this whole house approach if the contract were structured differently?

Remember to embed SME access into your procurement strategy, not just your intentions. PA23 requires buyers to consider SME participation - so ask explicitly: is this an SME-friendly procurement? If not, why not, and what can we change? Even small adjustments can widen access and strengthen the resilience of your supply chain.

When we surveyed suppliers for this Sentiment Report another issue that came up was the importance of long term certainty, both from government and from social landlords through contracts.

> *"Committed, multi-year certainty on the affordable housing pipeline... Stop-start annual budgets are the single biggest barrier to solving the skills problem, because no contractor will carry trainees through a workload trough."*
>
> - Contractor

> *"Stick to your decisions. We gear up and then government contracts / incentives are just cut [or] put on hold with no notice leaving companies who have invested for long term out on a limb."*
>
> - Contractor

Key advice

Longer-term contracts really matter. SMEs cannot invest in skills, apprenticeships or equipment if opportunities are short-term or unpredictable. Giving them multi-year visibility builds capability in the market. Taking a long term view will pay off in terms of growing strength and innovation within the SME supply chain.

The challenge with taking this longer view is our sector's short term budget process. Social landlords operate on an annual budgeting cycle, with everything centred on in-year reporting and savings. It's vital that social housing leadership teams recognise the value of focusing on longer-term outcomes and achieve what Mark Carney described when he was Bank of England governor as 'breaking the tragedy of the horizon'. Make the argument to board members that creating long-term value, not just speedy savings, is key to achieving the right outcomes for tenants.

Six months on from the initial shock of the Iran conflict, the mood across the supply chain has steadied. In Q1, suppliers were bracing for impact, and confidence scores fell across many categories. This quarter's market sentiment shows a little recovery: confidence in construction growth has edged up, skills concerns have softened and order books look slightly healthier than they did a year ago. But the calm is deceptive. The costs suppliers feared in early 2026 are now materialising. Energy, oil and fuel are already feeding into pricing, with 2027 rises expected across the board.

> *"It is fair to say that market conditions remain positive overall, but there is still ongoing uncertainty around procurement timescales, funding approvals, material costs and labour availability."*
>
> - Contractor

Across the board, the sector feels like it is waiting. Output is flat, investment is subdued and suppliers are hunkering down, watching closely to see how the Autumn Budget lands and whether any meaningful uptick in construction will follow. Public sector work continues to act as a dependable foothold, sustaining volumes while new build stalls and compliance demands grow. The picture that emerges is relative resilience under strain: a supply chain that has stabilised, but is still navigating geopolitical uncertainty, rising costs and a market that has yet to decide its next direction.

How we can help

We are PfH, a technology enabled procurement partner. We work with leading social housing sector organisations to help manage their 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, Dynamic Purchasing Systems (DPS) and Dynamic Markets (DM), alongside our spend and contract management platform, Quantum.

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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