

17.05.2021

Dear Colleague

Impact of Unforeseeable Market Delays and Costs

I hope this letter finds you well.

The Construction Employers Federation (CEF) is the sole certified representative body for the construction industry in Northern Ireland. We represent approx. 70% of construction in NI and around 800 businesses of all sizes employing over 30,000 staff directly and 65,000 in the wider supply chain. CEF is the Voice of the NI Industry on the UK Construction Leadership Council, BuildUK and the NI Procurement Board.

I wish to draw to your attention the extraordinary pressures being borne by contractors in the current market conditions where there are significant material shortages and rapidly rising prices. According to the Chartered Institute of Procurement & Supply, we are currently experiencing “the sharpest rise in cost inflation in a generation” (IHS Markit / CIPS UK Construction PMI, April 2021).

This has immediate and long-term consequences for our members who are engaged with government on the basis of prices tendered prior to the current crisis, as well as those tendering in the current circumstances.

Current market pressures take two forms:

- (i) product and material delay; and
- (ii) rising costs.

These each have their own implications for delivery of contracts, and we would welcome your engagement to deal fairly with contractors on the basis of risks they can reasonably be expected to absorb and manage.

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(I) PRODUCT AND MATERIALS SUPPLY

Our contractors require the understanding of all government clients of their powerlessness in the face of global product unavailability, NI Protocol-led supplier disengagement and severe cost increases.

In the matter of lead times and delays in deliveries, this is both a Brexit/Protocol issue and a global issue currently arising from shipping freight logistics, shortages of key materials and resurgent demand in China and the USA. Our members report long delivery times are severely limiting their ability to meet deadlines and concerns about triggering contractual KPIs and penalties. We would seek your indulgence in the application of such liquidated damages/KPIs as the incremental impact of deductions in the current environment will be detrimental to the ability of contractors to source alternative, often more expensive materials.

[Chartered Institute of Procurement and Supply](#) survey 7 May 2021:

- *The latest lengthening of suppliers' delivery times was the third-greatest since the survey began in 1997, exceeded only by those seen during the lockdown in April and May last year. Construction firms mostly cited demand and supply imbalances, but some suggested that Brexit issues had led to delays with inputs arriving from the EU.*

The Construction Leadership Council provides monthly updates on product availability <https://www.constructionleadershipcouncil.co.uk/news/construction-product-availability-statement-2/>

- *In general, products are available, but lead times have lengthened. Current demand is such that it is proving difficult for manufacturers and suppliers to build up stock levels.*
- *The worst affected product areas continue to be timber, roof tiles and roofing membranes. There is unlikely to be any improvement in timber supplies this year with little or no timber currently coming into the UK that is not already pre-sold and global demand outstripping supply.*
- *Global demand also continues to impact prices and delivery times on structural steel, internal steel products and galvanised steel.*
- *Raw material shortages, stemming from global demand and other external factors such as factory closures outside the UK, continue to constrain production of PE and PP plastics, PIR insulation, paints, adhesives and other coatings, and also packaging for other product groups.*

Additionally, an article in The Observer on 16 May detailed very clearly the challenges that all across the sector are facing <https://www.theguardian.com/business/2021/may/15/building-crisis-looms-as-dwindling-supplies-bring-sites-grinding-to-a-halt>

(II) COST INCREASES

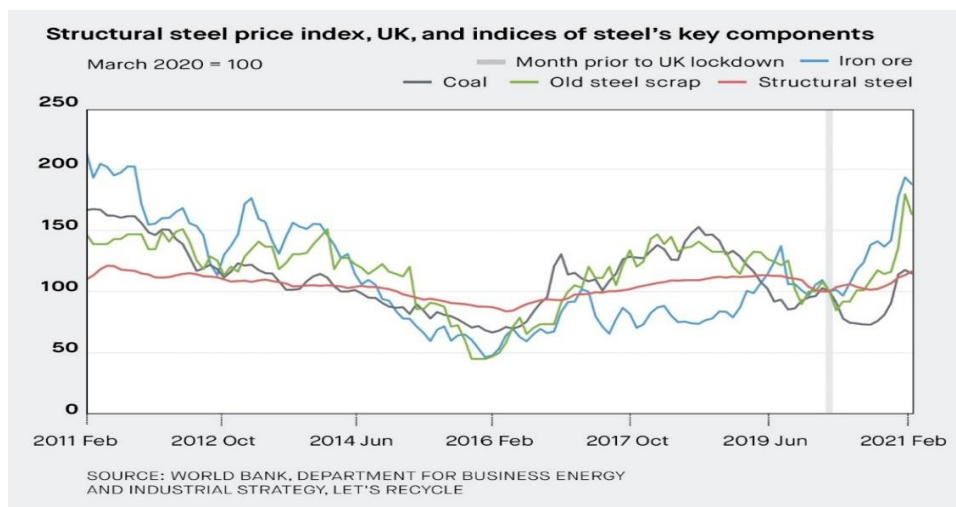
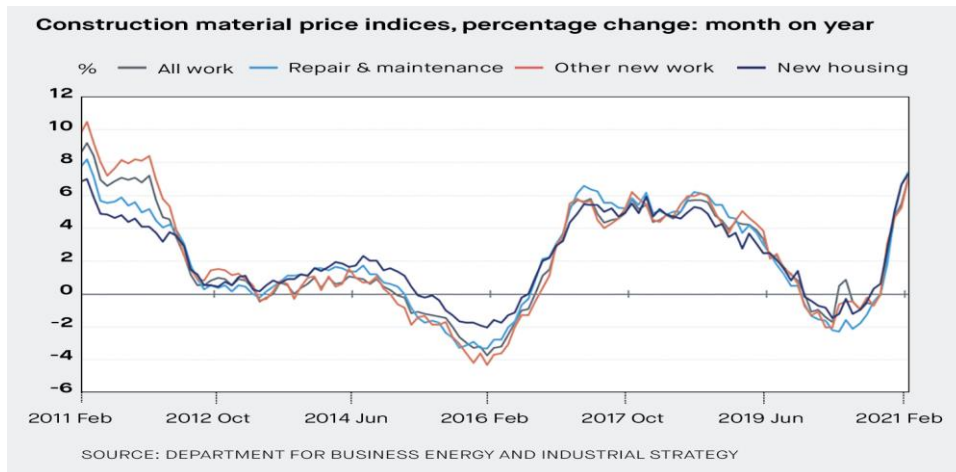
Regarding the second dimension of the current market environment, cost, the causes of these increases are not simple, arising as they do from a variety of factors including Covid-19 (both across these islands but also in the manufacturing locations globally), global mineral prices, Brexit/Protocol and global freight.

We have collated cost impacts on a range of items provided not only by our member contractors but importantly from several independent sources including the Ulster Bank PMI survey, ManufacturingNI, Chartered Institute of Procurement & Supply and commentary from JP Corry, one of the largest building materials suppliers in Ireland.

What is clear is that any contractor operating on the basis of costs tendered prior to December 2020 could not reasonably have foreseen such increases arising from Brexit/Protocol/ Covid/ global supply. Equally, those tendering now for future work are being required to put themselves at considerable risk in predicting prices ahead.

Department for Business, Energy and Industrial Strategy

Below are two recent graphs produced by BEIS in UK illustrating the unprecedented cost uplift that has occurred within the past few months in construction materials in general and steel in particular.



Additionally [British Steel](#) announced on 13 May that *“Due to extreme high demand impacting on capacity levels, we have temporarily closed the orderbook for structural steel sections”*.

Clearly this takes matters out of the hands of local businesses reliant on manufacturers for their input materials.

CEF Member Survey

In our own CEF member survey conducted in January 2021,

<https://www.cefni.co.uk/news/construction-industry-facing-a-perfect-storm>

- 95% of respondents reported increased material costs
- 79% reported delays in supply chain

These figures are already outdated as the situation has continued to worsen and we are receiving requests for assistance on a daily basis.

Ulster Bank PMI Survey, April 2021

<https://ulstereconomix.com/2021/05/17/activity-returns-to-growth-in-april/>

- Higher costs for raw materials, freight, Brexit issues and increasing wages all contributed to a second consecutive month of record rises in input costs.
- Subsequently, after seeing output costs increase at the fastest pace since the survey began in August 2002 last month, there were further unprecedented rises in the last four weeks.
- Firms also reported severe supply chain delays, which is unsurprising given Brexit and Covid-related challenges, alongside the temporary blockage of the Suez Canal.

Chartered Institute of Procurement & Supply

<https://www.theconstructionindex.co.uk/news/view/price-pressures-mount-as-construction-orders-boom>

- Higher prices paid for a wide range of construction items contributed to the fastest overall rate of cost inflation since the survey began in April 1997 (index at 84.6, up from 77.8 in March). Steel, timber and transportation were among the most commonly reported items up in price.
- "Supply and demand imbalances for construction items, alongside higher transport costs, resulted in severe price pressures across the board during April. The overall rate of input cost inflation reached its fastest since data collection began 24 years ago, exceeding the previous record seen at the top of the global commodity price cycle in 2008."
- "Issues around supply chain performance acted as a drag on capacity however as supply constraints on essential materials increased to one of the third highest levels since 1997 when the survey began. Brexit issues remained a factor affecting deliveries from the EU and suppliers generally were struggling to meet the sudden rush in demand leading to shortages of basic materials.
- "This inevitably led to the sharpest rise in cost inflation in a generation as builders scrambled to catch up on projects but the biggest rise in job creation since December 2015 also followed, signalling sustainable growth in the sector this summer."

Manufacturing NI

May 2021 survey from Manufacturing NI highlighting the impact of surging costs and supply chain problems on businesses. 93% of (190) firms reporting rising raw material costs – 86% rising transportation costs.

Supplier Feedback

We have also discussed the current environment with JP Corry, Northern Ireland's largest materials supplier. Their view is that the dramatic price rises seen to date, show no sign of abating and further price rises are very likely ahead. They have provided the following statement which usefully summarises many of the key price rises in Q1 to date with the warning that similar rises are expected in Q2.



Builders Merchant issues supply warning.

2021 has been a strong start for all, and over the past number of months the industry has been faced with unprecedented levels of demand, creating supply shortages across GB & Ireland.

Price increases are being implemented on a monthly basis from supply chains, reflecting numerous global factors with more forecasted for Q2 & Q3. As we navigate through this uncertain period there is a clear message to communicate with your supply chain to ensure allocations and to minimise potential disruption.

Timber is the most challenging product and has witnessed a compounded increase from January in the region of approximately 25%, with many contributory factors such as felling licences and increased demand across the world, with more forecasted on a monthly basis. Availability of sheet materials and hardwood remains tough as global shipping rebalances.

Plastics and related products have seen substantial increases due to the disruption of raw material supply on a global level as a result of severe weather conditions and the impact of the pandemic. Other contributory factors are availability of product and the increase in shipping and container costs.

The table below is a reminder of some of the supplier increases in Q1 with at least same again expected in Q2 for ALL timber and plastic based materials.

Material	Increase	Material	Increase
Carcassing / fencing	25%	Drainage Pipe	28%
Insulation (PIR)	28%	Drainage fittings	12.5%
Hardwoods	18%	Steel Lintels	16.5%
Plywoods	25%	Paints	7%
Cement / Conc Prods	7%	MDFs / Chipboards/OSB	16%- 40%

Supply concerns into the next quarter are the shortage of material and extended lead-times now being faced within the sector specifically on product allocations and availability of stock
Gary Hunter Regional Director said: "We at JP Corry work tirelessly with our supply chain to ensure continuity of supply and rely heavily on our key partnerships and relationships to ensure this to the best of our ability."

We would urge members and our customer base to engage directly with the merchant industry to forecast, schedule and to commit to orders of product in advance of upcoming works and stages of build and work closely with your local merchant to try to negate any disruption to your supply chain and maintain continuity of supply" It is expected that Such increases and industry forecasts will continue well into the 2nd half of 2021, emphasising the importance of communication with merchants and supply.

<https://www.constructionenquirer.com/2021/04/29/timber-and-steel-shortages-to-worsen/>

Saint-Gobain Building Distribution Limited trading as JP Corry. Company Registration No.: 01647362 (UK). Registered Office: Saint-Gobain House, East Leake, Loughborough, Leicestershire. LE12 6JU

www.jpccorry.com

CE Mark and Product Certification

We also raise the prospect of further product supply and costs pressures arising because of the requirement for GB manufactured product to be suitably certified for use in NI either as EU CE or UK(NI) which will require separate additional testing by manufacturers based in GB where testing capacity is insufficient. This may lead to reduced product availability with consequent impact on cost. Again, these are consequences of the Brexit/Protocol settlement which was unforeseeable before end of December last year.

NIAO

I would add that we have also spoken to NI Audit Office regarding their view on additional costs on existed contracts and they have confirmed they would regard any such matters in the light of reasonable and evidenced circumstances.

CEF is calling on all publicly funded clients to engage with contractors and with us to discuss options to mitigate this product availability and cost phenomenon that threatens in short order to destabilise the construction sector and lead to business failures and aborted/halted work programmes.

Please come back to me if you require further information and we would be very happy to arrange a meeting with you to discuss these urgent matters.

Yours sincerely



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