

Marsh Specialty

Materials shortages: What are the true costs?

As supply chain chokepoints continue to disrupt the construction industry's finances and schedules, discover the state of play for UK firms





In mid-October 2021, as contractors in the UK struggled in the grip of the months-long materials shortage, huge backlogs of in-demand supplies were building up at critical Chinese container ports, with some 386 ships anchored and moored at Shanghai and Ningbo, and a further 45 vessels waiting to be moored.

The delays were reported just months after the days-long closure of the Suez Canal, which caused widespread disruption to British industry. And there's no doubt both issues contributed to the shortfall hampering UK construction, driving costs up and stretching schedules to their limits, as contractors competed for supplies.

But, even without these hold-ups, the outlook would have been challenging. A shortage of HGV drivers for inland transit in the UK is contributing to a backlog of containers at the ports, with Felixstowe — the country's largest container port — being forced, at times, to turn away ships due to capacity issues.

Soaring prices

During 2021, dwindling supplies of key materials such as steel, cement and timber caused prices to surge. In September 2021, materials costs rose for the twelfth consecutive month, according to the Department for Business, Energy and Industrial Strategy. The industry is regarding the situation as critical, with continued material price increases leading contractors to raise tender price forecasts. Also, main contractors are having to "prop up" sub-contractors who are struggling due to underestimating job costs.

WHAT HAS CAUSED THE COST INCREASES?



A complex interplay of circumstances in China (which is responsible for 40% of global container trade) and beyond, has led to the current situation. Following the early stages of the COVID-19 outbreak, Chinese manufacturing recovered quickly due to tough lockdown measures. The country's economic activity bounced back from a dip of about 20% of normal levels in February 2020 to 90% in the space of just three months.

As China recovered, an imbalance developed due to lockdowns still in effect among its main trading partners. Shipping containers were 'stranded' at the ports and inland depots of locked down countries, rather than being returned to China where they were needed. The supply/demand disparity of containers affected the shipping of goods around the world.

In spring 2021, materials shipments were affected by the closure of the Suez Canal and further supply chain divergences in China.

Shortages in the UK and Europe

Despite pre-Brexit stockpiling, supply chain issues in the UK remained a concern, with shortages and price increases arising from the capacity and container problems in the UK and China. The UK supply chain was also pressured by labour shortages, and the lengthy, lockdown-related closure of builders' supply merchants, forcing contractors to secure alternative suppliers or suspend operations in the face of the materials shortages — again pushing up costs.

The recent energy crunch is also set to put upwards pressure on materials prices. In October, the Builders Merchants Federation and the Construction Products Association, issued a joint statement saying that, "There are... warnings that high gas and electricity costs and associated carbon costs, which are impacting both UK and overseas 'heavy-side' manufacturers, will soon lead to significant price increases for ceramic products, glass, steel and bricks¹."

¹ | Construction Enquirer – [Contractors Primed for Fresh Wave of Price Increases](#)

Counting the cost: What price delays and shortages?

The cost of building materials surged more than 23% year over year in August 2021, according to the Department for Business, Energy and Industrial Strategy. And surveyors forecast in August 2021 that prices could rise a further 10% during the next year.

Timber

A nationwide timber shortage hit during the first lockdown in March 2020, and imports remained an issue, against a backdrop of high demand for wood and wood products. Timber prices, and structural softwood, for example, experienced rapid price increases. The average price of sawn and planed softwood in May, June, and July 2021 rose by 55%, 65% and 88% respectively in comparison to their corresponding months in 2020.

Recently the Timber Trade Federation said it is "highly likely" the shortfall has been addressed; however, the ongoing haulage driver shortage in the UK could affect the delivery of supplies.

Steel

Steel is in high demand globally, with British Steel temporarily pausing order-taking on structural steel sections in May 2021 due to extreme demand. In the year to June 2021, steel prices rose by 37.3%. Soaring energy costs were blamed for a £30-a-tonne price hike in steel, in September 2021. It is feared that shortages could persist into 2022.

Rebar

Securing rebar for reinforced concrete is a major challenge, forcing job alterations and scheduling changes due to construction companies' inability to build cages and cast concrete to order.

Cement

Supplies of bagged cement have been strained since late 2020. Builders' merchants have reported rationing supplies of cement, and producers were planning to raise prices by £15 a tonne at the end of 2021, blaming high energy costs. The rise is equivalent to a 16% hike, and takes the annual increase in cement prices to 30%.

Electrical components

A shortage of raw materials has affected the manufacture of electronic components, causing holdups that could extend into 2022.

Paints and sealants

Supplies to the UK are restricted due to a global shortage and cost of suitable shipping containers. Builders' merchants have reported price rises of up to 20% for sealants, adhesives and chemicals.

How are construction companies affected?

For some contractors, cost inflation is a manageable issue, but other companies are struggling. In November 2021, the collapse of Wildgoose Construction in the Midlands was driven by materials inflation, worker shortages and supply chain disruption, according to administrators. Firms are also raising tender price forecasts due to inflationary pressure: Some market sources are foreseeing tender price inflation of between 3.5% and 10%.

Extended lead times are bringing with them the prospect of missed deadlines, fines, and reputational damage. Politically sensitive projects, such as cladding remediation works, are being affected, however other high profile works, such as HS2, are suffering less due to the cost increases being passed on to the customer.



When will the materials shortages end?

The situation looks set to extend well into 2022. The global supply chain problems typified in China could persist for several months due to shipping companies failing to anticipate the strength of the pandemic recovery, leading to a supply-demand mismatch and the ongoing shortage of containers.

In the UK, the Construction Leadership Council says the current high demand, coupled with a constrained supply chain, will sustain elevated prices throughout 2022.

Materials producers and distributors add that while demand for construction products has eased off from the peak seen in spring 2021, it will be deep into 2022 before present logistics issues start to be resolved.

However, there are signs that firms are weathering the worst of the price increases. The Purchasing Managers Index for October 2021 showed that construction companies continue to report widespread supply constraints and rapidly increasing purchase prices, but these trends are their least severe since April 2021.

Construction product shortages and price increases: How should contractors respond?

Price rises are leading to more construction companies going into administration, so it is paramount that contractors are aware of how their supply chains are managing, and have provision in place to tackle serious issues.

Larger contractors will have access to financial markets where they can hedge against price rises. Meanwhile, all contractors should note that most project policies feature an inflationary provision clause with regard to estimated contract value. They should keep the clause under constant review with their construction insurance broker to ensure that it remains adequate to cover material cost increases in light of continued inflationary pressures. A usual inflation provision clause will cover up to 15% increases in the estimated contract value of the project due to inflationary increase in the cost of materials, however, it will vary from policy to policy and could be anywhere from 10% to 20%. It is important, therefore, to keep your broker informed of the current estimated contract value to avoid any issues in the event of a claim.

For a detailed discussion of how UK construction has been affected by supply chain issues, read the [Marsh Specialty Interim Contractor Risk Review](#), and for an overview of the top 10 risks identified by contractors, download [Marsh Specialty's full Contractor Risk Review](#).



READ MORE: HOW COVID-19 AFFECTS FIT OUT WORKS


The pandemic hasn't just affected materials prices and new build projects. Refurbishment works are on the increase as offices are reconfigured for a post-COVID-19 world in which 'hot desking' workspaces and meeting rooms replace the traditional banks of desks. Energy efficiency requirements are also tightening. Read how insureds should respond in our blog, [Refurbishment Works: How Construction Insurance Price Rises Could Affect Fit Out Projects](#).



Contact

Andy Desmond

Construction Industry Leader and Head of UK Business Development,
Construction, Infrastructure & Surety, UK

 +44 (0)207 357 2850
+44 (0)7585 803228

About Marsh

Marsh is the world's leading insurance broker and risk adviser. With over 40,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data driven risk solutions and advisory services. Marsh is a business of [Marsh McLennan Companies](#) (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With annual revenue over US\$18 billion and 76,000 colleagues worldwide, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: [Marsh](#), [Guy Carpenter](#), [Mercer](#), and [Oliver Wyman](#). Follow Marsh on Twitter [@MarshGlobal](#); [LinkedIn](#); [Facebook](#); and [YouTube](#), or subscribe to [BRINK](#).

This is a marketing communication. The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such. Statements concerning legal, tax or accounting matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal, tax or accounting advice, which we are not authorised to provide. Marsh NV/SA has entered into the UK's Temporary Permissions Regime and is deemed to be authorised and regulated by the Financial Conduct Authority (FCA). Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the FCA website. Full authorisation will be sought from the FCA in due course. Branch Number BR022344. Registered Office: St Botolph Building, 138 Houndsditch, London, EC3A 7AW. VAT Number GB 244 2517 79. Marsh NV/SA, part of the Marsh McLennan Companies, Inc. (MMC) group, is a Lloyd's Broker and is registered as an insurance and reinsurance broker with the Belgian Financial Services Markets Authority (FSMA) under number 14.192 A-R. Marsh NV/SA having its registered office at Avenue Herrmann-Debroux/Herrmann-Debrouxlaan 2, 1160 Brussels, Belgium and is registered with the Belgian Crossroads Bank for Enterprises under the number 0403.276.906. Marsh Specialty, Bowring Marsh, Claims Solutions, Echelon Claims Consultants, Insolutions, Lloyd & Partners, Marsh Aviation Consulting, Marsh Claims Management Services, Marsh Reclaim, Marsh Risk Consulting are trading names of Marsh NV/SA. Marsh Specialty is a trading name of Marsh Ltd. Marsh Ltd is authorised and regulated by the Financial Conduct Authority for General Insurance Distribution and Credit Broking (Firm Reference No. 307511). Copyright © 2021 Marsh Ltd. Registered in England and Wales Number: 1507274, Registered office: 1 Tower Place West, Tower Place, London EC3R 5BU. All rights reserved. 21-823666674