**Increasing prices and scarce resources cause supply chain juggling act**

Unlike the beleaguered hospitality and travel sectors, construction appears to be holding its own despite the ravages of the pandemic. While bars and restaurants are closed and travel for recreation banned, in the last seven months of 2020 the construction industry experienced growth. And although – despite a slight decline last month – the future might look bright; many smaller companies are having to perform a delicate juggling act.

With prices increasing and resources becoming scarcer due to supply chain issues, firms are treading a fine line between staying afloat and keeping the client happy. Most reputable construction companies rely on client referrals for the next job, so keeping customers happy is a must. Trying to work together on the projects can help but managing expectations while not knowing what to expect is becoming increasingly hard.

There has been an exodus of skilled EU workers, with many from the Eastern Block claiming their self-employed allowance and returning home to sit it out. This has been compounded by an ageing population and the effects of the Covid-19 pandemic.

Meanwhile, when it comes to resources, particularly in the last quarter of 2020 there were timber shortages due to bulk orders from the big volume builders. Many smaller contractors simply do not have the cash or the space to bulk-buy timber for the next six months. And where once one could expect to ring a builders’ merchant for a lorry-load of timber which would be there the next day, that can no longer be relied upon.

Suppliers are also keeping less stock. In the past you would expect to be able to get brassware in a week. Firms are now looking at a month, so all the planning must change. This means projects can take longer with all the costs that entails. Firms are having to adapt their timescales now because the flexibility is just not there. Inevitably a number of suppliers have gone under or face losing their businesses. The big beasts will probably survive because they have the money and a strong web presence, but small independent outlets on the high street will obviously struggle more.

The demand for products and materials may be strong as the industry remains active, but there is a question as to whether suppliers can keep up. Many firms will be taking advantage of the extended furlough scheme, which is understandable, but perhaps they would prefer not to take a risk in a world of uncertainty. Of the staff who are not furloughed – many are working at home and the strain of this may be starting to show. Basic communication that we took for granted in the office has not been replaced by Zoom. What will be the bigger cost? Losing loyal customers and sales, or bringing people back to work?

These are testing times, but with new orders continuing to rise, compared to the fragility of some other sectors, the construction industry is likely to find a soft landing once the pandemic is over.  However, the path ahead will not be all plain sailing. Supply-chain and cost-related issues remain a challenge. It can take a year to get a project off the ground; a year of costing and going to and fro with clients – and up to two years before getting on site since the process of pricing was started. The JCT contract certainly allows for price increases, which means if costs have gone up since the contract was signed, there is a clause to allow variation to happen. However, the longer the negotiation process takes, the more the price gets pushed up, even just to keep up with inflation. This does not go down well when it comes to fixed price contracts. It can mean going cap in hand for variations and explaining why there is not enough money in the budget and/or enough margin for the contractor to manage it themselves.

There could be some awkward conversations coming up. No-one likes asking for extra money. Firms work hard to cover the costs as no-one wants to be remembered for doing 150 variations and for prices going up. But that time has come. Everything is being squeezed, and the situation was tight in the first place. So, everyone involved is just having to try to get through it the best they can.

**ENDS**

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