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Mace Consult warns against aggressively discounted bid prices as materials costs dip

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Mace has issued a warning to developers over their influence on the supply chain, as it publishes its latest UK Market View.

The Q1 report includes analysis on how the construction sector has performed against a weak economy. It considers the construction sector's overall growth of 2% in 2023, buoyed by growth in the repair and maintenance sector, but suggests there will be ongoing challenges in 2024, including an economy which finished last year in recession, sparse construction pipelines and a lack of momentum in the sector.

While interest rates are expected to fall this year, the report stresses that it could take two years before interest rates return to the level they were at the start of 2023.

Other factors considered by the report are a reduction in labour costs and eight successive months of material price reductions, going back to May 2023. The report warns these promising signs for the sector could see unintended consequences for an already fragile supply chain if contractors make quick alterations to fees.

Over eager contractors may be inclined to react swiftly to reduced materials and staff costs, dropping tender prices to gain work. The report cautions that this approach would be poor management of a supply chain market that already has fewer suppliers due to insolvencies and could increase the potential of further business closures.

Having considered all the factors impacting the sector, Mace's Q1 Market View report retains the Tender Price Forecast from the previous quarter – forecasting 2.5% nationally and 2% in London for the year rising to 3% nationally and 2.5% in London in 2025.

Andy Beard, Global Head of Cost and Commercial Management, Mace, said:

“Over the past quarter, material prices have continued to drop and there are now signs that labour costs are starting to fall. While this is good news, developers need to be careful of those who are aggressively cutting bid prices.

“Weakening pipelines are likely to encourage some firms to squeeze prices by more than is achievable to secure work.

“Supply chains are still fragile, and work won at ultra-low prices won’t help to repair them. As a sector we should work together to ensure all of those we work with are able to remain in business, as more insolvencies will only reduce competition for supplies, potentially driving construction costs upward once more.”