



Impact of the Russia-Ukraine war on the UK construction industry

Russia's devastating invasion of Ukraine has caused shock and condemnation worldwide.

It is anticipated that there will be significant impacts on construction materials pricing and availability as well as broader societal concerns with rising costs for energy and food due to the conflict.

The Ukrainian crisis is expected to escalate some of the issues being seen in the UK construction industry, such as:



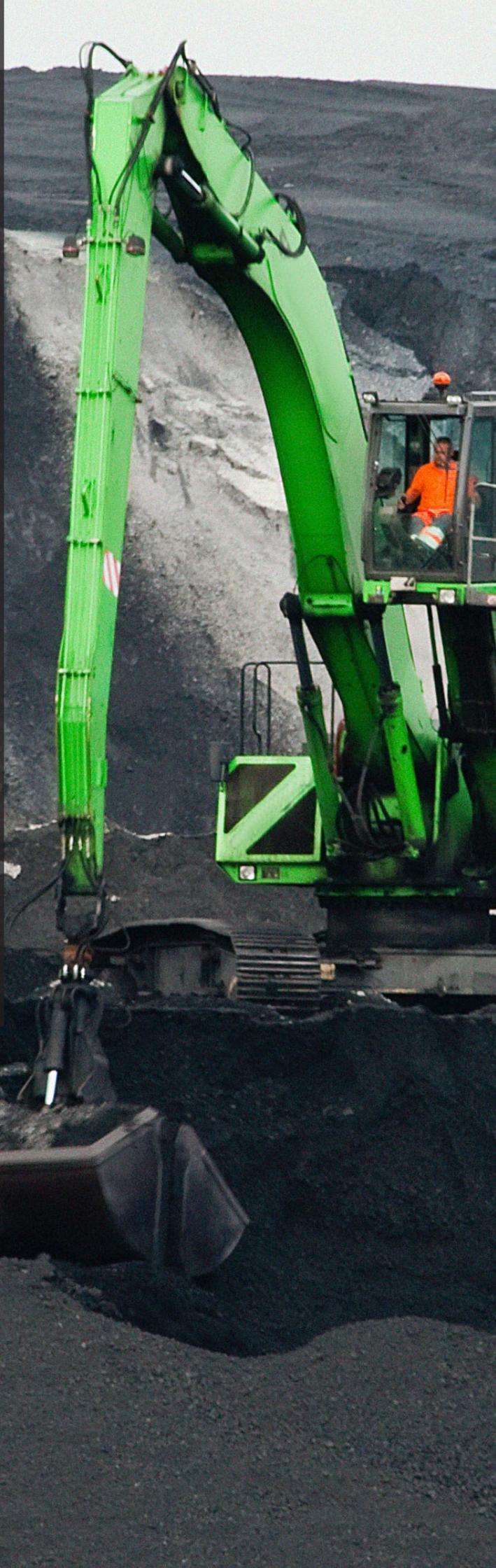
Increased energy costs will impact materials and product production and cause cost increases



Oil price rises will impact petrol costs, affecting deliveries and increasing delivery costs



The supplies of some materials may be impacted.



Rising energy costs

Following the invasion of Ukraine, Brent crude oil surged above \$100 per barrel for the first time since 2014. Natural gas prices, which surged in 2021, also saw renewed increases.

The EU is heavily reliant on imported energy, with a significant proportion coming from Russia. Eurostat data shows that 49.1 percent of coal, 25.7 percent of crude oil and 34.5 percent of natural gas in 2020 came from Russia.

Although Russian gas only accounts for less than 5 percent of the UK's energy mix, with countries trying to obtain energy from non-Russian sources, there is likely to be greater demand across global energy markets leading to price increases.

On 8 March 2022, the U.S. announced that it was banning imports of oil and gas energy. The UK said it would phase out Russian oil imports by the end of 2022. The EU set its intention to be independent of Russian fossil fuels well before 2030 and reduce its imports of natural gas from Russia by two-thirds in the coming year.

In response, Russia has imposed export bans on more than 200 products until the end of 2022. The ban covers telecoms, medical, vehicle, agricultural, electrical equipment and forestry products such as timber to countries that have “committed unfriendly actions” to Russia.

It is anticipated that it will be easier for alternative oil suppliers to be found than gas — the U.S. has been liaising with Saudi Arabia to increase production; however, there remains concern over long-term oil demand and pricing. The U.S. has also been seeking to relax Venezuela's oil sanctions.

Gas is harder to find alternatives for as there are practical obstacles surrounding expanding production and infrastructure. Some of the demand could be met with liquefied natural gas sourced from the U.S.

It is expected that the pressures will accelerate the shift to green energy, although this will take time.

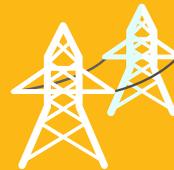
Before the crisis, UK inflation was forecast to peak in April with the implementation of an updated domestic energy price cap. Now forecasters suggest that inflation is likely to remain raised for a more extended period, elevating concerns for the cost of living. The domestic energy price cap, which is already significantly increasing from April by £693 to £1,971 (default tariffs, direct debit), is forecast by many to reach above £3,000 in October.

Increased energy costs will impact the production of materials. In particular, rising natural gas costs will impact kilns and furnaces and, therefore, the production of materials such as bricks, terracotta, steel, glass and aluminium.



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Materials availability and deliveries

Sanctions are impacting production, and the conflict is restricting movement.

Ukraine and Russia are significant producers and exporters of steel but steel mills have reduced/stopped production. Belarus is a significant exporter of steel products, particularly to the UK, and is also subject to sanctions.

There are also issues with timber supplies; strong demand and the conflict restricting supplies is resulting in increased costs.

Shipping and logistics are under renewed pressure and importers are looking for non-Russian alternatives, with strong demand remaining.

Data from the Department for Business, Energy and Industrial Strategy has shown the steepest weekly increase in fuel prices in at least 18 years. The average litre of petrol rose from 149.2p on 28 February to 153.0p on 7 March. Diesel rose from 153.4p to 158.6p in the week and increased delivery costs are anticipated.

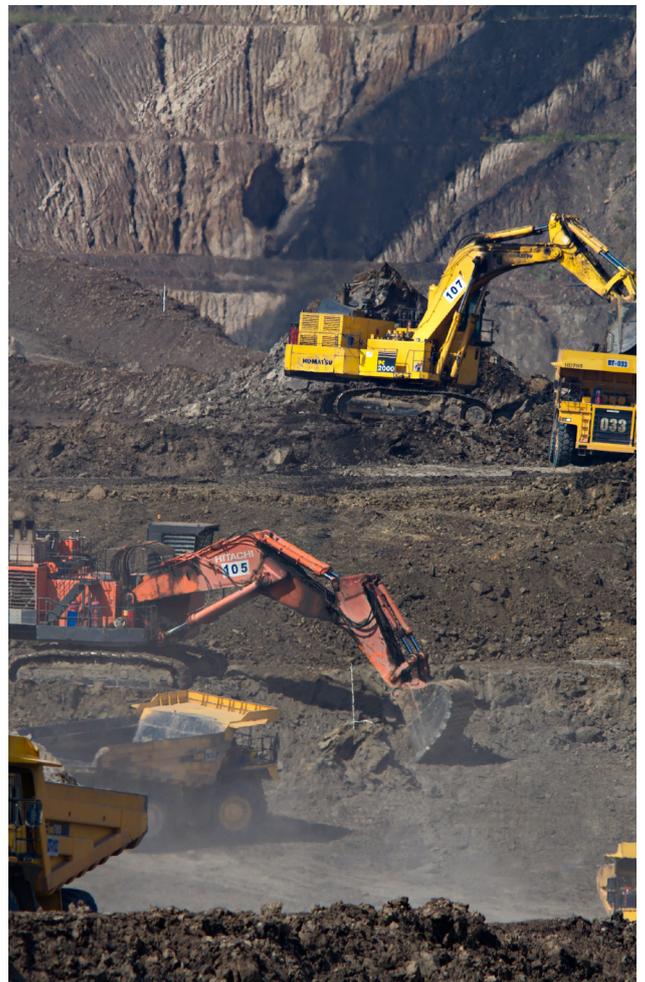


Wider impacts

Food price increases have been seen in recent months and are likely to be ongoing — Russia and Ukraine are some of the top wheat exporters in the world.

The rising inflation/cost of living crisis is anticipated to worsen. The global economy is still recovering from the COVID-19 pandemic. Goldman Sachs said global growth is forecast to be 0.5 percentage points weaker this year due to the conflict, with rising energy prices depressing production and squeezing consumption.

There are also worries that the war could encourage/exacerbate other global tensions.



Summary

Overall, we see evidence of main contractors and other parts of the supply chain giving warnings of price increases, availability issues and delays.

Particularly significant are the warnings on steel. On 10 March, British Steel announced a £250/t increase on structural sections for new orders with immediate effect. The increase was attributed to extraordinary volatility in commodity and energy prices as well as significant disruption to international trade flows. British Steel also advised that it will be limiting the booking capacity available. It is expected that price increases will be seen for other products, particularly those with a steel component or that are energy-intensive to produce.

The situation constantly evolves and should be regularly monitored. Early engagement and collaboration with the supply chain is critical.

Talk to an expert



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