CONSTRUCTION MARKET INTELLIGENCE

Stabilising activity amid ongoing uncertainty

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EXECUTIVE SUMMARY

Weak demand and falling new orders continue to outweigh cost pressures, delaying a broad-based market recovery

The UK construction market remained subdued throughout Q3 2026, with weak project pipelines, cautious private-sector investment and intense competition for available work continuing to constrain recovery. While infrastructure, utilities, energy and data centre programmes have helped support activity levels, many contractors remain focused on securing workload and maintaining order books - limiting opportunities for significant margin growth. This reflects a market increasingly shaped by insufficient demand rather than widespread cost inflation.

Recent official data reinforces this picture. Construction output increased by just 0.3% in Q2 2026 compared to the previous quarter, despite output declining in each month of the period[1]. More significantly, construction new orders fell by 11.8%, highlighting continued weakness in future workload pipelines and ongoing caution among clients when committing to new projects. Infrastructure was the strongest-performing sector, recording 1.9% quarterly growth, whilst activity across residential, industrial and parts of the public sector building market remained under pressure.

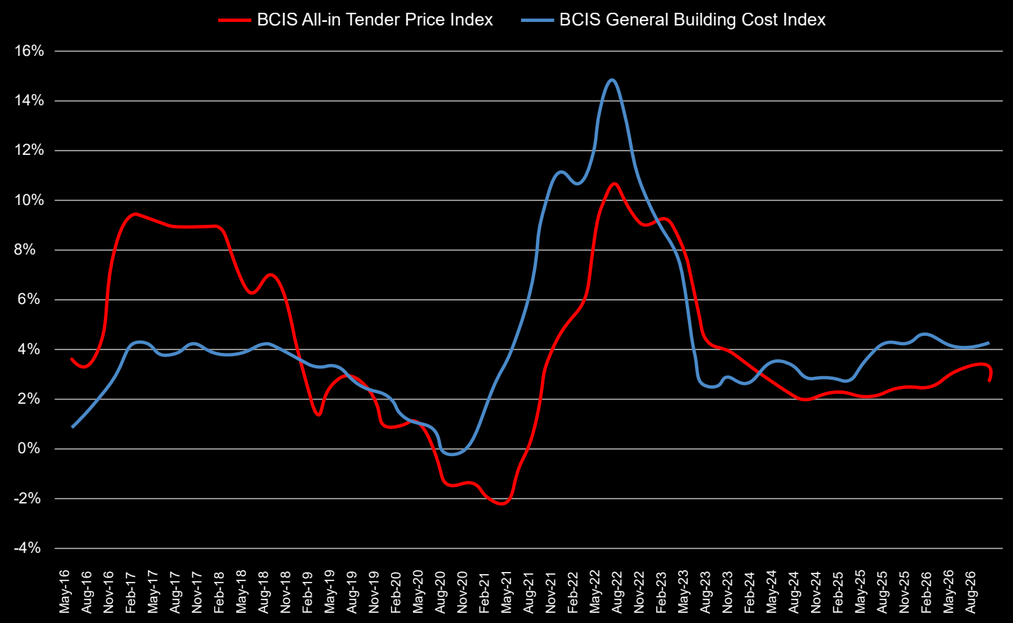
Market conditions continue to favour clients, with contractors seeking work but remaining selective regarding project risk and commercial terms. BCIS forecasts total new work output will contract by 2.7% in 2026 before returning to modest growth from Q1 2027 onwards. Subdued demand is limiting contractors' ability to fully pass cost increases through to clients, despite ongoing labour and material cost pressures. This has resulted in restrained tender price growth compared to previous years.

Overall, the near-term outlook remains cautious. Infrastructure, energy, utilities and data centre investment continue to provide areas of opportunity, but a broad-based recovery has yet to materialise. Weak new orders, restrained private-sector investment and ongoing economic uncertainty indicate that any improvement in market conditions is likely to remain gradual, uneven and heavily dependent on sector and project type through the final months of 2026.

[1]https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2026

Figure 1:

BCIS All in Tender Price Index v BCIS General Building Cost Index [y-o-y % change]



Source: BCIS; WSP

	2025	2026	2027	2028
WSP Buildings Tender Price Index	2.75%	3.75%	3.5%	3.8%
BCIS General Building Cost Index	4.1%	4.6%	4.0%	2.3%

"Infrastructure investment is sustaining activity, but subdued demand continues to hold back wider market recovery"

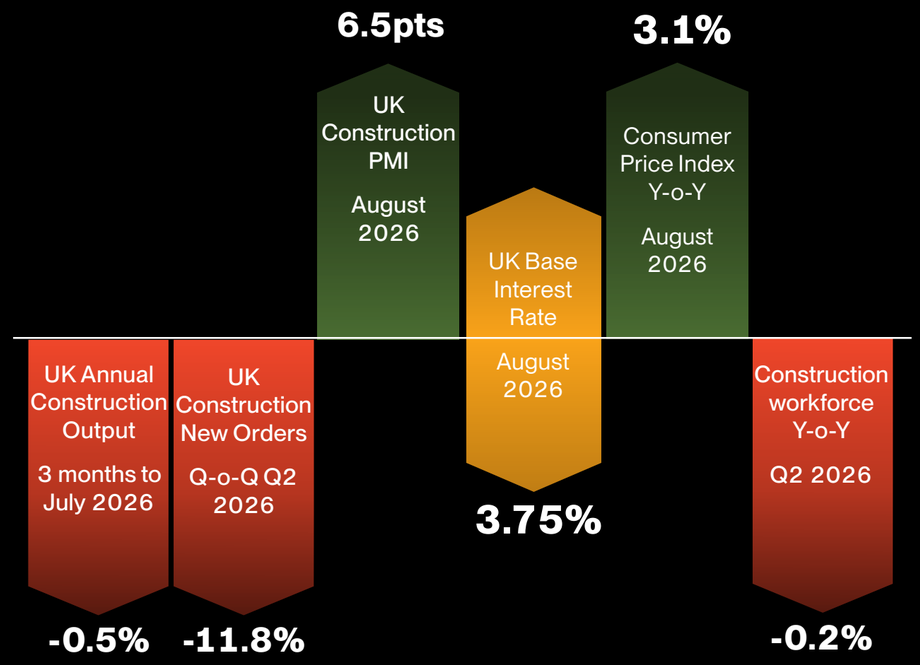
Global Fragile Economic Growth and Weak Confidence Continue to Weigh on Construction Activity

Global and UK Construction Economic indicators

Global and UK economic conditions stabilised during Q3 2026, but growth remains subdued and business confidence remains fragile. While inflationary pressures have eased compared to earlier in the year, uncertainty surrounding economic growth, investment decisions and geopolitical risks continue to weigh on construction markets. Investors and clients remain cautious, with many projects progressing at a slower pace through planning, procurement and funding approvals. The UK construction market continues to underperform broader economic activity. Despite ongoing activity across infrastructure, utilities, energy and data centre programmes, contractors report continued pressure on pipelines and strong competition for available work. Private sector demand remains particularly subdued as clients focus on affordability, viability and risk management before committing to new projects.

Construction output fell by 0.6% in the 3 months leading to July 2026, with new orders falling by 11.8% over the same time span. Compared to 2025, construction new orders are down 18.1% (11,192 to 9,163), further indication that future workloads weakened significantly heading into the final months of 2026. Infrastructure remained the strongest-performing sector, whilst residential and industrial activity continued to face challenges due to funding and investment constraints.

There have been signs of improvement through Q3 however. The S&P Global UK Construction PMI rose to 44.7 in August 2026, up 6.5 points from 3 months prior. This indicates that although activity continues to contract, the pace of decline has moderated, as well as suggesting that the sharp deterioration seen earlier in the year may be easing.



OIL PRICES REMAIN HIGHLY VOLATILE AS SUPPLY RISKS AND GEOPOLITICAL UNCERTAINTY PERSIST

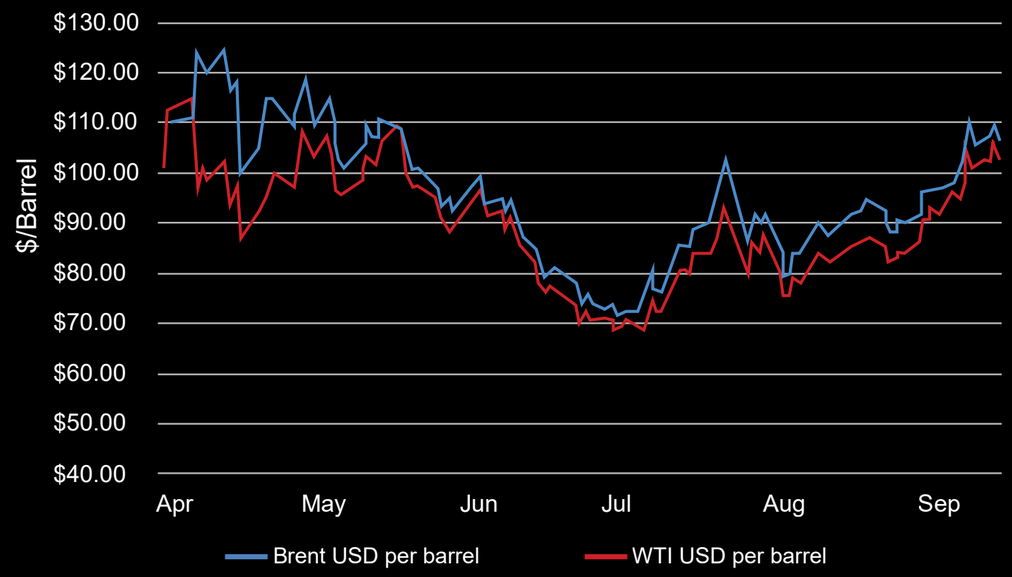
Volatility in global energy markets has continued, influencing inflation expectations and cost forecasting across the construction sector. Brent crude oil prices declined from approximately $95 per barrel in early June 2026 to $73 by month end. However, they have since rebounded, exceeding $100 in the middle of September. These movements underline the market's continued sensitivity to geopolitical developments and potential supply disruptions.

Although these prices remain below the peak levels reached during previous periods of market disruption, the return to higher oil prices during Q3 has renewed concerns around input cost inflation. Construction materials with significant energy content, together with transport and logistics costs, remain exposed to fluctuations in fuel prices, creating additional uncertainty for project budgeting.

With economic growth forecasts remaining subdued and inflation expected to moderate only gradually, persistent energy market volatility represents an ongoing risk to the wider cost environment. Whilst the outlook remains more stable than during the immediate escalation of conflicts in the Middle East earlier in the year, elevated oil prices continue to present upside risks to inflation, potentially delaying any meaningful easing in financing and borrowing conditions.

Figure 2:

Brent and WTI Crude Oil Prices (April to Mid-September 2026)



Note: Price movements reflect extreme short-term volatility. Historical evidence suggests construction cost impacts depend on sustained price elevation rather than intra-period peaks.

GLOBAL GAS PRICES RISE SHARPLY DURING Q3 AMIDST TIGHTENING MARKET CONDITIONS

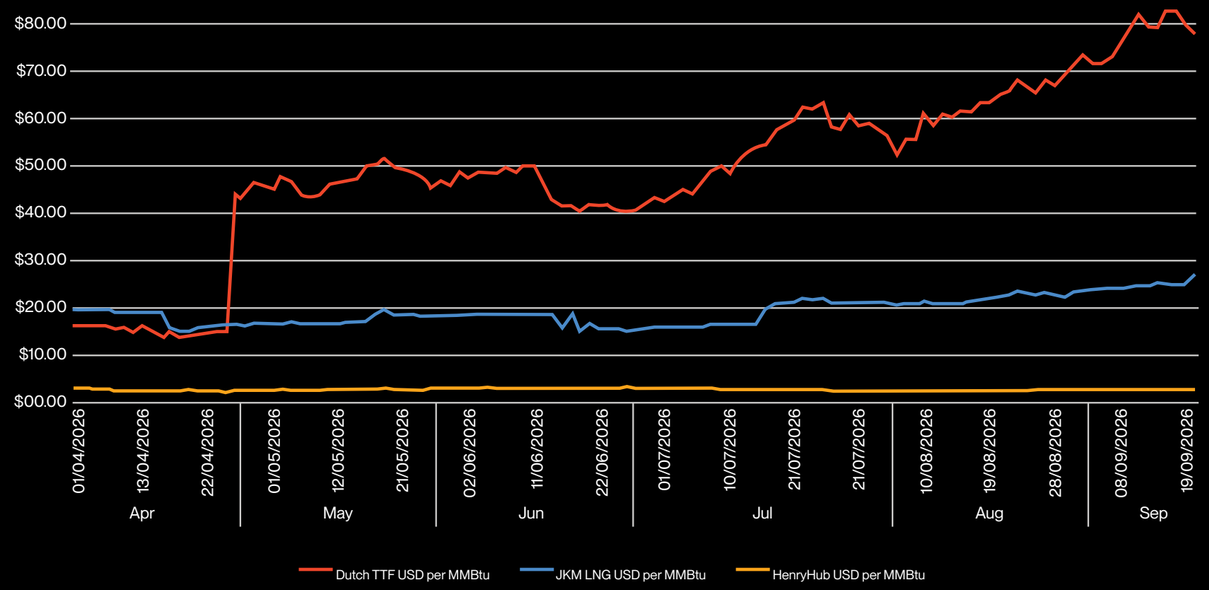
Global energy markets remained volatile throughout Q3 2026, with gas prices strengthening significantly as supply concerns, LNG demand and geopolitical uncertainty continued to influence market sentiment. While crude oil prices experienced sharp fluctuations during the quarter, gas markets displayed a more sustained upward trajectory, reinforcing inflationary risks across energy-intensive sectors.

European gas prices rose markedly over the period, with Dutch TTF increasing from around $40/MMBtu in June to exceed $80 by September. Asian LNG markets also strengthened, with prices rising by $9 over the quarter, reflecting firmer global demand and tighter market conditions. In contrast, US HenryHub prices remained relatively stable, fluctuating between $2.7/MMBtu and $3.0/MMBtu as domestic production continued to support supply.

The renewed upward pressure in global gas markets highlights the continued vulnerability of energy costs to geopolitical developments and supply-side risks. Whilst the direct impact on construction activity is expected to be gradual, sustained energy price volatility is likely to feed through to manufacturing, transport and materials production over the coming quarters, contributing to ongoing uncertainty across project costs, investment decisions and inflation expectations.

Figure 3:

European and Global Gas Prices (April to Mid-September 2026)



Sources: ICE Futures Europe (Brent crude, Dutch TTF gas); U.S. Energy Information Administration (WTI crude, Henry Hub gas); S&P Global Platts (JKM LNG)

GEOPOLITICAL UNCERTAINTY CONTINUES TO WEIGH ON UK CONSTRUCTION OUTLOOK

Recent geopolitical uncertainty and continued volatility across global commodity markets are contributing to a more cautious outlook for UK construction. While activity has demonstrated resilience in some sectors, elevated financing costs, economic uncertainty and persistent input cost pressures continue to weigh on investment decisions and project viability.

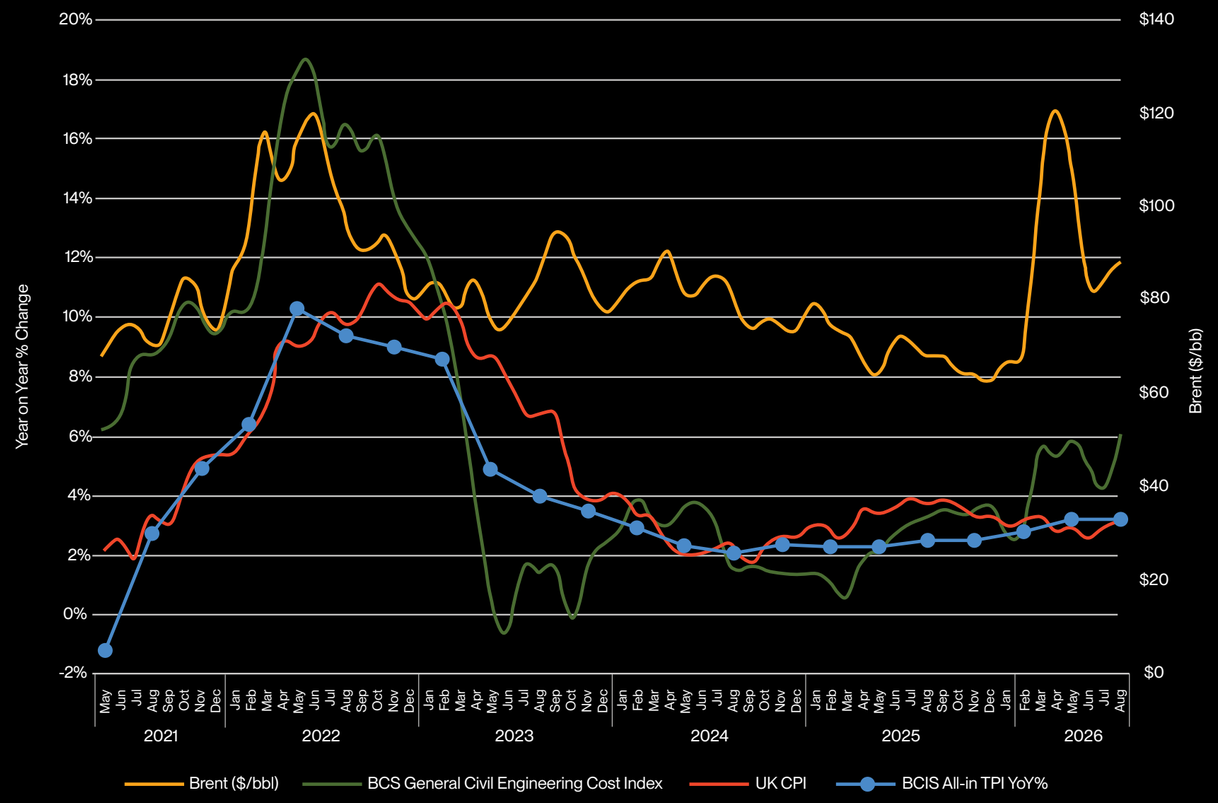
Industry forecasts suggest growth expectations have softened compared with the start of 2026, with many private sector segments facing a challenging operating environment. Recent survey evidence indicates subdued activity across housing, commercial and civil engineering markets, as clients remain cautious regarding new commitments and major capital expenditure.

The effects of higher energy and commodity costs are increasingly being felt through construction supply chains. Energy-intensive materials, including steel, aluminium, insulation and certain petrochemical-based products, remain exposed to global market volatility. While cost escalation has not returned to the levels experienced during previous inflationary peaks, renewed pressure on key commodities continues to present upside risks to project costs and procurement strategies.

Although many organisations remain partially protected by existing contracts and hedging arrangements, prolonged market uncertainty could further impact investment confidence, tender pricing and project delivery decisions. As a result, geopolitical developments remain a key risk factor for the UK construction outlook heading into Q4 2026.

Figure 4:

Comparison of index movement vs Brent price movements



AI INVESTMENT RACE FUELLING UK DATA CENTRE CONSTRUCTION BOOM

Artificial intelligence has emerged as one of the most significant investment themes of 2026, with companies committing vast amounts of capital to expand computing capacity and secure access to the infrastructure needed to train and operate increasingly sophisticated AI models. The scale is reflected by the May 2026 valuation of Anthropic, the firm responsible for developing Claude, being approximately $965 billion.

For the construction industry, the AI boom is translating into rapidly growing demand for data centres, power infrastructure and specialist engineering facilities. The UK has become a key destination for this investment, with more than $59bn of announced data centre developments identified since 2023, as well as significant additional capacity expected to come online over the remainder of the decade. Demand is not only increasing for data centre buildings themselves, but also for substations, grid connections, cooling systems and the highly requested MEP services required to support them.

The growth of AI-driven infrastructure is helping to create a new source of construction demand at a time when activity in several traditional sectors remains subdued. Data centres are among the most technically complex building types, requiring high levels of servicing, resilience and energy provision, which is supporting demand for specialist contractors, engineers and consultants. This is also creating opportunities across adjacent sectors, including electricity networks, renewable energy generation and industrial development.

Looking ahead, continued investment in artificial intelligence is expected to sustain demand for digital infrastructure projects, particularly as organisations seek greater computing capacity and cloud providers continue to expand their UK presence. While challenges remain around power availability, grid connections and specialist skills, the AI boom is increasingly becoming a construction story, driving a growing pipeline of data centre and energy-related projects that are likely to remain a key area of market activity over the coming years.

Table 1: Number of Data Centres in operation in the UK

Year	Number of UK Data Centres
2000	52
2024	266

Source: Oxford Economics

The rapid expansion of AI is creating a significant new infrastructure market, supporting demand for data centres, power networks and specialist engineering services despite broader weakness elsewhere in the construction industry.



MACROECONOMIC INDICATORS

Signs of stabilisation emerge, but weak demand continues to constrain UK recovery

The UK economy enters Q4 of 2026 showing early signs of stabilisation, with several key indicators improving through Q3 following a challenging first half of the year. As illustrated by the latest inflation, business sentiment and purchasing managers' indices, expectations of a more accommodative monetary policy stance have strengthened. Recent economic indicators suggest that the pace of deterioration has slowed compared to the first 9 months of the year, but conditions remain consistent with a low-growth environment, as opposed to a sustained recovery.

Construction continues to reflect these broader market dynamics. Although some indicators have improved during Q3, overall output remains weak by historical standards. Recovery of this still largely relies on selective sectors, particularly infrastructure, energy, utilities as well as repair and maintenance activity. New work pipelines remain mixed, and investment decisions continue to be influenced by financing costs, client confidence and project affordability. As a result, construction as a sector has yet to demonstrate a broad-based return to growth heading into Q4.

Geopolitical and macroeconomic risks remain key considerations for the market outlook. While energy market volatility has eased from the peaks experienced earlier in the year, continued uncertainty surrounding global trade, commodity markets and regional conflicts are maintaining pressure on business sentiment. Cost risks persist across materials, logistics and energy-intensive manufacturing, although the rate of escalation has moderated compared to previous quarters. The cumulative effect of higher costs and caution around capital investment continues to constrain activity, reinforcing a measured and gradual recovery outlook for the construction sector through the final months of 2026.



CONSTRUCTION DEMAND

Output, new orders and activity indicators continue to point to a fragile market

Market conditions remain subdued, with recent data indicating that the recovery in construction activity has lost momentum. Following four consecutive increases in the rolling three-month measure, total construction output fell by 0.5% in the three months to July 2026. Both new work and repair and maintenance contracted over the period, falling by 0.4% and 0.7% respectively, suggesting that weakness is becoming more broadly based across the sector. Six of the nine construction sectors covered by ONS Construction Output data recorded declines, with private housing repair and maintenance providing the largest negative contribution.

Despite the weaker three-month trend, monthly output rose marginally by 0.1% in July following declines in May and June. However, the increase was driven entirely by repair and maintenance activity, which grew by 0.8%, while new work declined by 0.4%. The sharpest fall within new work came from private housing, where output decreased by 4.9%, highlighting continued weakness in residential market demand and ongoing affordability pressures. The reliance on maintenance activity to sustain output suggests that a broad-based recovery in construction investment has yet to emerge.

Demand-side indicators continue to paint a cautious picture. Elevated financing costs, investor uncertainty and constrained project pipelines are limiting new project starts across much of the private sector. While infrastructure, energy, utilities and data centre programmes continue to provide areas of resilience, activity levels remain uneven and competition for available work remains intense. Current evidence suggests that the market remains characterised by selective opportunities rather than widespread growth, with the near-term outlook dependent on an improvement in project confidence and the conversion of planned investment into delivered workloads.

WSP View: The latest ONS data suggest that construction demand softened through the summer, reversing the modest gains recorded earlier in 2026. Monthly activity has stabilised, but the continued decline in new work, particularly within the housing sector, indicates that underlying demand remains weak. Whilst long-term investment programmes in infrastructure, energy and digital sectors continue to support selected markets, overall construction demand is expected to remain subdued until stronger levels of private sector investment and new orders return.

UK Construction Output

-0.5%

3-months to Jul 2026 (ONS)

First decline after four consecutive periods of growth

New Work Output

-0.4%

3-months to Jul 2026 (ONS)

Output decline led by weakness in private housing new work

Total New Work Orders

-11.8%

2Q 2026 on 2Q 2025 (ONS)

New orders remain well below 2025 levels.

UK CONSTRUCTION DEMAND: OUTPUT

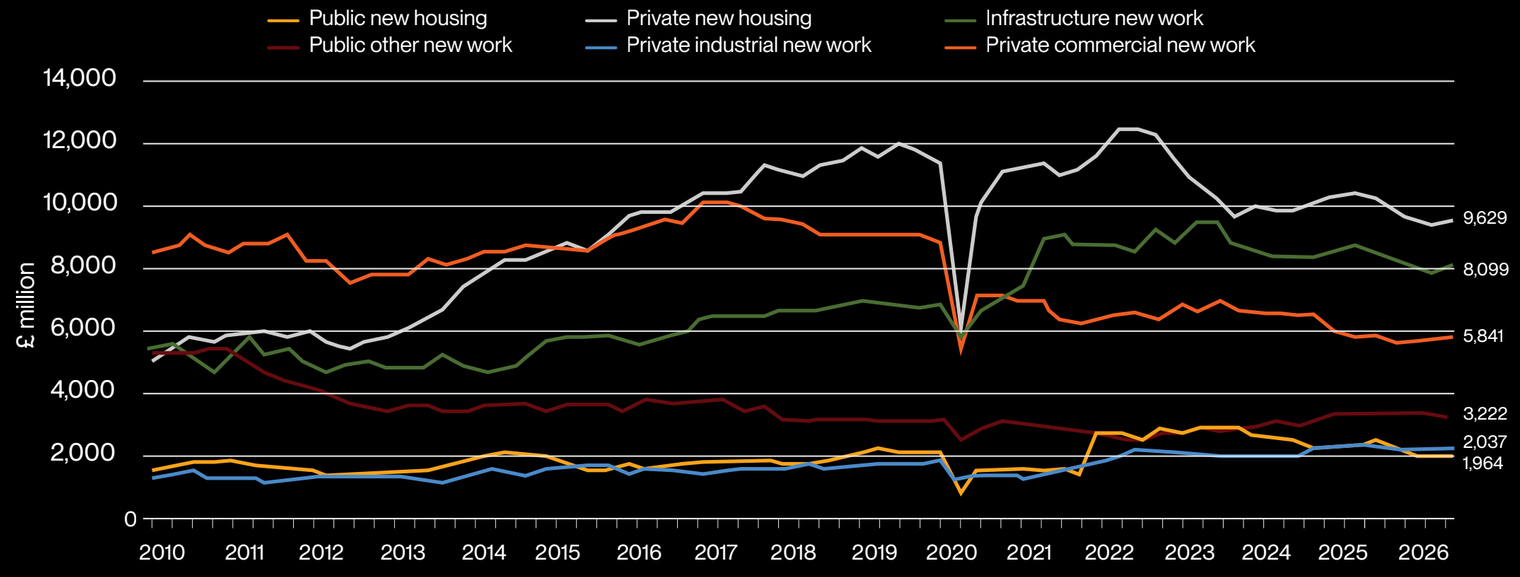
UK construction output fell by 0.5% in the three months to July 2026, ending a run of four consecutive periods of growth. Both new work (-0.4%) and repair and maintenance (-0.7%) contributed to the decline.

At sector level, six of the nine construction sectors covered by ONS Construction Output data recorded lower output over the period. The largest negative contribution came from private housing repair and maintenance, which fell by 1.7%.

Monthly output increased slightly by 0.1% in July following declines in May and June. Growth was driven by repair and maintenance activity (+0.8%), while new work output fell by 0.4%, with private housing new work declining by 4.9%.

Figure 5:

Construction new work output by sector, volume, seasonally adjusted (£ million), April to Jun 2026



Office for National Statistics (ONS), Construction output in Great Britain. Volume measures shown are chained volume measures (€ million), seasonally adjusted. Data are subject to revision in accordance with the National Accounts Revisions Policy.

UK CONSTRUCTION DEMAND: NEW ORDERS

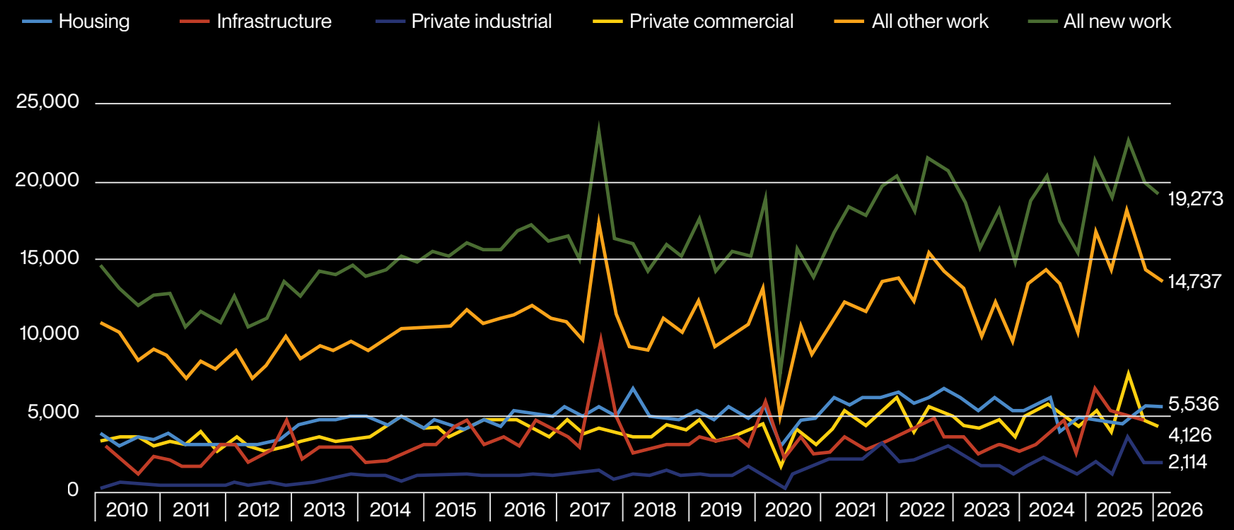
New orders continue to indicate weak underlying demand across much of the UK construction market. Recent data point to a sustained reduction in project commitments, with order levels remaining well below those seen in 2025 and providing limited evidence of a near-term recovery in workload pipelines.

The weakness remains most pronounced in private sector markets, where high financing costs, affordability constraints and cautious investor sentiment continue to delay project approvals and investment decisions. Residential and commercial sectors have been particularly affected, while infrastructure, utilities, energy and data centre programmes continue to provide comparatively stronger sources of future workload.

Whilst a number of major long-term programmes are supporting medium-term pipeline visibility, market intelligence such as the falling new orders and sub-50 PMI suggests that the flow of replacement work remains limited and competition for available opportunities remains intense. Overall, new orders continue to signal a fragile market environment, with future activity likely to remain dependent on the conversion of planned investment into committed construction programmes.

Figure 6:

New Orders for construction: value non-seasonally adjusted



Source: Office for National Statistics (ONS), New orders in the construction industry. Data are shown in current prices, value terms, non seasonally adjusted, and are expressed in £ million. New orders data are subject to significant quarterly volatility, particularly for infrastructure, reflecting the timing and scale of major project awards. Data are subject to revision in line with the ONS National Accounts Revisions Policy.

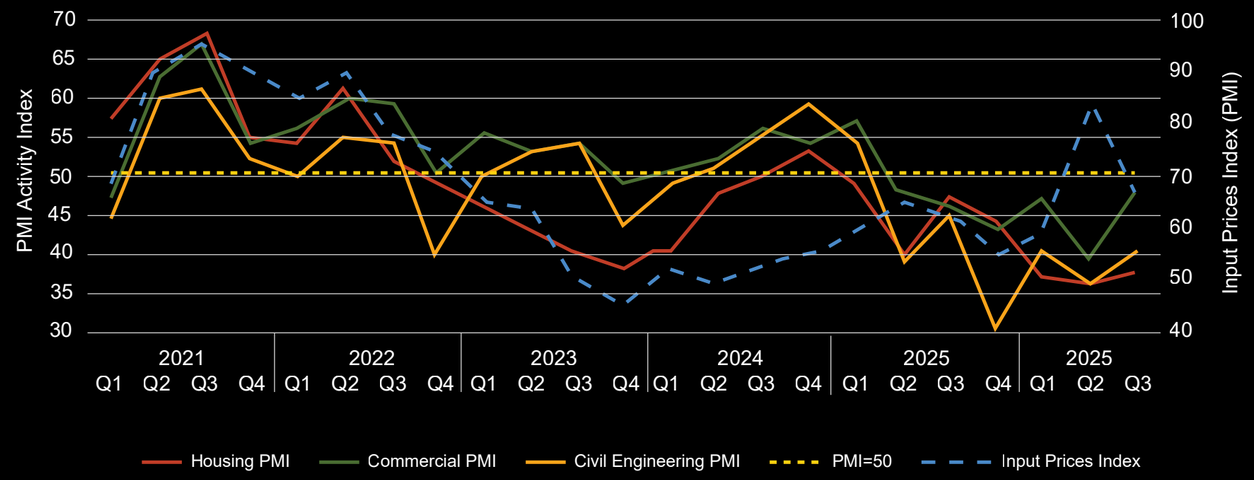
UK CONSTRUCTION DEMAND: ACTIVITY

Activity indicators suggest the construction market remains in contraction, although conditions have improved from the lows experienced earlier in 2026. The S&P Global UK Construction PMI increased to 44.7 in August 2026, up from 38.2 three months earlier. Whilst remaining below the neutral 50 threshold, the improvement indicates that the pace of activity decline has moderated and that the sharp deterioration seen during the first half of the year may be beginning to ease.

New work inflows continue to face pressure from cautious client sentiment, elevated financing costs and prolonged project approval processes. Indices suggest that contractors remain heavily reliant on existing workloads, with competition for new opportunities remaining intense across much of the market. This aligns with broader indicators showing subdued demand conditions and limited replenishment of project pipelines. Despite weaker activity levels, there are signs of greater resilience in sectors linked to infrastructure, utilities, energy and digital infrastructure investment. These programmes continue to provide a degree of workload stability, partly offsetting weakness across housing and private commercial markets. Overall, activity indicators suggest that whilst market conditions remain challenging, the UK construction sector has moved away from the sharp contraction experienced earlier in the year, with sentiment pointing towards stabilisation rather than further significant deterioration heading into Q4 2026.

Figure 7:

UK Construction Activity and Cost Pressures (PMI indices): Values below 50 indicate contraction



Source: ONS;S&P Global UK Construction PMI

BUILDINGS INPUT COSTS AND TENDER PRICES

Tender price inflation across the buildings market continues to rise at a measured pace, with the BCIS All-in Tender Price Index increasing by 3.2% year-on-year. Despite input costs remaining elevated, subdued construction demand and intense competition for available work continue to constrain contractors' ability to fully recover rising costs through tender prices. Pricing discipline remains evident on larger and more complex projects, although competitive pressures persist across housing and commercial sectors where workload pipelines remain constrained.

Input cost inflation remains more pronounced than tender price growth. The BCIS General Building Cost Index increased by 4.3% over the year, reflecting ongoing pressures across both labour and material inputs. Materials costs recorded the strongest annual increase, rising by 5.6%, indicating that supply chain cost pressures have not fully dissipated despite weaker levels of construction activity. Labour costs also continued to increase, with the BCIS Labour Cost Index rising by 2.9% year-on-year, remaining a persistent source of cost pressure across the sector.

The divergence between input cost inflation and tender price growth highlights the continued influence of weak market demand on pricing dynamics. While contractors continue to face higher labour, material and delivery costs, competitive market conditions are limiting the extent to which these increases can be passed through to clients. This remains particularly evident in sectors experiencing weaker demand, where competition for new opportunities remains intense.

Overall, building costs continue to trend upwards, although at a more moderate pace than experienced during the inflationary peak of 2022-2023. Labour availability, material cost volatility and broader geopolitical uncertainty remain key upside risks to future cost movements. However, with construction demand remaining subdued across much of the market, tender price inflation is expected to remain comparatively contained relative to underlying input cost pressures, with workload availability continuing to exert a stronger influence on pricing behaviour than supply-side constraints.

BCIS Labour Cost Index

+2.9%

Annual Growth (3Q25 to 3Q26)

Labour costs continue to rise despite weak demand

BCIS Materials Cost Index

+5.6%

Annual Growth (3Q25 to 3Q26)

Output decline led by weakness in private housing new work

BCIS All-in Tender Price Index

+3.2%

Annual Growth (3Q25 to 3Q26)

Tender price growth constrained by weak market demand

BCIS General Building Cost Index

+4.3%

Annual Growth (3Q25 to 3Q26)

Building cost inflation remains elevated but stable

UK CONSTRUCTION INPUT COSTS: LABOUR TRENDS

UK construction labour market conditions remain subdued overall, reflecting weak workload levels and constrained project pipelines rather than any significant easing in underlying skills shortages. While recruitment activity and vacancy levels have softened compared with previous years, persistent shortages remain across specialist and compliance-critical trades, including MEP, fire safety, façade installation and regulated infrastructure disciplines.

Recent activity indicators suggest that market conditions remain challenging, although there are tentative signs that the pace of contraction is easing. Demand for labour continues to be limited by subdued construction output, weak new orders and cautious investment decisions across large parts of the private sector. As a result, employment growth remains constrained despite ongoing requirements for specialist skills within infrastructure, energy and digital infrastructure programmes.

Labour cost inflation has moderated during 2026, with the BCIS Labour Cost Index increasing by 2.9% year-on-year in 3Q2026, compared with 3.5% in the previous quarter. Monthly movements have remained relatively stable through much of the year, reflecting weaker demand conditions and a more balanced labour market than experienced during the post-pandemic recovery period. However, labour costs continue to represent a significant component of overall construction cost inflation and remain above wider wage growth in several specialist trades.

Looking ahead, BCIS forecasts labour cost inflation to increase to 4.3% between 3Q2026 and 3Q2027 before moderating to around 3.0% and then 2.6% in subsequent years. This suggests that while current market conditions are suppressing short-term labour pressures, underlying capacity constraints have not disappeared. A recovery in construction output, particularly across infrastructure, energy and data centre programmes, could therefore result in renewed upward pressure on labour availability and wage growth over the medium term.

WSP View: Labour market pressures have eased during 2026 as weaker demand has reduced immediate resource constraints. However, structural shortages remain embedded across a number of specialist trades. Whilst labour inflation has moderated in the short term, the BCIS forecast points to renewed cost pressures as activity recovers, reinforcing labour availability as a key medium-term risk for the construction sector.

Table 2: BCIS Labour Cost Index Forecast

Time Period	Forecast of the BCIS Labour Cost Index
3Q25 to 3Q26	2.90%
3Q26 to 3Q27	4.30%
3Q27 to 3Q28	3.00%
3Q28 to 3Q29	2.60%
3Q29 to 3Q30	2.60%

Source: BCIS, ONS

UK CONSTRUCTION INPUT COSTS: MATERIAL TRENDS

Materials inflation has re-accelerated during Q3 2026, reflecting renewed supply-side pressures despite subdued construction demand. The latest Department for Business and Trade (DBT) data show the Construction Materials Price Index for All Work increased by 6.0% year-on-year in June 2026, compared with 3.2% earlier in the year, indicating that input cost pressures have strengthened heading into the second half of 2026.

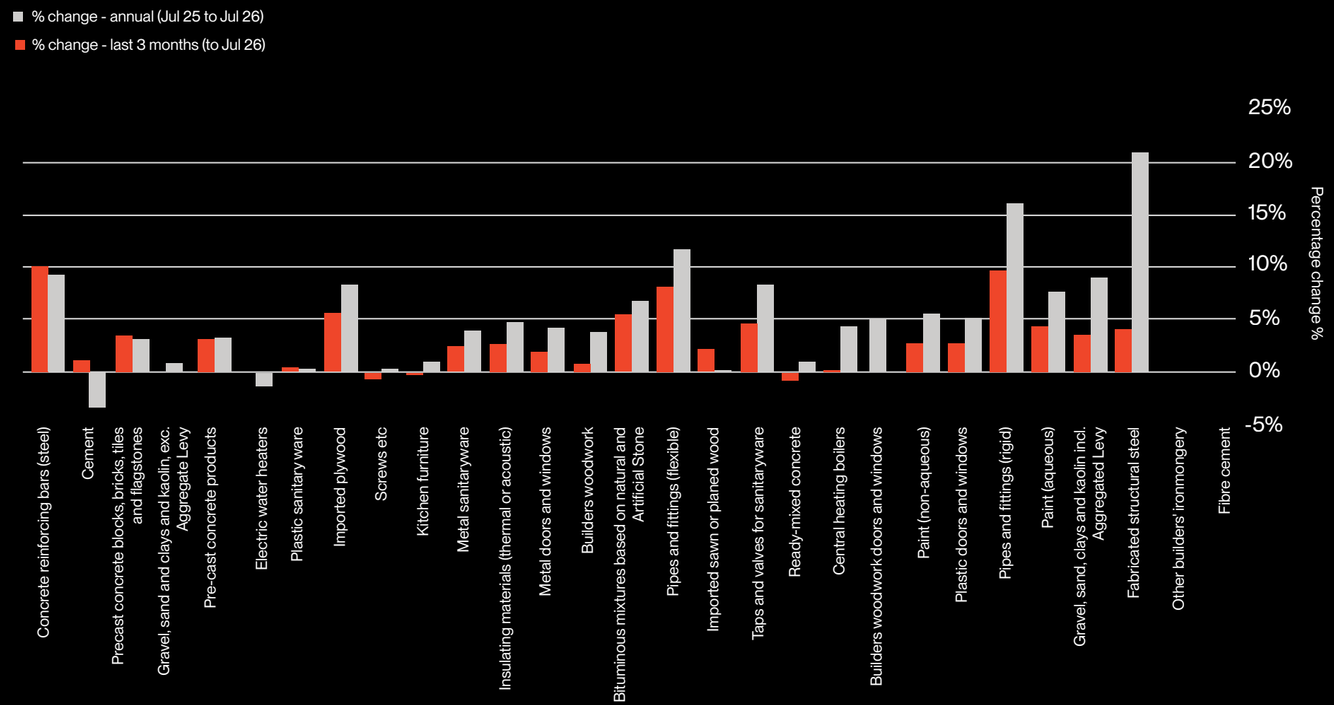
Recent cost increases have been driven primarily by energy-intensive products and manufactured construction components rather than demand-led market conditions. Fabricated structural steel recorded annual price growth of 17.7%, whilst pipes and fittings increased by 12.0%, highlighting continued upward pressure across key construction commodities and industrial supply chains.

Demand indicators continue to present a mixed picture. Brick deliveries fell by 16.3% year-on-year and concrete block deliveries declined by 12.3%, indicating that construction activity remains subdued despite stronger materials inflation.

Overall, materials costs have once again become a more significant contributor to construction inflation than earlier in the year, although the market remains far removed from the volatility experienced during 2021-22. Whilst weaker workloads continue to suppress demand-driven price pressures, geopolitical uncertainty, energy market volatility and supply chain disruption remain key upside risks heading into Q4 2026. Energy-intensive materials, including steel, cement, aluminium and other manufactured construction products, remain particularly exposed to inflationary pressure due to their reliance on gas and electricity throughout production processes, as well as fuel-dependent transportation and distribution networks; this effect is distinctly apparent in rigid pipes and fittings, while steel products face additional pressure from the recent UK import quota changes. Any sustained increase in energy prices is therefore likely to feed through supply chains and place renewed upward pressure on material costs

Figure 8:

Selected material producer price indices: Changes over time (July 2026) Source: DBT



UK CONSTRUCTION INPUT COSTS: COMMODITIES TRENDS

Commodity markets remained heavily influenced by supply-side constraints, geopolitical risks and energy market volatility during Q3 2026, rather than underlying construction demand. Significant price increases were recorded across several key industrial metals, with copper rising 48.1% year-on-year, zinc increasing 38.9%, aluminium 25.2% and nickel 12.1%. Tin prices also remained elevated at $55,385/t, reflecting continued supply constraints and strong demand from electronics and renewable energy sectors. In contrast, iron ore prices declined by 3.4% year-on-year, whilst lead remained comparatively subdued at $1,855/t, highlighting the increasingly divergent performance of commodity markets.

Copper continued to outperform most industrial commodities, supported by growing demand from power infrastructure, renewable energy projects and data centre development, alongside concerns regarding mine supply and refining capacity. Aluminium prices also remained elevated due to their reliance on energy-intensive production processes, whilst zinc, nickel and tin continued to experience periodic supply-side disruptions and production constraints. As a result, commodity price movements remained increasingly disconnected from construction demand and more closely linked to global industrial and energy market dynamics.

Oil prices remained an important driver of commodity market conditions throughout Q3. Although prices eased from the peak levels seen during the Middle East escalation, Brent crude remained elevated compared with 2025 levels and continued to exert upward pressure on fuel, transportation and manufacturing costs. These effects have been particularly evident across energy-intensive materials and globally traded commodities, where higher production and logistics costs have fed through supply chains.

Steel-related markets remained mixed. Whilst iron ore prices softened, broader steel supply chains continue to face uncertainty arising from trade restrictions, geopolitical tensions and elevated manufacturing costs. More broadly, commodity markets continue to exhibit diverging trends, with prices increasingly influenced by energy security concerns, industrial policy and supply-chain resilience measures rather than cyclical construction activity.

Overall, the commodities outlook remains characterised by elevated volatility and asymmetric risk. Whilst subdued construction demand continues to limit broad-based inflationary pressure, geopolitical uncertainty, energy market volatility and supply disruptions remain key upside risks heading into Q4 2026. Energy-intensive commodities such as aluminium, steel, zinc and tin remain particularly exposed due to their reliance on gas and electricity throughout extraction, processing and manufacturing, as well as fuel-dependent transportation networks. Any sustained increase in energy prices is therefore likely to feed through supply chains and place renewed upward pressure on commodity and construction material costs,

Table 3: Commodities Price Movement August 2026

Commodity	Price August 2026	Year-on-year change %
Aluminium	$3,251.00 /t	25.2%
Copper	$14,326.00 /t	48.1%
Iron Ore	$96.30 /t	- 3.4%
Zinc	$3,875.00 /t	38.9%
Nickel	$16,751.00 /t	12.1%

Source: DBT Source: World Bank, August 2026. Year-on-Year changes are based on World Bank Pink Sheet monthly nominal USD prices, August 2026 vs August 2025.

CIVIL ENGINEERING COSTS AND TENDER PRICES

Civil engineering tender prices continue to rise at a measured pace, with increases broadly reflecting underlying cost inflation and strengthening infrastructure activity. Market conditions remain mixed across sub-sectors, with investment programmes in energy, water, utilities and digital infrastructure providing greater resilience than the wider construction market.

Tender price movements continue to be influenced by underlying input cost pressures, particularly from energy-intensive materials, commodity markets and transportation costs. The re-acceleration of materials inflation during Q3, combined with continued volatility across key commodities including copper, aluminium and zinc, has reinforced upward pressure across civil engineering supply chains. Contractor behaviour remains cautious, with selective bidding, longer procurement periods and greater emphasis on risk management and cost recovery.

At an aggregate level, input cost inflation remains a key driver of tender price growth, although the forecast suggests that pricing may increasingly be supported by stronger infrastructure workloads over the medium term. Commodity price volatility, energy market uncertainty and ongoing supply-chain pressures continue to present upside risks, particularly for projects with significant exposure to steel, fuel, concrete and other material-intensive inputs.

Whilst weaker demand across the broader construction sector is expected to moderate pricing pressures in the near term, sustained infrastructure investment is expected to continue supporting civil engineering tender prices through the forecast period.

Cost pressures within the civil engineering sector remain evident despite subdued demand conditions. The BCIS General Civil Engineering Cost Index increased by 5.5% year-on-year to 3Q2026, substantially exceeding both the BCIS Civil Engineering Tender Price Index (2.6%) and BCIS Roads Tender Price Index (2.8%). This suggests that contractors continue to absorb a proportion of rising input costs, limiting the extent to which inflation is being passed through into tender prices.

Input cost inflation continues to be driven primarily by materials and plant costs. The BCIS Materials Cost Index increased by 5.6% year-on-year, reflecting higher commodity prices, energy-related manufacturing costs and ongoing supply-chain pressures. The BCIS Plant Cost Index rose by 6.0% annually, supported by elevated fuel, transportation and equipment operating costs. Labour cost inflation remains comparatively subdued, with the BCIS Labour Cost Index recording annual growth of 2.9%, reflecting weaker construction demand and competitive market conditions.

BCIS Civil Engineering

+2.6%

Tender Price Index

Annual Growth (3Q25 to 3Q26)

BCIS Roads

+2.8%

Tender Price Index

Annual Growth (3Q25 to 3Q26)

BCIS Civil Engineering

+5.5%

Cost Index

Annual Growth (3Q25 to 3Q26)

UK CONSTRUCTION OUTLOOK

Outlook shaped by stabilising activity and ongoing uncertainty

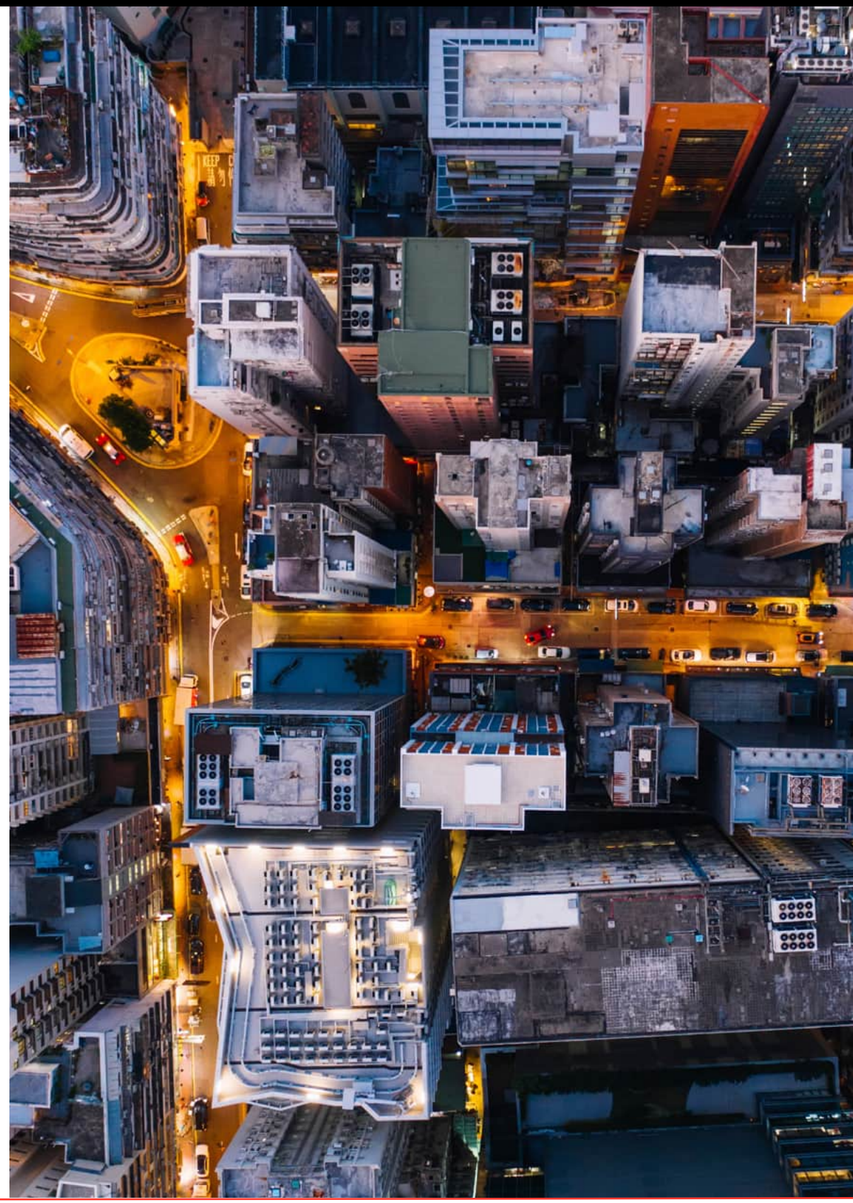
UK construction market conditions heading into Q4 2026 remain challenging, although there are increasing signs that the pace of contraction is easing. Construction output fell by 0.5% in the three months to July 2026, whilst new work activity continues to face pressure from weak private sector demand, elevated financing costs and cautious investment sentiment. However, monthly output returned to marginal growth in July, suggesting some stabilisation following a weaker second quarter.

Business confidence remains fragile, but activity indicators have improved from the lows experienced earlier in the year. The S&P Global UK Construction PMI increased to 44.7 in August 2026, up from 38.2 three months earlier, indicating that whilst activity continues to contract, the rate of decline has moderated. Nevertheless, new orders remain subdued and project pipelines continue to be constrained by affordability concerns, funding challenges and delayed investment decisions.

Input cost pressures have re-emerged during Q3, driven by higher commodity prices, energy market volatility and continued supply-chain pressures. Whilst weaker demand conditions continue to limit contractors' ability to pass through rising costs, increases across materials, plant and logistics costs remain a significant consideration for project viability and procurement strategies.

Looking ahead, market performance is expected to remain uneven. Infrastructure, energy, water, utilities and digital infrastructure programmes are expected to continue supporting activity, whilst private residential and commercial sectors remain more exposed to affordability, viability and financing pressures. Recovery is therefore expected to remain gradual and sector-specific, with progress increasingly dependent on funding certainty, procurement strategy and the successful conversion of planned investment into active workloads.

Whilst recent data suggest the sharp deterioration seen during the first half of 2026 may be easing, business confidence remains subdued and the balance of risks remains tilted towards continued fragility rather than a rapid recovery. Geopolitical uncertainty, commodity price volatility and ongoing cost pressures remain key challenges, with infrastructure-led investment expected to continue outperforming the wider construction market through the remainder of 2026.



UK CONSTRUCTION OUTLOOK

Conditions across UK construction remain uneven, with infrastructure, energy, water, utilities and digital infrastructure continuing to demonstrate greater resilience than the wider market. These sectors benefit from committed investment programmes, regulatory funding frameworks and longer-term workload visibility. In contrast, private commercial and residential markets remain constrained by affordability pressures, elevated financing costs and cautious investor sentiment, resulting in delayed project starts and weaker demand for new work.

Recent indicators continue to reflect this divergence. Construction output fell by 0.5% in the three months to July 2026 and new orders remain subdued, particularly across privately funded sectors. However, activity indicators improved during Q3, with the Construction PMI increasing from 38.2 in May to 44.7 in August, suggesting that whilst activity continues to contract, the pace of decline has moderated. Infrastructure-related sectors continue to outperform, supported by ongoing investment in energy transition, utilities upgrades, water frameworks and digital infrastructure.

Input cost pressures have re-emerged during Q3, driven by higher commodity prices, energy market volatility and rising materials and plant costs. Significant increases in copper, aluminium and zinc prices, alongside stronger materials inflation, have reinforced cost pressures across construction supply chains. Whilst weak demand and competitive procurement conditions continue to limit immediate pass-through into tender prices, contractors remain increasingly focused on risk management, programme certainty and inflation recovery mechanisms.

Table 4: Construction Inflation Drivers

INFLATIONARY PRESSURES	DEFLATIONARY PRESSURES
▪ Commodity markets remain a significant cost risk, with higher copper, aluminium, zinc and tin prices driven by supply constraints, electrification demand and geopolitical uncertainty. ▪ Energy market volatility continues to support higher fuel, transportation and manufacturing costs, maintaining pressure across construction supply chains. ▪ Materials inflation has re-accelerated, particularly across steel products, fabricated components and energy-intensive materials. ▪ Contractors and suppliers continue to apply tighter quotation periods, greater pricing discipline and more explicit risk allowances. ▪ Specialist trades and complex building systems, particularly MEP, power infrastructure and regulated sectors, continue to generate disproportionate cost pressure. ▪ Regulatory requirements, including Building Safety Act compliance and Gateway processes, continue to increase project costs and programme durations. ▪ Infrastructure, energy, water and digital infrastructure investment programmes continue to support baseline workload levels and resource demand.	▪ Weak private sector demand, particularly across residential and commercial markets facing affordability and viability constraints. ▪ Delayed project mobilisation, extended approvals and cautious investment decisions continuing to slow pipeline conversion into active workloads. ▪ Elevated competition among contractors for a reduced pool of privately funded opportunities, maintaining downward pressure on margins. ▪ Selective pricing behaviour, with contractors adjusting margins and risk allowances to secure workload visibility. ▪ Improved material availability and more stable supply chains compared with recent years, helping to reduce immediate procurement risk. ▪ Lower levels of new work flowing through parts of the subcontractor and Tier 2 supply chain, increasing competitive tension. ▪ Continued use of value engineering, design optimisation and specification rationalisation to maintain project affordability. ▪ Public-sector funding constraints, procurement lead-in periods and programme approval requirements delaying the conversion of planned investment into delivered construction activity.

THE NPPF'S BIGGEST REWRITE YET: MORE RULES, LESS DISCRETION

The August 2026 National Planning Policy Framework is not merely an update to planning policy. It is the most significant restructuring of England's planning system since the NPPF was introduced in 2012, replacing familiar concepts with a more rules-based framework intended to provide greater certainty for developers, local authorities and decision-makers.

The most striking change is the removal of the long-debated "tilted balance" and its replacement with a permanent presumption in favour of suitably located development. Alongside this, housing near well-connected rail stations receives a powerful policy boost, Grey Belt policy is formalised through a national assessment methodology, and a clearer route is established for certain forms of development beyond settlement boundaries. The Framework also cements the role of Spatial Development Strategies as the strategic layer above Local Plans, extending planning horizons to at least 25 years.

Yet the reforms raise important questions. A more permissive policy regime does not eliminate viability challenges, nor does it guarantee that infrastructure, affordable housing and community facilities can be funded. As authorities, inspectors and the courts begin interpreting the new policies, the real test will be whether greater certainty delivers better outcomes in practice or simply moves planning debates onto different ground.

The Government describes the new NPPF as a shift from discretion to rules. Whether that survives contact with real planning decisions remains to be seen, but the direction of travel is unmistakable.



Ian Baker
Policy and Business Case Advisory



For more details of the changes to the National Planning Policy Framework, see our full assessment here

UK INFRASTRUCTURE STRATEGY: FROM ANNOUNCEMENT TO DELIVERY

The UK infrastructure market is entering a pivotal phase as government policy shifts from announcing investment to delivering projects. The National Infrastructure Pipeline update highlighted 734 projects worthapproximately £718bn and identified sustained workforce demand over the next five years. It now provides greater visibility of a long-term programme of work across transport, energy, water, healthcare, education and housing, giving industry a clearer understanding of future demand than has existed for many years.

While the scale of planned investment is significant, the principal challenge facing the market is no longer the availability of funding, but the industry's ability to deliver the volume of work proposed. As projects move from planning into procurement and construction, competition for resources is expected to intensify, particularly across civil engineering, energy and water sectors.

Although overall market demand remains subdued in some private sector segments, infrastructure investment is helping to sustain workload and support pricing. The result is an increasingly two-speed construction market, with infrastructure and regulated sectors continuing to demonstrate resilience while residential and commercial markets face weaker conditions.

Consequently, labour availability, delivery capacity and procurement strategy are becoming more influential drivers of project outcomes than headline levels of construction demand.



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