ARCADIS

Market View
Summer 2026

Against all odds

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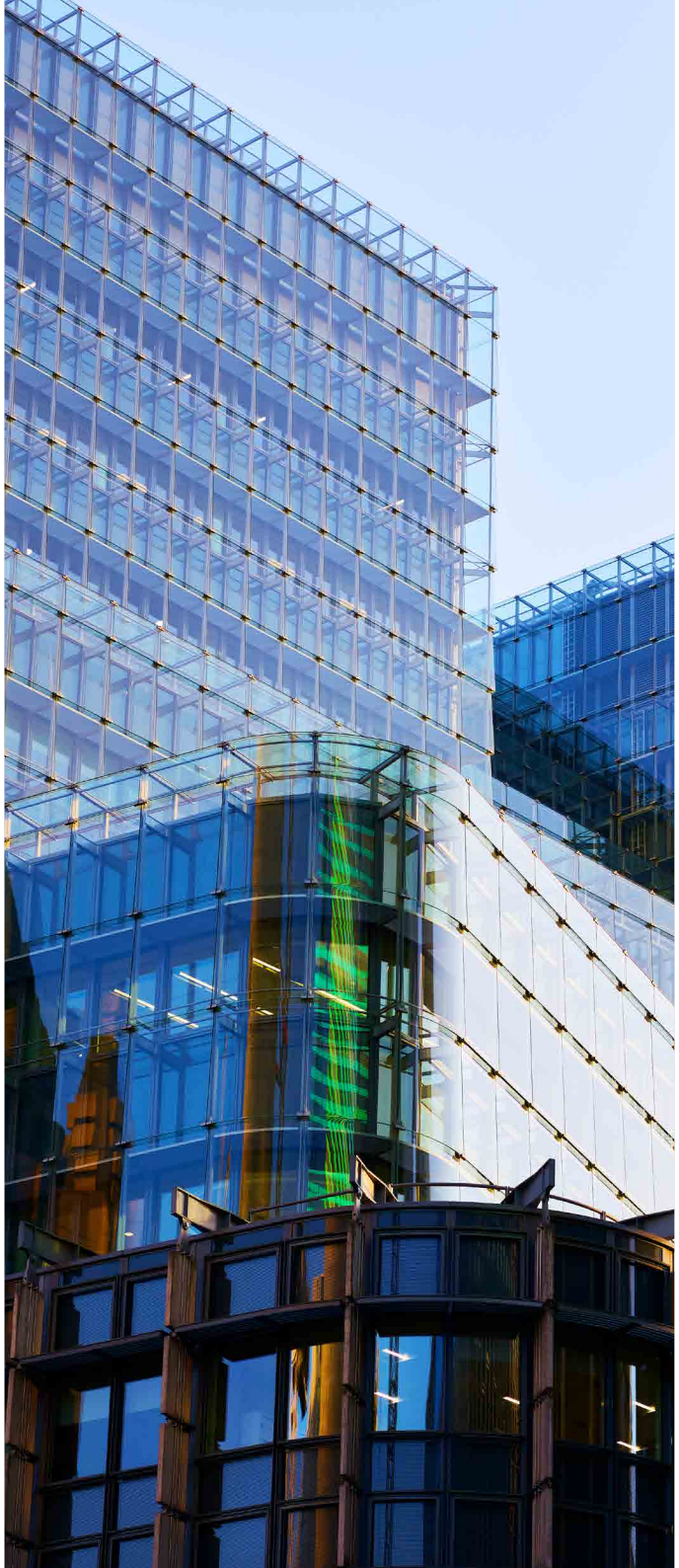
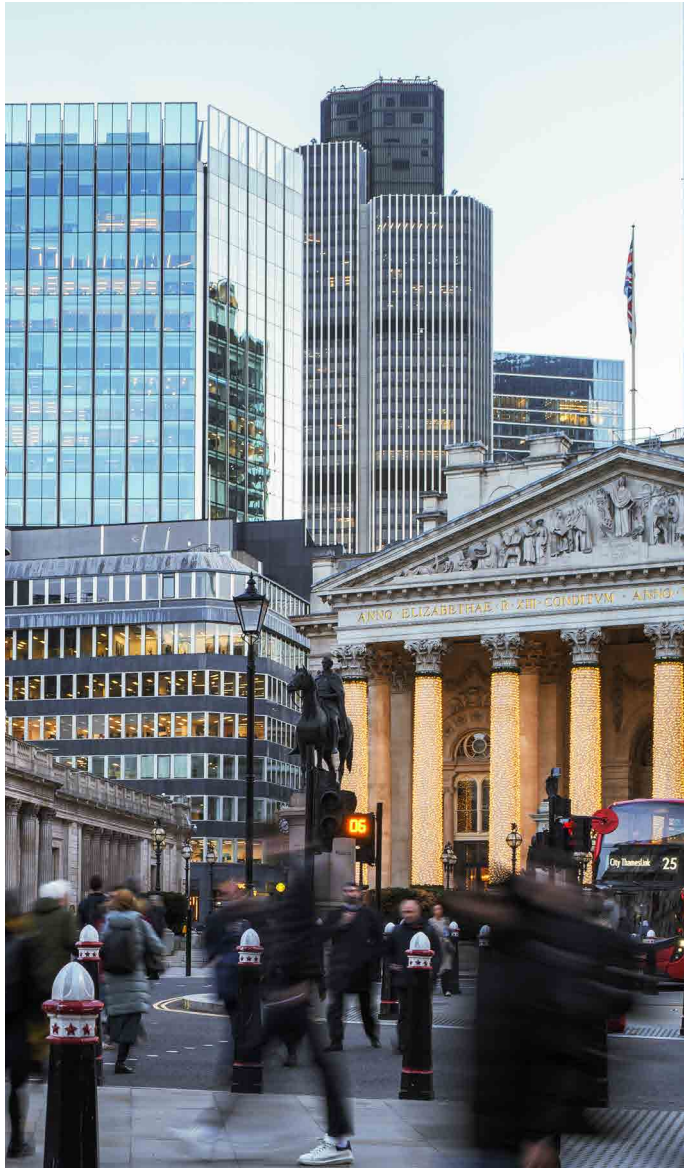
Construction's recovery has been put at risk by the uncertainty triggered by the Iran war. Some contractors seem willing to take risks on future cost hikes to secure much-needed workload. The inflationary pressures triggered by the conflict are real, but how they affect project costs remains to be seen.

- **Output —** Q1 2026 new build work down 6% versus Q1 2025, as housing and transport infrastructure lag.
- **Orders —** New work slumped by 10.5% in Q1 versus Q4 2025, driven by falls in commercial and infrastructure.
- **Labour markets —** Spare labour force capacity is evident, highlighted by a low level of vacancies and negative weekly earnings growth in the year to March 2026.
- **Oil price —** Currently at US$83 bbl, following the agreement to reopen the Straits of Hormuz, 19% higher than before the Iran conflict started.
- **Forecast —** The range of all forecasts in 2026 and 2027 is expanded to accommodate potential Gulf-driven inflation. Increased headwinds in the commercial sector lead to a 1% cut in 2028.

Introduction

The world and our inflation forecasts have been disrupted by the conflict in Iran. Higher financing costs, uncertainty around material availability and price, and increased scrutiny of contractual risk allocation are materially reshaping the construction market outlook.





Economic update

Since our March 2026 forecast, economic prospects have reversed dramatically. A distracted government, an international crisis, and sky-high borrowing costs have all taken their toll. GDP growth of 0.7% in the three months to the end of April is likely to be the last lingering record of recovery in 2026. Such is the level of uncertainty that the Bank of England (BoE) abandoned its long-term economic forecasts in its April Monetary Policy Report to model three scenarios instead.

Table 1 illustrates the central scenario that assumes that oil prices will remain elevated, peaking at $108 per barrel, then tapering slowly. It highlights a long-term impact on growth but a much more severe, one-off, inflationary hit on prices. Crucially, the scenario assumes no second-round inflationary effects such as those which caught Central Banks out in 2023 and 2024. Other scenarios consider the impacts of a faster resolution or a much more severe dislocation.

	2026	2027	2028
GDP	**0.8** (-0.3)	**1.4** (-0.4)	**1.7** (-0.2)
CPI Inflation	**3.7** (+1.7)	**2.3** (+0.5)	**2.0** (n/c)
Unemployment rate	**5.3** (n/c)	**5.5** (+0.3)	**5.3** (+0.3)
Average weekly earnings (private sector)	**3.4** (+0.1)	**3.0** (+0.3)	**2.9** (-0.1)

Table 1. Central Scenario Forecast in April v Forecast in February (difference in brackets). All figures are percentages.
Source: Annual data. Scenario Projections Databank, Monetary Policy Committee Reports, Bank of England

Plan for the worst, hope for the best: Gulf War impacts

So far, oil and gas prices have risen notably but remain below 2022 peaks, particularly for gas, where prices have so far increased in line with Brent Crude. The effects of the Iran war on the UK have been material but manageable, mainly because long-term impacts associated with fuel and food shortages have not yet materialised. Despite CPI falling temporarily in April, the inflation pulse is strengthening, illustrated by the cost-cutting measures announced by Government in May 2026.

However, negative impacts are emerging. Latest PMI data from June 2026 pointed to the first contraction in the crucial services sector since April 2025 and highlighted widespread evidence of input cost inflation in the supply chain. An example is Taylor Wimpey, who now forecast build cost inflation in the low- to mid-single digit range for 2026.

Following the cessation of hostilities in the Gulf, the BoE's worst-case scenario now looks remote. It is based on oil prices at around $130 per barrel, triggered by extended disruption to trade and damage to energy infrastructure. However, the long-term effects of the conflict will continue to disrupt energy supplies and other crucial commodities. Rystad Energy assesses the cost of repairs to damaged energy infrastructure in the Gulf area at more than $58 billion.

However, in both the construction sector and wider economy, the strategy adopted was one of hoping for the best, assuming that the conflict was a temporary, manageable blip. Our latest internal survey, for instance, suggests that while client sentiment has fallen from a four-year high in the spring, it remains positive.

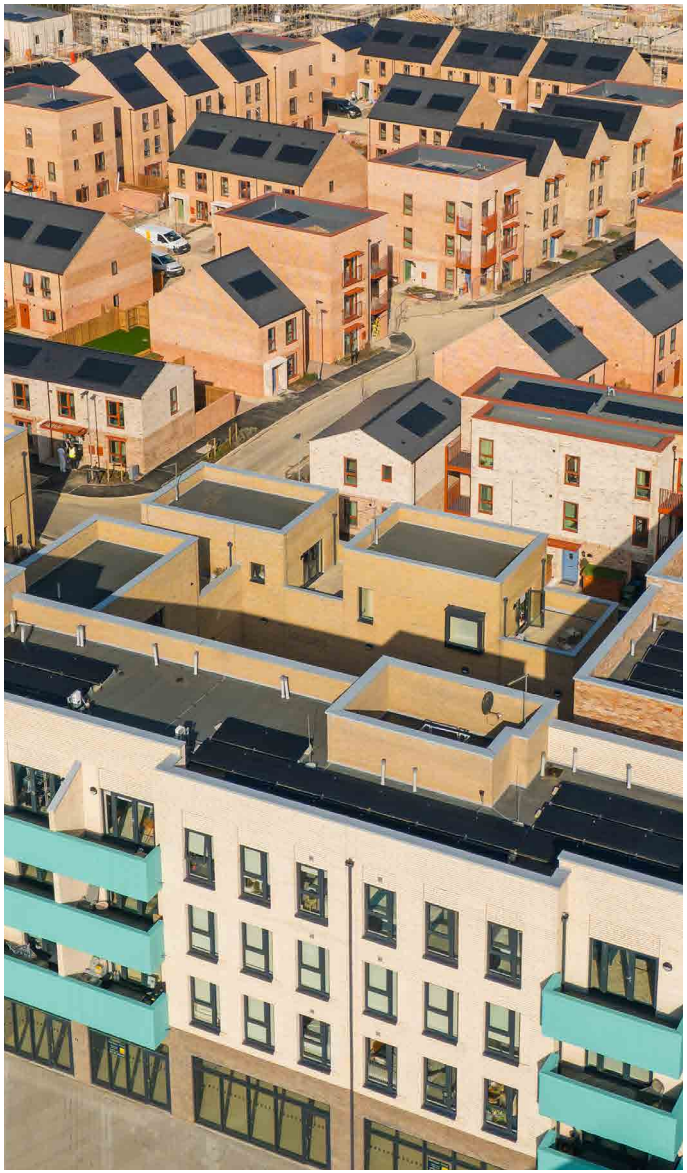
For those in the supply chain, anecdotal evidence also suggests that securing the new work pipeline was the overwhelming objective, with contractors and their suppliers being prepared to absorb future price risk in recent bids. This was particularly the case if a contract is close to being signed.

In the short term, the current Middle East situation looks less acute than the 2022 gas crisis, but the head of the International Energy Agency (IEA) has warned about its wider, long-term impacts. The worst-case scenario has already been reached in Asia, with fifteen countries reportedly asking for emergency loans from the Asia Development Bank. Many clients and contractors are hoping for the best. This will keep inflation down in the short term but might be masking the full impact of costs down the line.

Making it harder: New developments affecting UK construction

In UK construction, even as events in the Gulf and Westminster add to uncertainty, a series of developments introduce further change and complexity to an already-stretched sector.

- **Steel quotas and tariffs**
  From July 2026, UK tariff-free steel import quotas are due to be cut by 60% along with tariffs on other imports rising to 50%. The impact is discussed in our Tariffs and Taxes feature.
- **Carbon Border Adjustment Mechanism (CBAM)**
  From January 2027, UK CBAM applies carbon pricing to imports as part of efforts to protect lower-carbon domestic supply chains. The impact is discussed in our Tariffs and Taxes feature.
- **Future Homes and Building Standards (FHS/FBS)**
  New standards come into force in March 2027 that will materially raise the compliance bar for residential and non-domestic development. Under FBS, mandatory solar PV and low-carbon mechanical services in all buildings will drive greater cost, programme, and design risk.
- **Building liability orders**
  A recent court ruling has extended liabilities for historic defects under the Building Safety Act to associated group companies, increasing uncertainty with respect to the stability of the supply chain.
- **Single Construction Regulator**
  Proposals will be developed for a Single Construction Regulator, which will reduce fragmentation by bringing oversight of buildings, construction products, and professional competence into a coherent regulatory system.
- **New legislation programme**
  Bills introduced in the King's Speech will accelerate cladding remediation, abolish leaseholds, and ban retention on contractor payments.



Against the background of a growing regulatory and taxation burden, one bright spot is the growing signs that the Building Safety Regulator (BSR) is operational, with a 90% national approval rate achieved in the three-month period to end May 2026.

One practical implication of the improved performance of the BSR is that there are more residential projects that have approvals to proceed. The frustration is that even as process barriers are removed, new economic barriers to construction are being put in their place.

Crisis planning: Improving the odds?

However, in practice, construction businesses are too busy dealing with the problems in front of them to address many of these strategic changes.

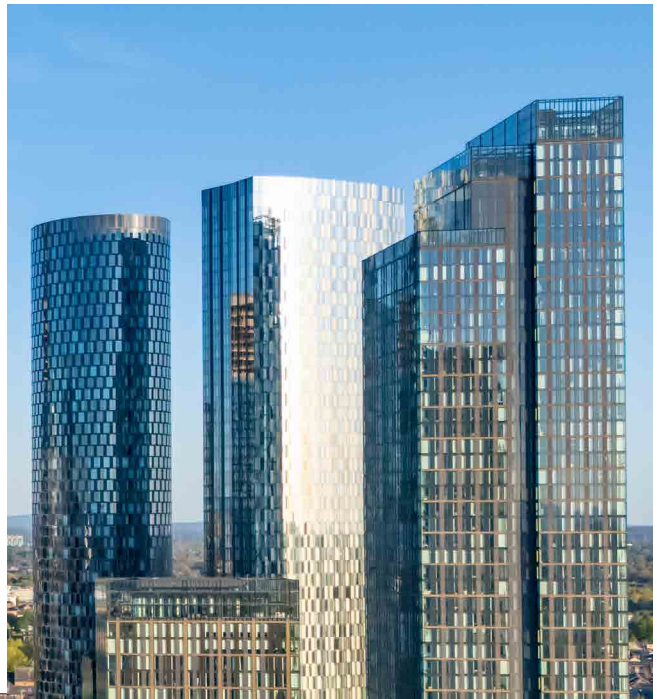
The year didn't start well. In addition to poor weather, Glenigan data on construction starts under £100 million showed that work starting on site in Q1 2026 fell by 17% compared to the previous quarter and was 18% below the same period last year. The slow start points to the risk of a return to stagflation conditions, where costs rise, even as output and activity fall.

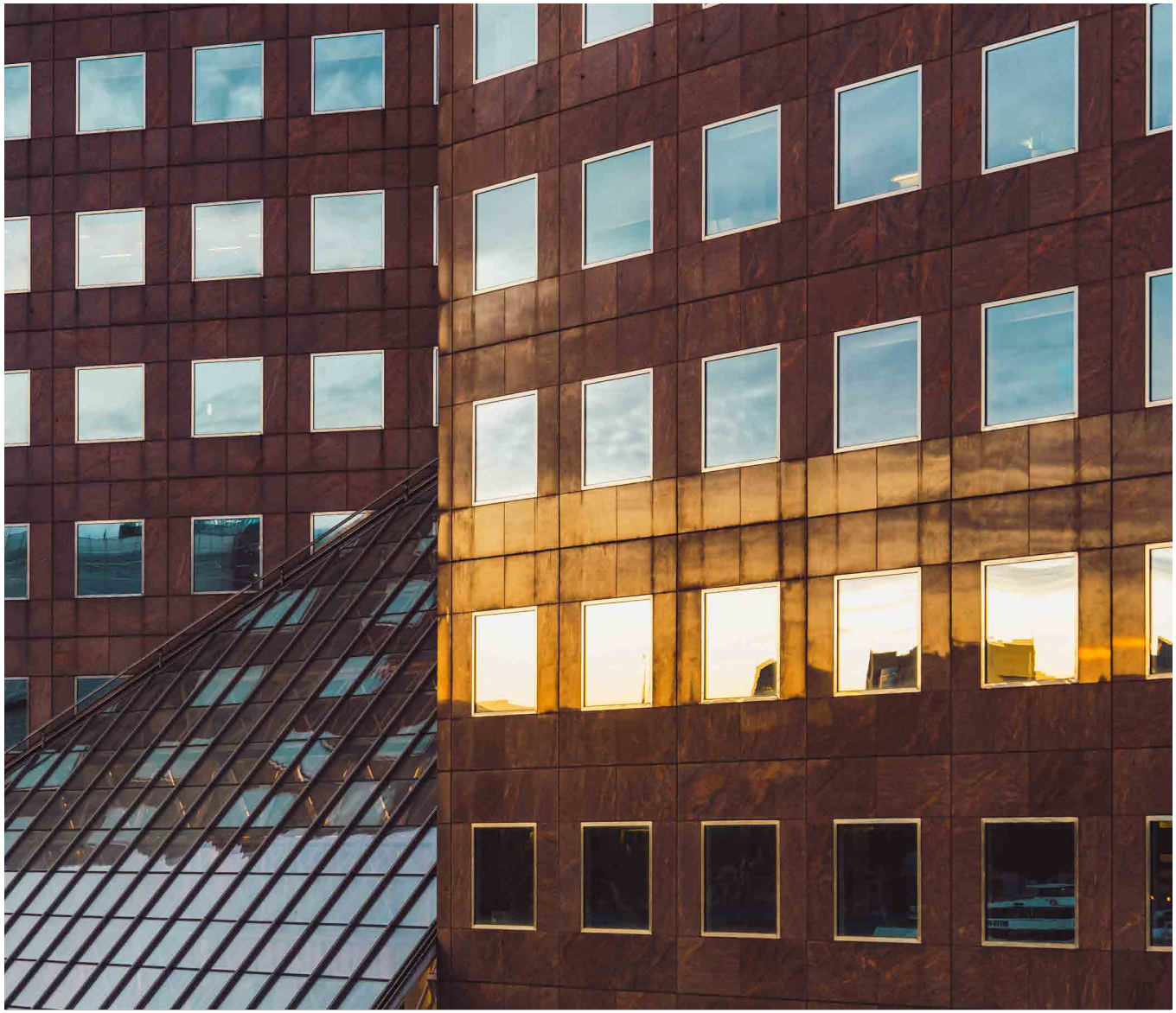
Finance is potentially a greater challenge than construction cost. Mortgage rates and Government borrowing have increased between 50–100 basis points (bps) since March, fuelled by the Gulf War and the UK's self-inflicted political crisis. In practice, BoE does not need to raise base rates as finance markets are doing their job for them.

Concerns over the impact of high cost of borrowing are having a material effect on some sectors including residential, where the combined market value of the six largest listed UK housebuilders has fallen by over £8 billion since late February.

Firms are clearly planning for a more uncertain outlook, with contractors focusing on alternative sectors, developers looking to share risk on new projects, and housebuilders cutting back on land acquisition. These are corporate strategies rather than project tactics.

At present, the evidence is that where projects are moving forward, contractors are adopting 'risk-on' behaviours. They need the work and need to ensure that their investment in pre-contract development generates a return.





Conclusion

The UK construction industry has suffered from what feels like a relentless series of upsets, from Brexit and COVID-19 to the 2022 energy crisis. As a result, industry developed a crisis playbook. In 2022, for example, the sector kept building. Some clients adopted a more flexible approach to their contracts, diversified their supply chains, and took proactive steps to secure key materials and products.

2022 wasn't pain-free. Many clients and contractors were exposed to significant cost, programme, and contractual challenges. That experience will affect behaviours on projects as the current crisis progresses. For now, however, commercial pressures have the upper hand. The market might be awash with inflationary pressures, but the slack in construction markets is helping hold back the dam. How long this situation can be sustained is very much dependent on the speed of crisis resolution and the economic consequences that follow. Even as there are early signs of a resolution, project teams need to be ready for disruption as the crisis unfolds.

Focus

Tariffs and taxes

New measures are being introduced to protect domestic industries like steel and ensure a level playing field for carbon taxation. However, schemes are difficult to implement and are likely to cause disruption as well as trigger additional cost.

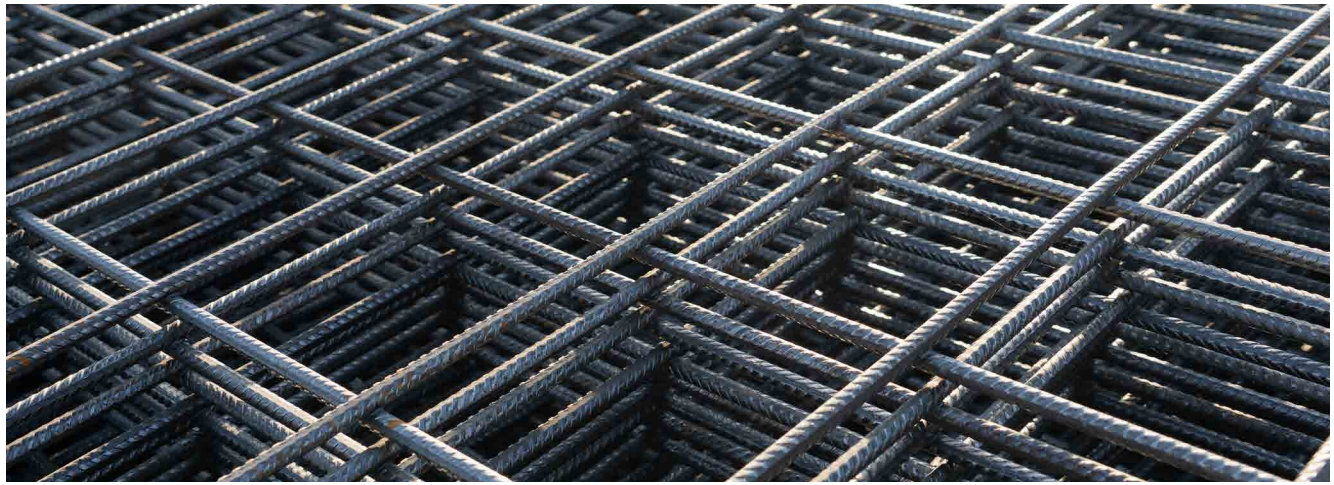
Steel tariffs and quotas

Trade protection measures are being introduced in July 2026 as part of the UK's 2026 Steel Strategy and to protect domestic capacity from the 'dumping' of steel imported from low-cost locations such as China.

The measures focus on crude steel producers with a combination of energy subsidies, import quotas, and tariffs. UK steel fabricators are excluded, leading to significant uncertainty about future competition and cost levels.

The main interventions introduced by the Steel Strategy include:

- **Reduced energy costs** through the Supercharger scheme aimed at very heavy energy users. Energy costs will still be £14 to 26 megawatts per hour more than in Europe.
- **Reduced quotas** for 20 steel product categories such as hot rolled sheets and bars. Tariff-free quotas are being reduced by 60%, will be reset quarterly, and will be used on a first-come, first-served basis.
- **Increased tariffs** at the ad valorum rate of 50%, up from 25%.
- **Procurement measures** including stronger requirements for 'buying British' for the public sector.



At Arcadis, we anticipate that the new quotas and tariffs will set a higher price floor for construction-related steel categories. Our estimate is that the additional 25% tariff will add £75 to £150 per tonne to the cost of steel, depending on the source market. Compared to tariff-free steel, the additional cost could be as high as £300 per tonne for the basic material.

The current scheme has a significant loophole, in that, under HS 7308, imported finished and fabricated steel sections are wholly exempted from both quotas and tariffs if they are sufficiently complex. UK-based fabricators will likely pay tariffs on their steel material and, as a result, will be disadvantaged.

We anticipate that criteria for HS 7308 will be enforced strictly at the border but that imported fabricated steel will not be subject to quotas and tariffs from 1 July. Further cost barriers associated with CBAM, due to be introduced in January 2027, may provide further protection to UK fabricators.

The direct impact for the supply chain is that steel product costs will increase from 1 July. Cost impacts will be greatest for simple products like rebar. Stockholders and fabricators will also face greater uncertainty with respect to the costs paid at the border for imported steel. In the medium term, clients will pick up tariff costs. However, for projects currently being procured, the tariffs will be paid but may be absorbed in the supply chain. Time will tell.

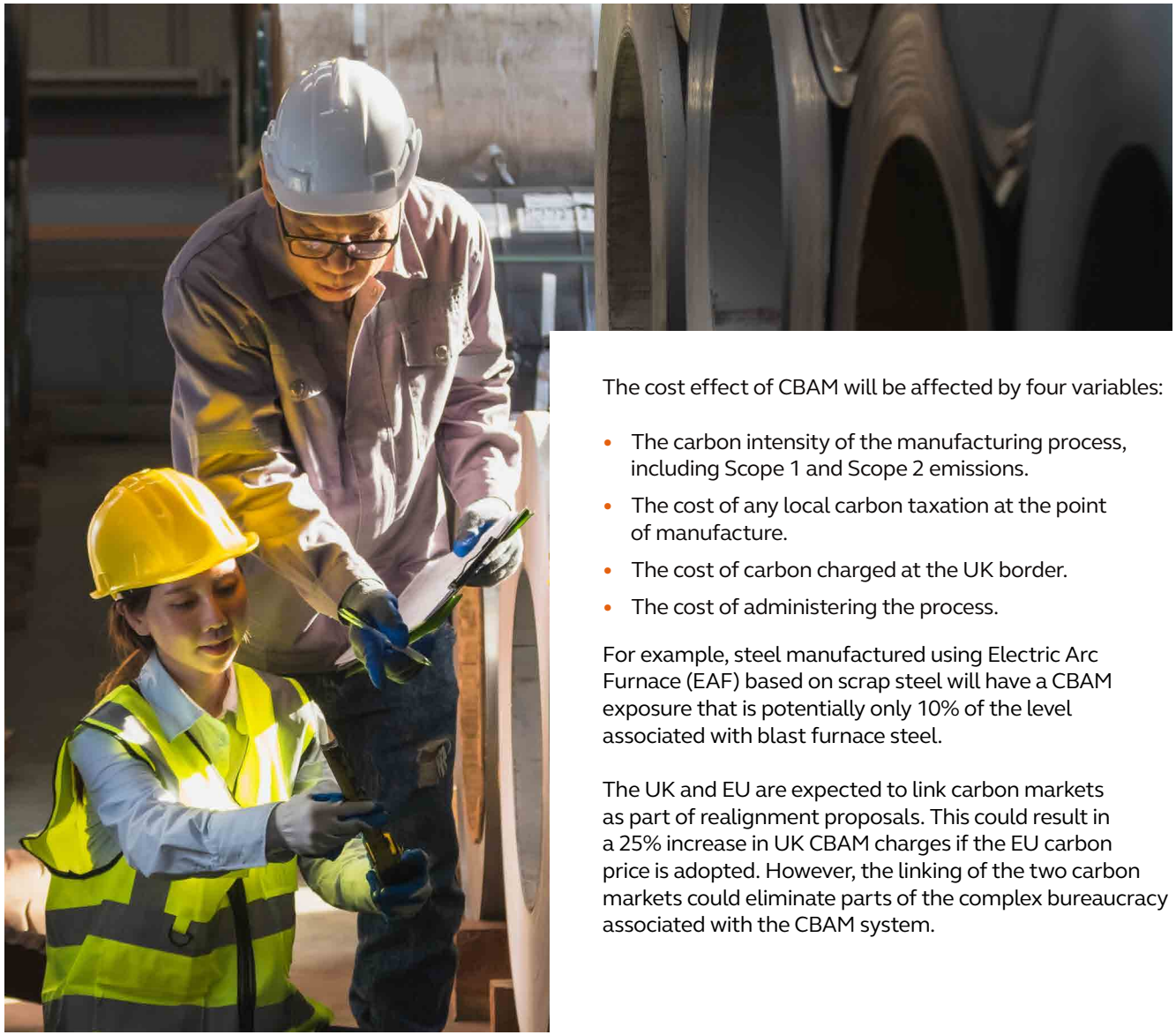
Carbon border adjustment mechanism

The UK is also scheduled to introduce the CBAM in January 2027. This is a Europe-wide measure to equalise carbon pricing on products imported from outside the trading area by charging the difference between any carbon taxation at the point of production and that charged in the EU or UK.

Many construction products, including steel and cement, are not only carbon-intensive but also widely traded globally. Until now, imported products such as cement that don't pay a local carbon tax have undercut the price of UK goods. CBAM acts like a tariff, and its introduction should enable UK industries to better recover their carbon costs through the sales price. For example, the carbon cost of blast furnace steel in the UK is around £80 per tonne, and this cost will apply to all steel from next January.

Based on experience from Ireland, consequential cost increases are estimated at around 7% for rebar and 3–4% for flat products. Cement prices have increased by around 10–15%. Other affected products include bitumen and heated or smelted products like aluminium, glass, and brick.

The overall effect of CBAM on the cost of a typical construction project is estimated at less than 0.5% of total construction costs.



The cost effect of CBAM will be affected by four variables:

- The carbon intensity of the manufacturing process, including Scope 1 and Scope 2 emissions.
- The cost of any local carbon taxation at the point of manufacture.
- The cost of carbon charged at the UK border.
- The cost of administering the process.

For example, steel manufactured using Electric Arc Furnace (EAF) based on scrap steel will have a CBAM exposure that is potentially only 10% of the level associated with blast furnace steel.

The UK and EU are expected to link carbon markets as part of realignment proposals. This could result in a 25% increase in UK CBAM charges if the EU carbon price is adopted. However, the linking of the two carbon markets could eliminate parts of the complex bureaucracy associated with the CBAM system.

Impact of the Iran war

The Iran war has triggered a significant economic dislocation following the closure of the Strait of Hormuz. Borrowing costs have increased for many governments and global growth expectations have been downgraded. Even as a cessation of hostilities is agreed, the consequences of the conflict are likely to be more disruptive, with longer-term impacts.

This section examines the potential effects on construction projects.

Traffic through the Strait accounts for 20% of global consumption of both crude oil and natural gas. Even as hostilities end, the risk remains of higher prices from lower but still elevated energy costs, but also of disruptive shortages and scarcity-driven price spikes.

At the time of writing, it was expected that the Strait would reopen for all shipping. Up until this point, global energy flows had been sustained through a combination of reduced consumption, increased production, and record levels of inventory drawdown on storage. 246 million barrels (mb) of oil were drawn from inventory in March and April 2026.

Latest developments are in line with the International Energy Authority (IEA) central scenario that the Strait will gradually reopen from Q3 2026 onward, which will result in global oil and gas markets remaining in deficit at least until Q4. IEA's forecast highlights that even as trade resumes, disruptions will continue throughout the year.

From a construction perspective, the impacts of the conflict will be felt in four areas:

- **Lower growth —** leading to reduced investment demand.
- **Higher inflation —** based on direct inputs such as energy costs and indirect factors, including wages.
- **Higher cost of borrowing —** mostly government borrowing driven by higher debt levels and fiscal rules.
- **Lower confidence and decisiveness —** influenced by risk appetite and certainty.

Three factors—growth, borrowing costs, and reduced confidence—are likely to result in reduced levels of activity, which imply a stagflation scenario.

This means that construction costs will be increasing against a background of falling activity, spare capacity, and, in some sectors, increased levels of competition. Under this scenario, a proportion of inflation is likely to be absorbed by the supply chain.

Inflationary impact on construction

Construction will be exposed to inflationary pressures because of the energy intensity of many materials, including steel, aluminium, brick, glass, and cement.

Many schemes, particularly large-scale infrastructure projects, will also be affected by increased costs of plant and logistics. Fuel costs typically equate to 15–20% of the costs of hired, operated mobile plant, for example.

Increased costs are also driven by non-negotiable and, in some cases, disproportionate delivery surcharges.

However, the rate of inflation pass-through will depend on many factors that include:

- **Product complexity**
  More complex assemblies and equipment feature a greater share of labour and value-added inputs that are less exposed to inflation.
- **Level of competition and producer pricing power**
  Sectors with low levels of demand and spare capacity, such as residential and commercial, will see greater absorption of inflation by the supply chain.
- **Procurement strategy and risk transfer**
  Inflation risk sharing, including fluctuations, should reduce the levels of risk premium included upfront in bids.
- **Project timing**
  The lead-in period and duration of a project might affect a supplier's pricing strategy.

At Arcadis, we have undertaken detailed modelling of the potential impact of the additional inflation on the construction cost of a range of building projects, including offices and multifamily residential. The analysis considers increased energy costs at an elemental level, with the impacts on plant, transport, materials, and on costs, all taken into account. The potential for second-round effects resulting in higher wages is also factored into the assessment.

The assessment is for additional inflation and does not consider normal background increases associated with wages and other factors. The model enables us to evaluate scenarios at various levels of energy price inflation. The results of one iteration of the analysis are set out in Table 2.

The analysis is mostly focused on the modelled impacts of energy costs but also includes an assessment of the impact of steel tariffs due in July 2026. **The assessment does not account for any discounting of costs within the supply chain in response to changes in workload.**

We have not undertaken an assessment of the inflation exposure of civils projects at this stage. Our underlying analysis suggests that activities associated with groundworks and structures are exposed to roughly double the level of inflation compared to the building average. This suggests that at current oil price levels, the additional cost affecting civils projects could be 3–5%, compared to 1.5–2.5% for buildings. The assessment suggests that a prolonged disruption to the flow of oil and gas from the Gulf could result in a material increase in inflation during 2026 on top of that already forecast. However, if lower growth, increased borrowing costs, and reduced confidence result in less workload, then levels of competition will increase. We discuss how energy price-related inflation will interact with other market forces in the Forecast section of this report.

Scenario		Commercial office	High-density residential
Price increase relative to Feb 2026	**Brent Crude equivalent ($ bbl.)**	**% increase on base cost**	**% increase on base cost**
50% increase	105	4.1	3.0
25% increase	88	2.5	1.4
10% increase	77	1.5	0.5

Table 2. Indicative inflation scenarios related to energy price increases Source: Arcadis

Indicative building specification

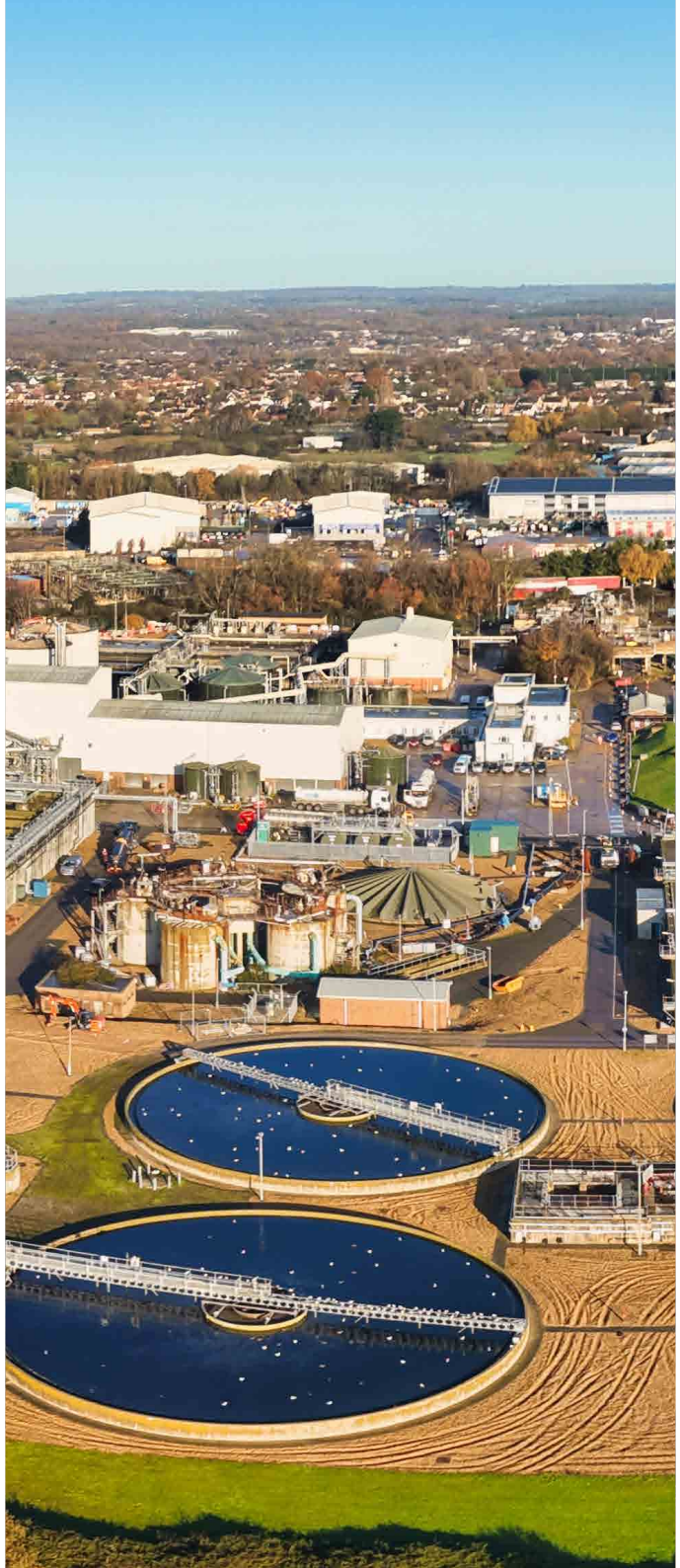
Office. Mid-rise with piled substructure, composite steel, post-tensioned frame, PCC panel external wall cladding with aluminium windows, and part-glazed roof. MEP including A/C. Fit-out to Cat A. External works.

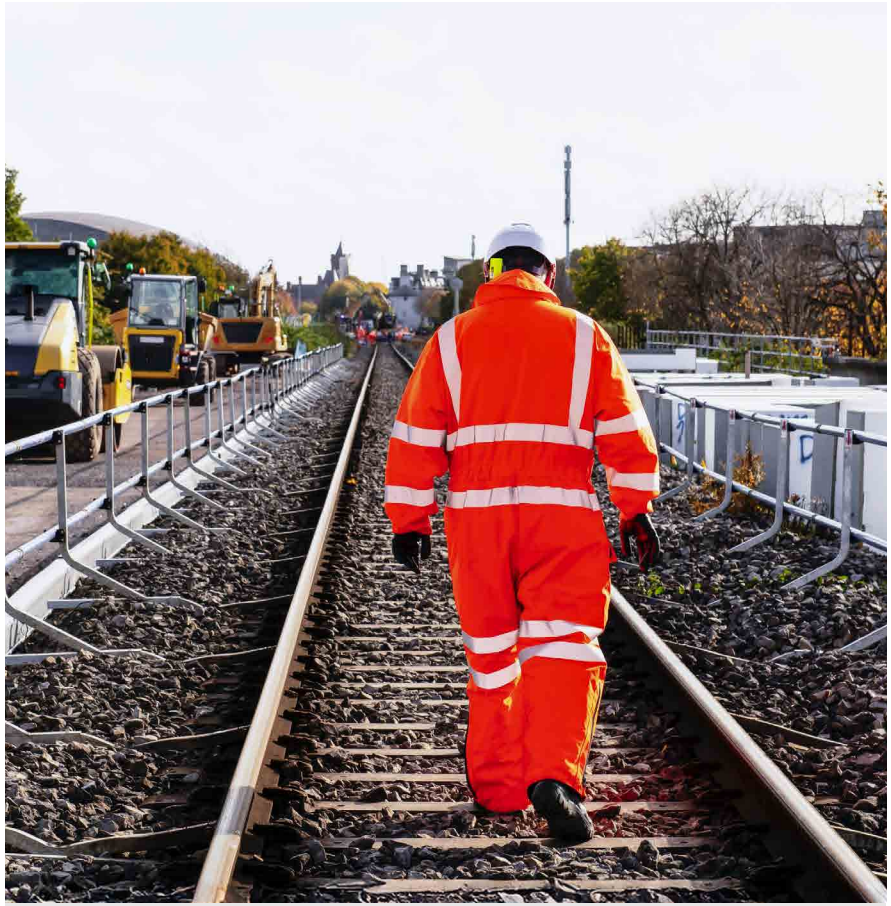
Residential. High-density, multi-family residential with piled substructure and shared basement. Concrete frame, PCC wall cladding with aluminium windows. MEP with centralised air-sourced heat pumps. Fixed furniture. Limited external works.

Forecast

The latest data highlights a growing split in the fortunes of the construction sector. Workload in the regulated sectors continues to expand in contrast to commercial and residential sectors that are exposed to investor nerves.

Pricing trends in construction markets will continue to bifurcate, particularly where contractors need to urgently secure workload in an even more uncertain market.





Contraction across multiple sectors places the supply chain in a difficult position as inflationary pressures increase in 2026 and 2027.

Workload

The latest quarterly workload data covers Q1 2026, a period characterised by poor weather and, in January and February, a spluttering economy. Ultimately, the UK economy recorded brisk growth in Q1 at 0.6%, but new build construction's slump continued, with workload declining by 1.9% quarter over quarter.

Looking at the performance of subsectors, water workload remained stable, but road and rail activity fell, possibly due to poor weather. Housebuilding also had a tough quarter. Commercial work expanded by 1.6%, driven by demand from the entertainment and retail sectors rather than offices.

On a monthly basis, activity was stable in April after having picked up sharply in March, most likely reflecting catch-up rather than an improving pipeline. The latest construction PMI, a grim 38.2, is likely to be a better reflection of the health of the sector than the short-term pick-up measured by ONS.

	Quarterly % change	Year-on-year change (%)
Residential	-3.4%	-7.5%
Infrastructure	-1.7%	-4.9%
Public non-residential	-0.7%	-0.9%
Industrial	-4.3%	-8.0%
Commercial	1.6%	-5.1%
Total new build	-1.9%	-5.8%

Table 3. New build output summary, Q1 2026 and 2025. Quarterly data compared Source: ONS

Future pipeline

By contrast with onsite activity, the new order pipeline contracted sharply in Q1. Double-digit falls in some sectors, including commercial and infrastructure, suggest that the decline was triggered by more factors than the conflict in Iran. Prior to Q1, all sectors other than housing had enjoyed a strong 12 months, helping order books to recover. However, Q1 orders for housing and commercial were nearly 20% below the 10-year trend, pointing to a sharp reversal in fortunes measured by ONS.

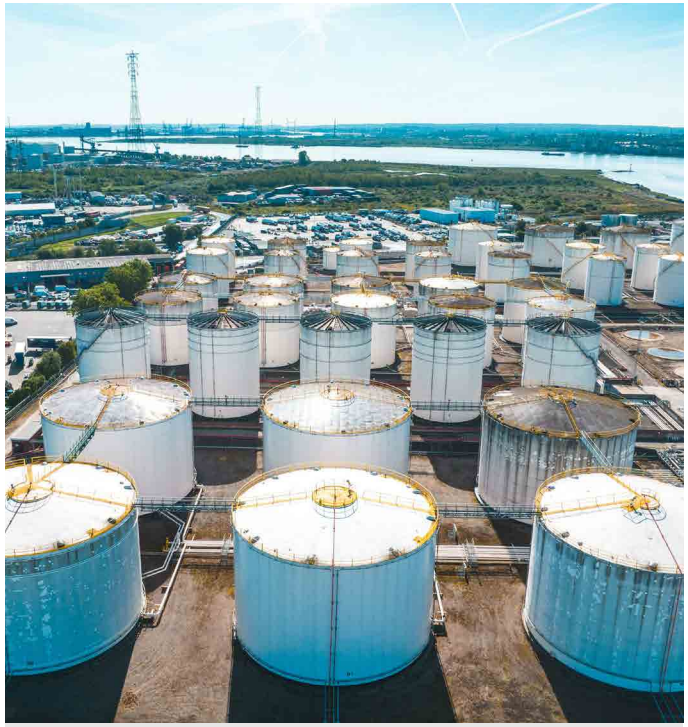
The Construction Products Association (CPA) Spring 2026 Forecast supports the retrenchment hypothesis, with overall new build output expected to fall by 2.1% based on a central scenario. Only the infrastructure and public non-housing sectors are expected to grow, with private housing seeing the deepest (7%) cut in output.

Both the orders data and the forecast are consistent with insights from the latest PMI survey, which highlights a sharp decline in new business. However, subsector data points to a strong showing in the utilities sector, and great expectations in water and power transmission may be converting into workload, just as new cost drivers emerge.

	Quarterly % change	Year-on-year change (%)
Residential	-2.1%	+15.9%
Infrastructure	-11.2%	-36.3%
Public non-residential	-13.9%	+12.9%
Industrial	-2.7%	+4.0%
Commercial	-18.5%	-23.0%
Total new build	-10.5%	-11.9%

Table 4. New build new orders summary, Q1 2026 and 2025. Quarterly data compared Source: ONS

It is too early to say whether the Gulf crisis has resulted in a sustained workload contraction, but signs are that weak demand in cost-sensitive sectors will trigger increased competitive pressure in the supply chain.



Higher energy prices could flow to all parts of the industry. Increased fuel costs for plant, haulage, and deliveries are already in the system, although manufacturers are likely to be protected by hedging. Energy prices disproportionately affect the civil engineering sector.

Commodities

Commodity prices are the one part of the markets where the continuing impact of the Gulf conflict can be seen. The analysis in Table 5 highlights that global commodities, including copper and iron ore, remain relatively stable in the short term, whereas commodities affected by access to the Gulf, such as aluminium, have seen significant price spikes.

Even with the expected reopening of the Straits of Hormuz, most energy price forecasts assume a period of continued disruption, with some recovery in Gulf production by Q4 2026. The future availability of commodities could also be affected by wider market distortions. In Europe, for example, high electricity prices mean that it remains uneconomic to bring aluminium smelters back online to compensate for lost production in the Gulf.

Commodity	Price, April 2026	Quarterly change (%)	Year-on-year change (%)	Price relative to long-term average
Brent Crude	$107.54 bbl	+51.2	+67.5	1.56
Natural gas, Europe	$16.17/MMBtu	+43.9	+38.6	1.35
Aluminium	$3,666 /tonne	+19.6	+49.7	1.66
Copper	$13,543 /tonne	+4.6	+42.1	1.74
Iron Ore	$108.64 /tonne	+9.9	+12.0	1.07

Table 5. Commodity price movements, May 2026 data. Monthly data compared Source: World Bank, Arcadis

Energy prices in the table represent the average trading price in May 2026. Prices have fallen significantly in the immediate aftermath of the agreement to reopen the Strait. Brent Crude, for example, traded at $83 bbl on 15 June, the lowest price recorded since early March 2026.

Materials

Inflation affecting construction materials is currently running at 3% per annum based on data compiled up to April 2026, which is too early to show any impacts of the Gulf crisis. Economy-wide data is starting to show the effects of the conflict on the manufacturing sector. Input cost data for April shows that manufacturing costs have increased by nearly 7% since February. The cost of oil is a key factor, but other energy-dependent inputs, including chemicals and metals, are also starting to increase. Output prices are also on the rise, up 3% over the two-month period.

Looking back at the last inflationary cycle, from spring 2021 onward, there was a six-month lag between input cost inflation breaching 10% and output prices catching up in November 2021. Thereafter, input and output costs saw double-digit inflation until February 2023. Should this pattern be repeated, inflation impacts might be delayed until Q4 2026, meaning that cost pressures need to be anticipated in 2027 as well as 2026.

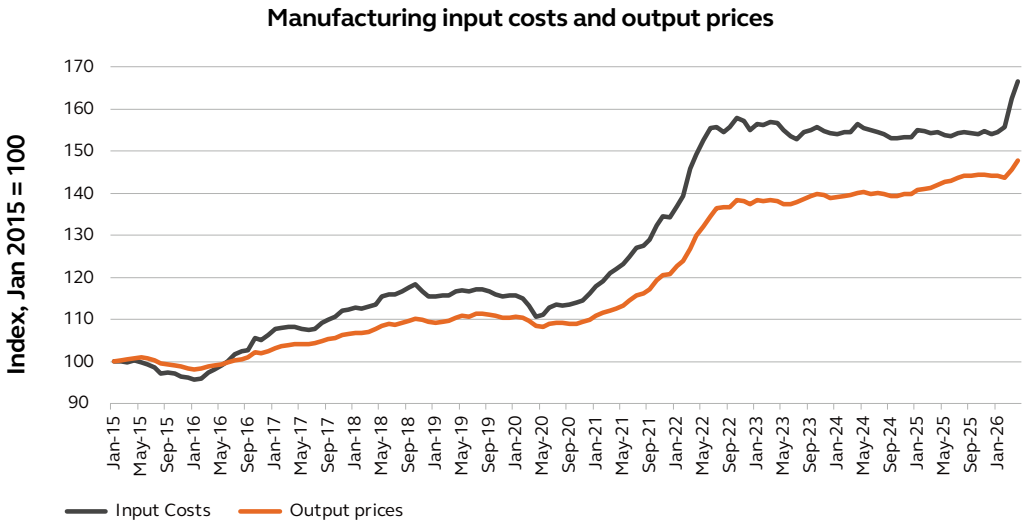


Figure 1. Input cost and output price trends, economy-wide Source: ONS

Ahead of the impact of energy costs will be steel tariffs that come into effect from July 2026 as described elsewhere. Depending on the complexity and source of the product, Arcadis estimates that the additional 25% tariff will add £75–£150 per tonne to the cost of imported steel, although the extra costs could be over £300 per tonne compared to tariff-free steel.

Material cost inflation is currently low but is likely to respond to sharply increasing input costs in H2 2026. Tariff costs will flow through into the steel sector from July 2026 onward.

Outside of specialist sectors including some professional activities, there is currently substantial slack in the construction workforce. Preliminaries costs in the infrastructure sector could potentially be exposed to cost premiums.

Earnings and labour markets

With output on a downward trend, there is slack in the construction workforce, highlighted by a low level of vacancies and negative weekly earnings growth in the year to March 2026. Earnings shrank by 1% year over year, compared to 3.3% growth in the wider economy. Construction is the only industry seeing this negative trend.

National wage agreements apply across parts of the industry, and some indicate sector-specific skills shortages. The April 2026 NAECI settlement, for example, saw hourly rates increase by 4.5% and the London Rate Enhancement increase by 50% to £1.50 per hour. NAECI represent specialist engineering operatives working in the power sector. By contrast, weekly pay data published by Hudson's suggests that average self-employed earnings have increased by no more than 2% in the past year.

	Construction	Whole economy
Earnings growth (real terms, excluding bonuses) (Annual, Mar 2026)	(1.0%)	3.3%
Vacancies (ratio, number per 100 employees) (Feb–Apr 2026)	1.8	2.2
Employment growth (Annual, Mar 2026)	(3.4%)	1.1%

A selection of recent employment metrics. Source: ONS

Forecast summary

Momentum across the UK's multi-speed construction industry is likely to play a significant role in determining inflationary trends following the expected reopening of the Strait of Hormuz.

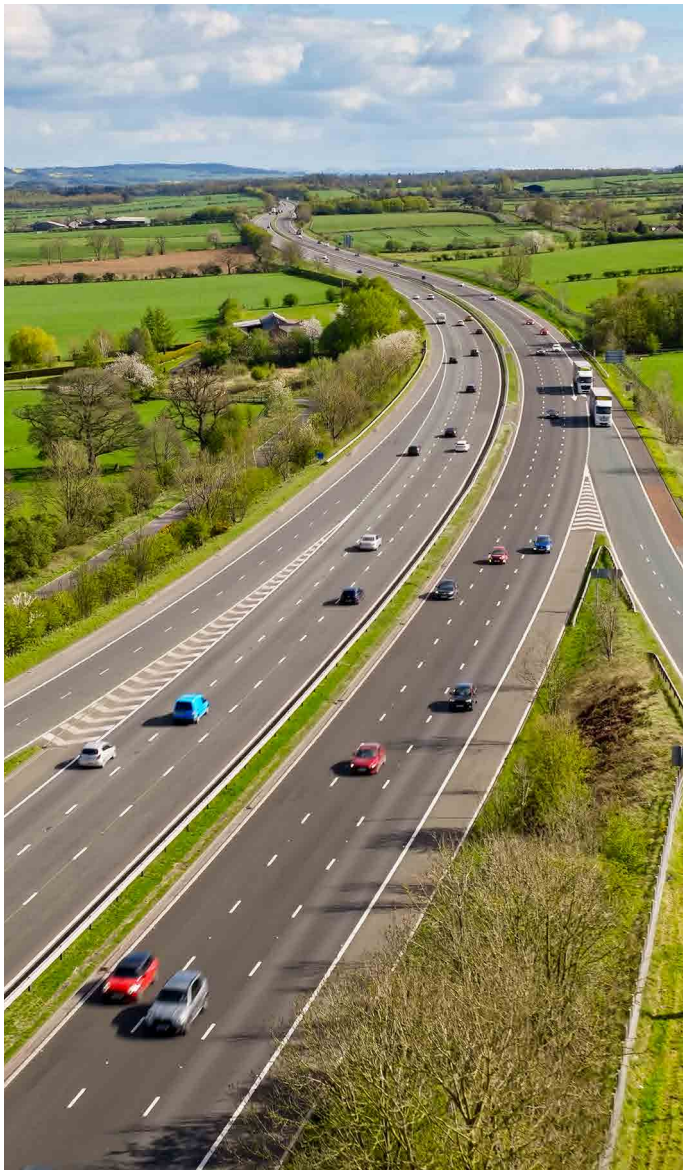
Any hopes of a broadly based recovery in the UK construction sector were set back on 28 February, after which the Iran conflict triggered soaring energy and finance costs. However, there are strong fundamentals driving demand in the UK construction industry across the prime office, public, and regulated sectors. The balance between the duration of market disruption, the strength or weakness of the pipeline, and collaboration between clients and their supply chain will help determine impacts on prices and resource availability.

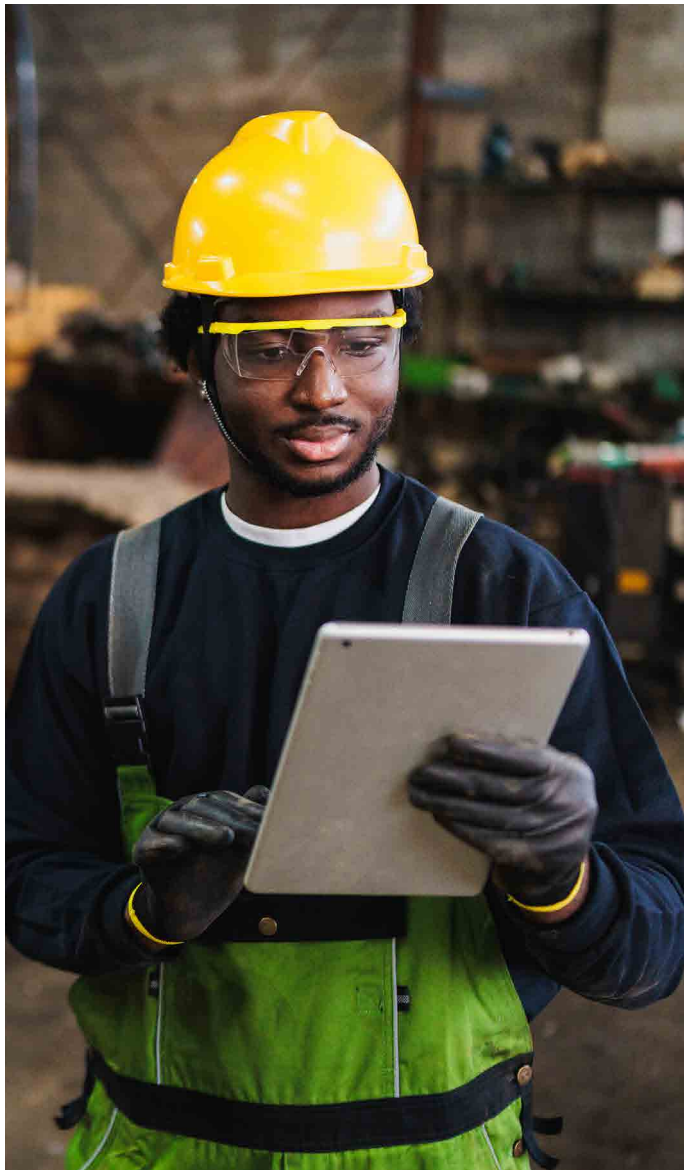
Without doubt, the crisis represents a challenge to businesses that are sensitive to changes in costs and interest rates. Residential and commercial development are most exposed, dependent on strong occupier demand to raise values in line with increased costs. Growth in prime commercial rents provides headroom for some developers while residential sales values remain stuck.

The private sector will remain under greatest pressure, and although some costs will be passed on, we anticipate that competitive pressure will ensure that the inflation risk is retained by the supply chain.

In the public sector, many contractor frameworks have built-in price adjustment, meaning that some risk is transferred to the client. Whether industry-standard indices such as CPI provide sufficient inflation protection remains to be seen. Projects in second-stage procurement may prove to be difficult to deliver within allowances, potentially delaying delivery or alternatively leading to budget adjustments. Our expectation is that the public sector will see a higher level of inflationary pass-through.

Civils and infrastructure projects are most exposed to inflationary pressures as highlighted in our analysis of the Gulf conflict. This is driven by the sector's exposure to high fuel and haulage costs and reliance on energy-intensive materials. Work content will have a significant impact in determining the extent of price escalation exposure. Civils works including roads, tunnels, and reservoirs are likely to see much higher inflation than infrastructure projects with a higher technical content, including wastewater treatment or transmission networks. As a result, we anticipate that the range of inflation outcomes in infrastructure sectors will become even wider, reflecting the complex combination of elevated levels of demand, constrained capacity, and background price inflation.





Against the inflationary background, reduced demand resulting from the higher cost of finance and building is another threat to the supply chain. In many construction sectors, activity is forecast to contract. Increased competition for available opportunities will help keep prices in check by forcing all levels of the supply chain—from manufacturers to main contractors—to absorb their share of the price hikes.

In busier sectors where clients are price-takers, inflationary pass-through will be greater, meaning that the current divergence in inflationary trends between the private commercial and infrastructure sectors can be expected to grow.

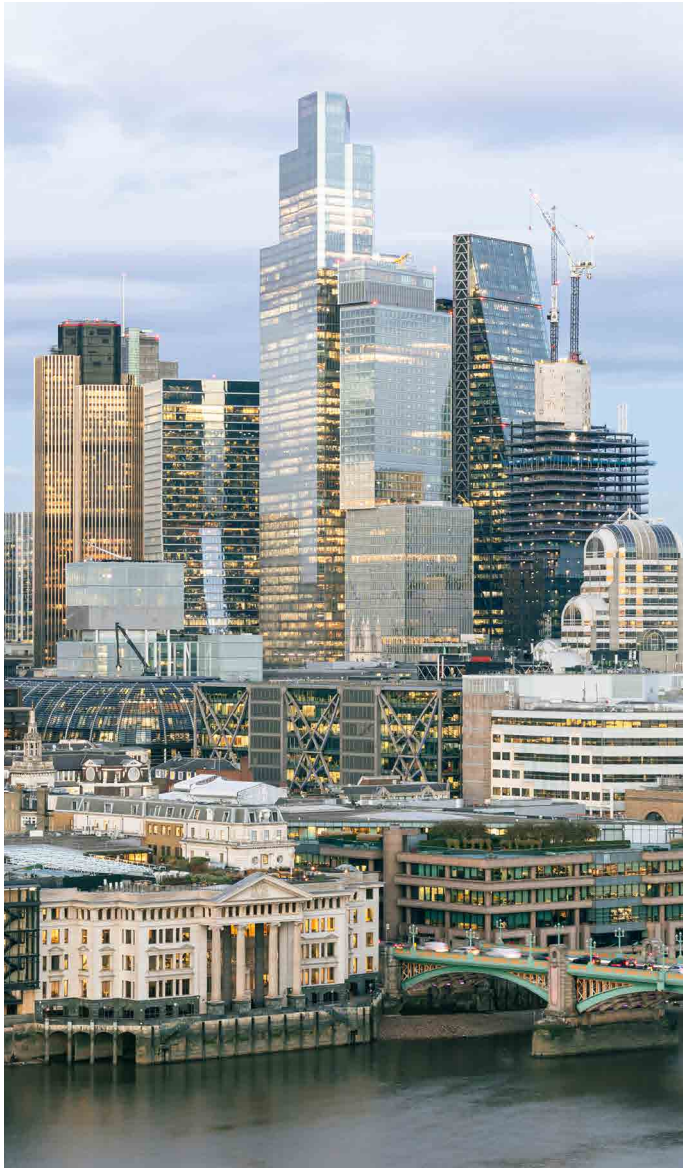
We have added allowances for conflict-derived inflation to all indices in 2026 and 2027. Our forecast for 2026 also includes the impact of steel tariffs. Similarly, our forecast for 2027 includes a small increment for the impact of the CBAM that will come into effect in January 2027. Our forecasts are based on IEA assumptions that energy prices will remain elevated in 2026 and 2027 as capacity is restored.

In summary, both contractors and clients will be forced to take on increased levels of risk following the Gulf crisis. Contractors may need to absorb costs to enable schemes to get off the ground, but clients in turn may need to support their supply chain if difficulties continue.

In Q1, we forecast that a recovery was coming. Recovery has been delayed, but clients and their teams will continue to build. With continuing resource challenges and rising prices, project delivery in 2026 and 2027 will take place against all odds.

	Private Sector Construction TPI	Public Sector Construction TPI	National Civil Infrastructure TPI	National Network Infrastructure TPI
2024	1–2% (1–2%)	1–2% (1–2%)	3–6% (3–6%)	3–6% (3–6%)
2025	2–3% (2–3%)	2–4% (2–4%)	3–5% (3–5%)	4–6% (4-6%)
2026	1–4% (1–3%)	2–5% (2–4%)	3–6% (3–4%)	3–8% (3–6%)
2027	2.5–4% (2–3%)	3.5–6% (3–5%)	2.5–6% (2–4%)	4.5–8% (4–7%)
2028	3–5% (4–5%)	4–5% (4–5%)	4–6% (4–6%)	5–8% (5–8%)
2029	4–5% (4–5%)	5–6% (5–6%)	5–6% (5–6%)	5–8% (5–8%)
Total (2026 to 2029)	**10.5–18%**	**14.5–22%**	**14.5–24%**	**17.5–32%**

Inflationary drivers	Deflationary drivers
Materials cost increases due to commodity price movements and scarcity	Affordability challenges placing downward pressure on budgets
Attitude to risk transfer on higher-risk projects	Increasing willingness to accept risk transfer in competitive markets
Expected elevated levels of workload in network infrastructure and public social infrastructure	Procurement and approval delays
Lower levels of competitive pressure in framework-based procurement	Heightened subcontractor competition for workload in the private sector
Limited capacity for large project ECI and delivery in buildings	



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Our world is under threat from climate change and rising sea levels to rapid urbanisation and pressure on natural resource. We're here to answer these challenges at Arcadis, whether it's clean water in São Paulo or flood defences in New York; rail systems in Doha or community homes in Nepal. We're a team of 36,000 and each of us is playing a part.

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