

Covid-19 construction briefing #14

The construction industry has restarted activity since the plethora of site closures in March and April. This will therefore be the last weekly briefing in this format. We will, as ever, be continually reviewing the situation and if the need arises we will respond accordingly.

The construction industry faces many challenges and opportunities as it continues to recover. In light of this we are currently reviewing our offering in this area so please stay alert for new content.

If you have any feedback on these briefings or the possible content of future briefings, please do get in contact with your client manager or myself directly at tom.hall@barbour-abi.com.

Over the last fortnight the number of projects confirmed open or restarting continue to increase and a corresponding fall in delayed projects.

The value of open projects has increased by £5bn. The total number is now 3,300 with a value of £106bn. Scotland has seen the majority of change, split across the infrastructure and residential sectors with smaller increases in open and restarted projects in the commercial, hotel and leisure and education sectors. London has seen a smaller change, mainly in the commercial sector. The rest of the UK has been broadly flat.

Restarted projects have increased by £6bn and total £56bn. The value of delayed projects has reduced by £4bn and now totals £20bn.

The planning environment is showing consistent growth in all areas, though it is on a slow upward gradient rather than rushing back to previous levels. Planning applications and new tenders are back to near pre-crisis volumes; however, decision updates and contract awards remain significantly depressed.

Our research findings this week continue to monitor the day-to-day issues, including concerns over the planning environment, Covid-19 contract clauses, project cost inflation, and some newly reported construction material shortages.

We provide an update to last week's briefing on:

- **conditions in the UK economy,**
- **collected research on activity in the construction industry, and**
- **insights drawn from our planning data including projects confirmed as open, restarted, planning information and delayed project volumes.**

Economic conditions

Further evidence on the economy's performance in May and indicators for June have continued to be published over the last fortnight. Positively, the June Markit/CIS PMI survey results, both domestically and internationally, have seen substantial rebounds back to ordinary levels. For the UK, June sentiment resulted in (where a value of >50 is expansion and <50 is contraction):

- Composite PMI of 47.6 (up from 13.8 in April and 30.0 in May)
- Manufacturing PMI of 50.1 (up from 32.6 in April and 40.7 in May)
- Services PMI of 47.0 (up from 13.4 in April and 29 in May)

It appears that a significant rebound in economic activity occurred in June and is set to continue through July. Nevertheless, until we receive more tangible information through July the size and strength of the recovery will remain unknown. The recovery has also occurred with the assistance of unprecedented government support which will be withdrawn over the coming months.

Meanwhile other economic indicators are weakening. There have been many announcements of significant job losses over the last month. While the most impact has been felt in the retail and travel sectors, a further Markit/IHS survey found that employment at UK factories fell for the fifth consecutive month in June.

House prices also weakened by 1.7% and 1.4% in May and June according to the Nationwide house price index. The annual change moved negative to -0.1%.

The Covid-19 outbreak in Leicester demonstrates the need for a robust and localised trace, track and isolate infrastructure as a major priority.

This week's "build, build, build" government announcement of £5bn of investment across the infrastructure, education, medical and public sectors was welcome. While it is investment already promised and is relatively minor compared to the £100bn in March's Budget, it is a useful first step and an important indication of intent that the government is serious in its "levelling up" strategy.

The government is also introducing a planning policy paper in July that will set out reforms to allow the conversion of vacant premises into residential housing. This is a further welcome step, but the detail of the proposals will be critical.

While several encouraging signs indicating a strong recovery have emerged over the last few weeks, the road back to previous output is not going to be straightforward. There remain many downside risks, including necessary social distancing measures reducing efficiency and capacity, risks of secondary outbreaks, government support being withdrawn too early, wider financial sector contagion and a recurrence of Brexit-related uncertainty. The second half of 2020, while maybe not as momentous as the first half, is likely to be noteworthy.

Research findings

Our research findings continue to cover the most pressing issues for construction at the current time.

Through the whole epidemic what has been striking is the variety of experiences, with some companies unaffected and others with all sites completely closed. While our research suggests the vast majority of sites have reopened, consistent with our delayed project information, we are still finding a small proportion of sites remain closed.

The planning environment appears to be improving with a noted increase in the numbers of new tenders. However, we are picking up concerns over additional clauses that require no change in delivery timescales with subsequent virus outbreaks, and fears over whether new contracts will be signed and progressed.

We have had some new reports on material shortages, with plaster being difficult to source from builders' merchants and significantly longer lead times for metalwork.

Fears over project inflation due to productivity issues and construction materials delays remain at the forefront of many colleagues' minds.

Construction project information

The last fortnight has seen a continued increase in projects confirmed open or restarting. The value of open projects has increased by £4.6bn, from £101.3bn to £105.9bn (£78.3bn to £82.9bn excluding Hinkley Point). The number of projects has increased by 181 to 3,266.

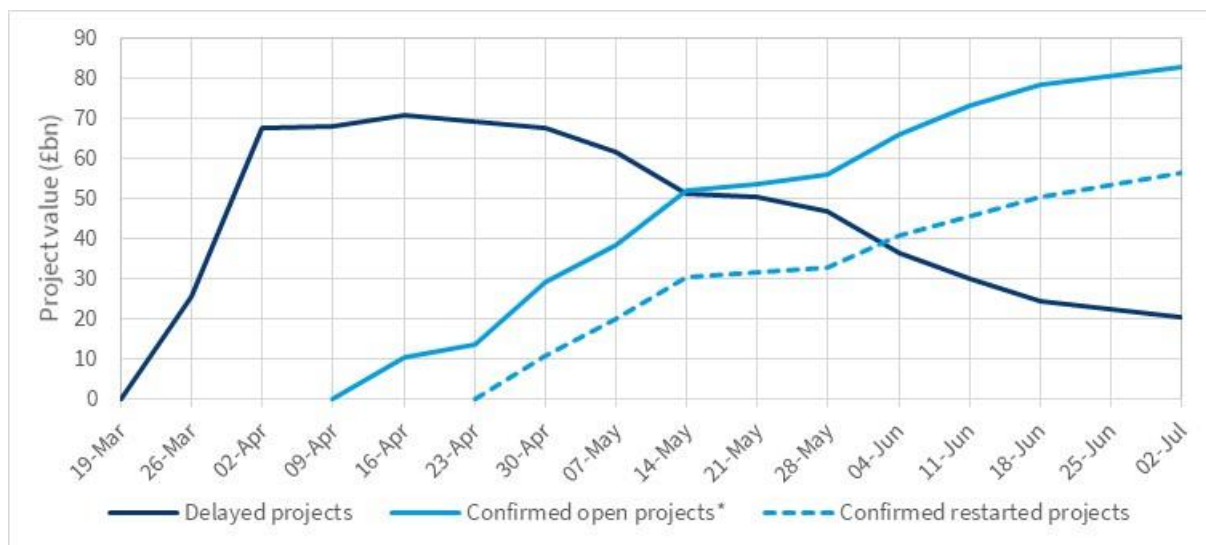
Scotland has seen the majority of change, split across the infrastructure and residential sectors with smaller increases in open and restarted projects in the commercial, hotel and leisure, and education sectors. London has seen a smaller overall change, mainly in the commercial sector. The rest of the UK has been broadly flat.

Of the above, restarted projects now number 2,061 and total £56.3bn. This week we have seen an increase of 270 projects with a value of £6.0bn.

The value of delayed projects has reduced by £3.9bn, a fall of 151 projects. We currently have 2,278 projects delayed with a value of £20.5bn. There remains £5.8bn of delayed projects in Scotland, mainly in the residential and infrastructure sectors, due to its phased approach to restarting activity. We expect further falls in delayed projects in Scotland over July.

The graph below shows the value of delayed, confirmed open and restarted projects over time.

Figure 1: Value of delayed, open* and restarted projects (£bn)



*excluding Hinkley Point £23bn

Planning activity

All elements of planning activity remain on an improving trend. However, the gradient is shallow, we have not yet seen large increases from depressed Covid-19 levels. Planning applications and tenders are now broadly comparable to pre-crisis levels; however, decision updates and contract awards remain significantly reduced.

- Numbers of planning applications are the strongest element of the planning environment and have now recovered to pre-Covid-19 levels, with the level of applications back at around 2,100-2,200 per week over the last 3 weeks.
- Decision updates remain very subdued but on an upward path, at around 2,000-2,500 compared to 3,500-4,000 in early 2020.

- The number of contract awards remain at around 50% down compared to pre-crisis levels. A small number of high-value projects have boosted the value of awards in June.
- Tenders have been more resilient throughout the crisis and remain at -15 to -20% compared to Q1 2020.

Confirmed projects remaining open

Projects confirmed open have seen a further moderate increase over the last fortnight: an additional 181 projects with a value of £4.6bn, bringing the total to 3,266 projects with a value of £105.9bn (£82.9bn excluding Hinkley Point).

As expected, Scotland has seen most of the change as projects return to site. However, this has happened in a phased way so the amount of open projects has been lower than anticipated; we expect further openings over July. Overall Scotland has seen £4.0bn of projects opening, mainly in the infrastructure and residential sectors. London is second with £0.4bn, focused in the commercial sector. Other UK regions have seen negligible changes.

Most of the changes over the last fortnight have been in the infrastructure (+£2.1bn) and residential (+£1.5bn) sectors. Smaller increases were observed in the commercial (+£0.5bn), education (+£0.3bn) and hotel and leisure (+£0.2bn) sectors.

The table below shows the value of projects confirmed open by sector and region. We have shaded the values in the table which have significantly fewer projects open (in red), moderately fewer open (in orange) and the most open (in green) compared to normal activity levels. Hinkley Point has been excluded from the data.

The most confirmed open projects (relative to the sector size) continue to be in the Medical sector, followed by the Residential sector. Other sectors are a distance behind, though the infrastructure sector has increased significantly over the last fortnight as Scottish projects have restarted. The Industrial sector continues to have the smallest level of open projects (though it has been the least impacted by delays), followed by the Hotel and Leisure sector. Across the UK, Scotland has overtaken London with the highest number of open projects by a significant margin whereas the lowest levels of open projects remain in the East Midlands and Yorkshire.

Table 1: Value of projects confirmed as open by sector and region

Confirmed open projects value (£m)	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	166	284	19	315	166	17	3,008	3,974
East of England	140	723	105	262	295	48	3,970	5,543
London	7,116	1,233	2,033	49	6,161	534	8,337	25,463
North East	62	139	65	331	108	18	1,820	2,542
North West	349	423	583	116	2,376	754	5,390	9,992
Scotland	324	812	247	94	5,592	393	3,882	11,345
South East	174	622	369	233	609	256	5,829	8,092
South West	67	269	129	136	170	11	3,905	4,687
Wales	23	355	119	25	133	294	864	1,813
West Midlands	154	447	151	221	827	430	3,322	5,551
Yorkshire & Humber	154	224	28	82	161	64	3,041	3,754
Great Britain	8,730	5,568	3,847	1,889	16,616	2,824	43,424	82,897

We present a table of major construction companies' confirmed open projects by number and value below.

Table 2: Major construction companies confirmed open projects

Contractor	Number of projects	Value (£bn)	Contractor	Number of projects	Value (£bn)
Barratt & David Wilson Homes	267	5.8	Redrow Homes	95	2.0
Persimmon	253	4.7	Mace	22	2.0
Taylor Wimpey	187	3.3	Amey Limited	4	1.8
Sir Robert McAlpine	37	3.0	Laing O'Rourke	8	1.7
Siemens PLC	2	3.0	Balfour Beatty	12	1.7
Multiplex	10	2.9	Bouygues	20	1.7
Lendlease	17	2.6	Countryside Properties	73	1.7
Wates	65	2.4	Morgan Sindall	79	1.5
Vistry Group	153	2.4	Doosan/Wood/KBR/Morgan Sindall	1	1.5
Bellway Homes	149	2.3	BAM	32	1.4

Projects returning to site

We have seen a further large increase of 270 restarted projects worth £6.0bn over the last fortnight. The total value now stands at £56.3bn and 2,061 projects.

As we mention above, Scotland has seen the most change, with £4.2bn. £2.1bn of this is in the infrastructure sector, £1.3bn in the residential sector, £0.3bn in the education sector and £0.2bn in the commercial and hotel and leisure sectors.

London has increased by £0.6bn, split between the commercial sector (+£0.4bn) and residential sector (+£0.2bn). The East Midlands and West Midlands both by £0.3bn with restarted projects in the industrial sector. Other regions have seen negligible changes.

The table below shows the value of projects returning to site by sector and region. Similarly to the tables elsewhere we have shaded the values in the table which have significantly fewer projects restarted (in red), moderately fewer restarted (in orange) and the most restarted (in green) compared to normal activity levels.

Overall the Residential sector continues to have the greatest amount of projects returning to site by a distance, both by absolute value and relative size. This is followed by the commercial and infrastructure sectors. The Industrial sector remains the sector with least restarted projects relative to its size, though it does have the lowest amount of delays.

Scotland has now overtaken London to have the highest level of restarted projects followed by London and the North East of England, with the rest of the UK at lower levels. The East Midlands, Yorkshire, Wales and the West Midlands have the lowest amount of restarted projects relative to their size.

Table 3: Value of projects restarted by sector and region

Restarted projects value (£m)	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	88	19	15	241	47	12	1,694	2,116
East of England	104	421	13	187	6	2	2,856	3,590
London	4,714	676	1,727	34	4,925	301	7,074	19,450
North East	62	55	28	325	86	0	1,436	1,992
North West	154	73	445	41	227	47	3,395	4,382
Scotland	324	811	247	93	5,592	60	3,450	10,579
South East	126	167	171	177	116	6	4,415	5,177
South West	65	119	26	70	93	7	2,840	3,218
Wales	22	147	19	17	122	0	579	906
West Midlands	31	149	65	204	29	6	2,301	2,785
Yorkshire & Humber	104	28	18	2	80	10	1,802	2,043
Great Britain	5,794	2,679	2,773	1,391	11,340	452	31,856	56,286

Delayed projects

Over the last fortnight we have seen a fall in delayed projects of £3.9bn. The total value of delayed projects is now £20.5bn. The number of projects has decreased by 151 to 2,278.

Scotland has seen £3.8bn of the £3.9bn fall in delayed project value, with only minor changes across other UK regions. In Scotland infrastructure has seen the largest fall with £2.1bn projects returning to site, followed by the residential sector with -£1.0bn, education -£0.3bn, commercial -£0.2bn and hotel and leisure -£0.2bn.

London saw a fall of £0.3bn in the commercial sector. Other UK regions and sectors have seen negligible change.

The table below shows the value of delayed projects by sector and region. Similarly to the tables above we have shaded the values in the table which have more projects significantly delayed (in red), moderately more delayed (in orange) or less delayed (in green) compared to normal activity levels.

Scotland remains the outlier in terms of total remaining delays even after the high volume of reopening projects, due to its phased approach to restarting activity. Further falls in delayed projects are expected over July. As with previous weeks, all other UK regions are now broadly similar in terms of remaining delays, however regions with the lowest delays are the East Midlands, North West and Wales.

The Residential sector now has the most remaining delays, due to £2.7bn of projects still marked as delayed in Scotland. The Industrial sector continues to be the least impacted by the delays.

Table 4: Value of Covid-19 delayed projects by sector and region

Covid-19 delayed project value (£m)	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	92	36	88	66	62	14	656	1,013
East of England	147	155	96	120	260	9	838	1,624
London	998	250	256	62	142	220	1,581	3,508
North East	31	93	31	12	38	3	289	497
North West	102	125	198	104	155	25	857	1,567
Scotland	422	462	343	163	1,732	8	2,693	5,823
South East	324	182	92	506	429	40	950	2,523
South West	129	50	147	48	102	46	627	1,149
Wales	6	15	6	62	41	13	202	345
West Midlands	67	91	86	49	581	4	419	1,297
Yorkshire & Humber	126	41	64	153	147	40	591	1,161
Great Britain	2,445	1,501	1,410	1,346	3,690	420	9,711	20,522