

COVID-19 CONSTRUCTION BRIEFING #1

This is the first in a weekly series of briefings on the impacts of the Coronavirus pandemic on the construction industry. Each week we will be providing:

- a summary of the developments in the UK economy,
- evidence of changes to activity and conditions in the construction industry, and
- insights drawn from our planning data.

For Barbour ABI subscribers we are also providing project-level information where we have identified projects that are confirmed or likely to be delayed, put on hold or cancelled as a result of the pandemic.

The situation is changing on a daily basis. We are endeavouring to provide timely and accurate information to allow our clients to effectively manage their businesses at this difficult and unprecedented time.

ECONOMIC CONDITIONS

The coronavirus pandemic is delivering the fastest and most severe economic shock in history. Every component of economic activity is currently in freefall. The situation is moving too fast for official data to keep up, so we are reliant on piecemeal leading information to draw conclusions on the likely impacts on the economy.

Several economic forecasters have published studies on the impact on the economy. However, given the lack of available data they are highly uncertain. Looking across the range of forecasts published to date, a drop in GDP of between 15-25% in Q2 2020 does not appear unlikely. The Markit/CIPS PMI surveys published on Tuesday reinforced this view, with sentiment plunging to record lows.

Governments and central banks across the world have responded with the largest ever stimulus packages, greater in scope than those after the 2008 crisis. The Bank of England has slashed the base rate to 0.1% and expanded its Quantitative Easing programme. The Treasury has announced several unprecedented measures, including:

- cash flow support for large business,
- a lending programme for small businesses,
- the deferral of VAT payments,
- relaxing rules on banks' capital reserves,
- paying 80% of employees' wages who are kept on by their employer, and
- support for self-employed workers.

Risks of wider financial contagion exist as record commercial debt levels from a decade of ultra-low interest rates leaves many businesses weak to revenue shocks. Consumer debt is also at extremely high levels. With unemployment expected to significantly increase, (500,000 people applying for Universal Credit in the last 9 days) many UK consumers are exposed.

Most commentators have been anticipating a V-shaped recovery where economic activity recovers significantly in Q3 2020. This appears unlikely, since the length of time frame restrictions will need to be in place for is uncertain, and the restrictions can only be lifted gradually to avoid secondary outbreaks. The World Health Organisation is warning that there may be multiple stages of outbreaks later in 2020 and into 2021.

CONSTRUCTION INDUSTRY

Turning to the construction industry, there is little or no official data on the impact of the pandemic so far. We are therefore having to mainly rely on anecdotal evidence.

Activity appears to have been strong until this week. There was a smaller volume of closures of construction projects in the preceding fortnight, with most site shutdowns and project delays being announced at the beginning of this week.

Builders' merchants saw record sales last week as there was a rush of activity to stockpile materials and complete projects before restrictions were put in place. This week there has been a steep drop off with many stores requiring to close, however many are reopening or switching their operating activities (such as online and delivery only).

Evidence from manufacturers suggests most were operating as normal until the beginning of this week then experienced very steep declines in demand over the course of this week. Many are dramatically scaling back production over the coming weeks.

Evidence of changes to construction activity has been somewhat mixed.

- Most larger housebuilders have announced a suspension of all activity on sites; however, some remain open, at least for now. A range of approaches are being taken, with some sites aiming to stay open where appropriate.
- Contractors are also taking a mixed approach, with some completely suspending all activity, some only undertaking critical work, and others taking a site-by-site approach.
- The stopping of major infrastructure projects such as Crossrail and HS2 have been announced. TFL has suspended all construction activity.
- Several other elements of public sector and infrastructure work are continuing if not increasing, especially work in the healthcare and education sectors.
- Highways England are continuing much of their planned activities.

CONSTRUCTION PROJECT INFORMATION

With information is changing all the time, our researchers are endeavouring to provide accurate and timely updates to projects. Drawing firm conclusions at this early stage are difficult, however we share what we have observed so far below.

To date we have updated 1,051 projects with a confirmed or likely to be delayed status due to Covid-19, with a combined project value of £25.6bn.

Impact by sector and region

The majority of Covid-19 related delays so far are in the residential construction sector, both in terms of value and number: 71% of projects by number and 62% by value are residential compared to a baseline of ~30-35%. This is however spread relatively consistently throughout the regions of the UK.

This is consistent with the belief that the residential sector responds to changes in economic environment fastest, and the observation this week that most major housebuilders have taken the unilateral decision to close all sites.

The table below shows the value of delayed projects by sector and region.

Table 1: Value of Covid-19 delayed projects by sector and region

Covid-19 delayed project value (£m)	Comm & Retail	Edu-cation	Hotel, Leisure & Sport	Industrial	Infra-structure	Medical & Health-care	Resi-dential	All sectors
East Midlands	2	25	0	0	26	0	502	555
East of England	102	363	11	6	0	0	1,706	2,188
London	2,557	612	790	51	2,999	210	4,118	11,337
North East	52	61	3	270	0	0	889	1,274
North West	42	13	27	0	21	18	1,574	1,695
Scotland	96	243	130	36	4	0	1,283	1,792
South East	48	59	8	160	15	2	1,852	2,144
South West	96	40	10	20	2	5	1,351	1,525
Wales	17	118	0	13	116	0	367	631
West Midlands	44	72	43	5	42	7	1,022	1,234
Yorkshire & Humber	10	19	18	0	26	0	1,065	1,139
Great Britain	3,065	1,631	1,047	560	3,252	242	15,759	25,557

Among the other construction sectors the differences across the UK are very pronounced. London so far has experienced by far the largest impact from Coronavirus-related delays in most other sectors: in the Commercial, Education, Hotel and Leisure, Medical and Infrastructure sectors.

Other UK regions are, apart from a few regions in specific sectors, yet to see large-scale postponements. Though it may be that the data is slightly lagging real time activity changes.

- The North-East and South East have seen large projects delayed in the Industrial sector
- Education activity has been more affected in the East of England and Scotland

The table below shows the value of Covid-19 delays and cancellations relative to baseline construction activity levels. Values are expressed as the percentage more or less than normal splits of activity. So, for example the commercial sector in London has experienced 35% more delays and cancellations than it would have had the activity been consistent across the country.

Table 2: Variance of Covid-19 delays compared to baseline activity levels

% by project value	Comm & Retail	Edu-cation	Hotel, Leisure & Sport	Industrial	Infra-structure	Medical & Health-care	Resi-dential	All sectors
East Midlands	-6%	-6%	-4%	-15%	-11%	-4%	-3%	-6%
East of England	-3%	+10%	-5%	-11%	-11%	-5%	+2%	0%
London	+35%	+23%	+42%	3%	+82%	+62%	+4%	+22%
North East	-1%	-1%	-1%	+44%	-3%	-2%	+2%	2%
North West	-7%	-7%	-11%	-11%	-13%	-7%	-2%	-5%
Scotland	-2%	+5%	+3%	+2%	-16%	-12%	+1%	-2%
South East	-9%	-12%	-9%	+12%	-7%	-11%	-2%	-4%
South West	-1%	-5%	-6%	-4%	-6%	-8%	0%	-1%
Wales	-1%	+4%	-3%	0%	+1%	-5%	0%	0%
West Midlands	-3%	-5%	0%	-11%	-2%	-4%	-1%	-2%
Yorkshire & Humber	-3%	-5%	-5%	-10%	-15%	-3%	-1%	-4%
Great Britain	-1%	-2%	-5%	-9%	-7%	-1%	+25%	

Impact by planning stage

We are so far receiving planning updates from councils within normal activity variances, but the expectation is that we will start to see a drop in new and approved projects shortly.

Most projects we have identified as delayed are under construction: £22.5bn (88%) by value and 1,005 (96%) by number. £3.0bn of projects are at the contract award stage. Only a very small number of projects affected currently are in the earlier planning stages.

Impact by project value

The average value of projects impacted by Covid-19 is concentrated in the £10-50m (£11.9bn of projects) and £100-500m (£9.2bn of projects) categories when considering project value.

When considering the number of projects, the most delays are in the £10-50m category (567 projects) and the £1-10m category (336 projects).

Table 3: Covid-19 delays by project value

Project value	Value (£m)	Nr projects
£1-10m	1,842	336
£10-50m	11,858	567
£50-100m	2,646	41
£100-500m	9,188	34
More than £500m	0	0
All projects	25,534	978

NEXT STEPS

We will continue to provide weekly updates, including any themes we uncover as further information becomes available.