

GB CONSTRUCTION: COVID-19 IMPACT

9th April 2020



DISCLAIMER

This report represents a draft discussion paper and should not be relied upon by any party, for any purpose.

The report is given in confidence and should not be quoted, referred to or shown to any other parties without our prior consent. We assume no duty of care to any person who is not our Client.

The report and our advice are primarily based upon information gathered from primary and secondary sources. We have inevitably relied on data and information provided to us by third parties and on enquiries and discussion with them. We have not verified the accuracy of the data or the information and explanations provided by third parties.

EXECUTIVE SUMMARY

2020 forecast

Our core case is for the initial lockdown to last ~2 months, with a further ~2 months of restrictions before a return to more normal trading conditions.

In this scenario, there is likely to be an ongoing impact on supply chains as businesses restart to meet demand. This impact is likely to be felt into the first quarter of 2021.

However, if the lockdown continues for longer, this could have a more profound impact on the industry in the medium-term, as the longer that projects are delayed, the longer it will take to re-establish supply chains as well as damage to wider monetary and financial systems.

Sub-sector impact

The construction market has significantly slowed in Mar-20 following the closure of a large proportion of non-essential construction work.

In particular, private commercial and housebuilding sites have been shutdown barring some exceptions.

Infrastructure (particularly roads and flood defences) is more resilient, although major works (such as HS2) have stopped and preliminary work at Heathrow was also withdrawn (the latter not entirely linked to COVID-19).

Public works have seen some continued spend, although this is mainly in the provision of reactive care facilities such as the Nightingale hospitals.

2021+ expectations

The longer-term economic and societal effects of the pandemic are hard to forecast at this point, and remain highly contingent on the shape of the lockdown period. Our core expectation is for a rapid recovery in 2021-22.

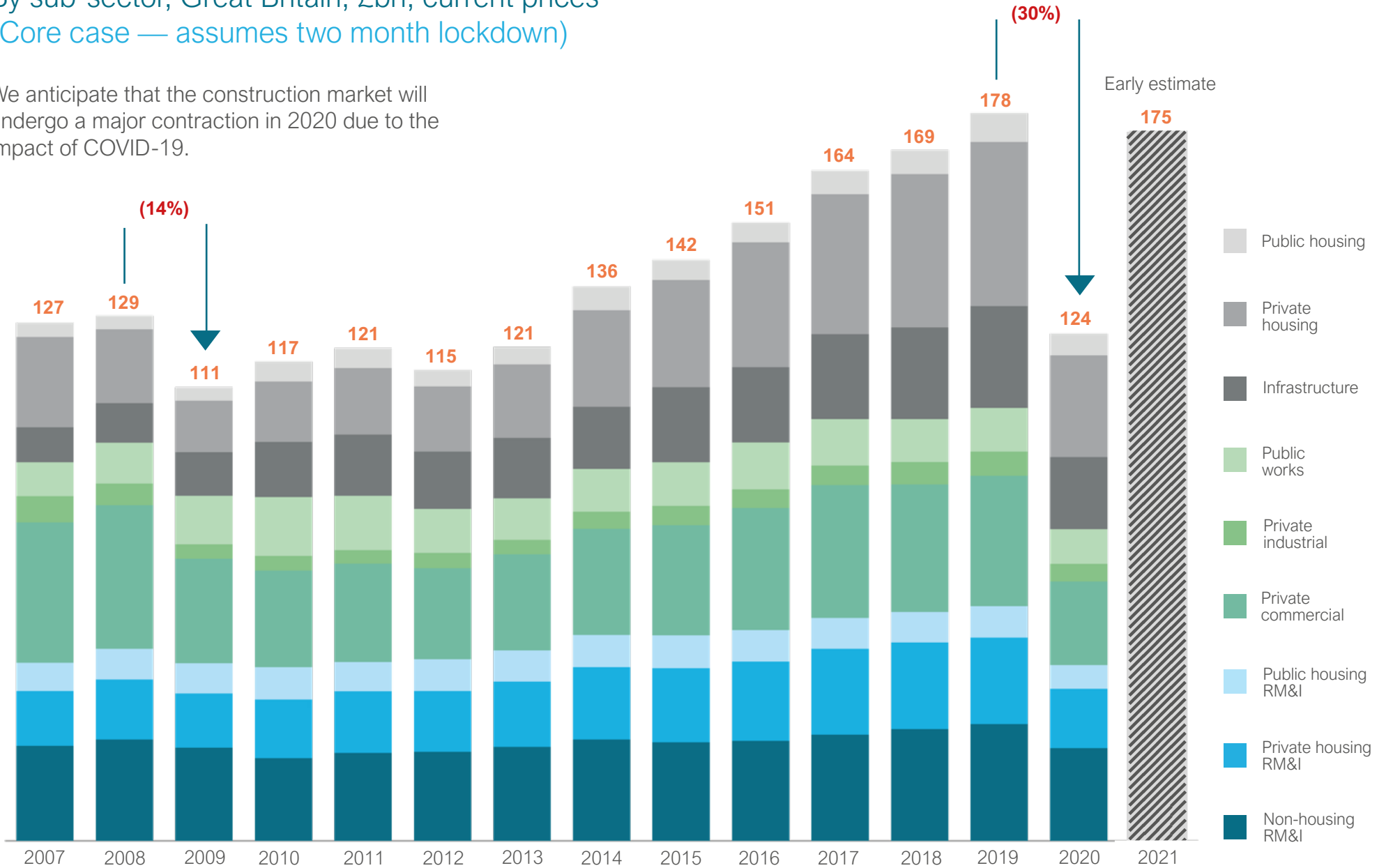
However, there is now political space and budgetary pressure to further delay investment in airport capacity, while the case for Crossrail 2 will be weakened again by an acceleration of the working from home trend.

Commercial and residential property valuations are also almost completely untested and any rebasing of prices would have a material affect on activity.

GB CONSTRUCTION MARKET FORECAST

By sub-sector, Great Britain, £bn, current prices
(Core case — assumes two month lockdown)

We anticipate that the construction market will undergo a major contraction in 2020 due to the impact of COVID-19.



FORECASTING METHODOLOGY

CIL has developed a core scenario for the duration of restrictions in the UK, and modelled the impact on construction sub-sectors during this period.



Duration of restrictions

CIL has examined the measures in place to limit the spread of COVID-19 and, through comparison with events in China and South Korea, has modelled three potential scenarios for the duration of both full lockdowns and lighter restrictive measures (e.g. some business closures) in the UK:

Scenario	Duration of:	
	Lockdown	Restrictive measures
Shorter restrictions	1.5 months	1 month
Core case	2 months	2 months
Longer restrictions	3 months	4.5 month



Impact by subsector

The impact of restrictions has been evaluated by sub-sector, depending on the exposure of projects to wider economic health, the nature / location of project sites and other factors.

This is modelled by individual sub-sector with the combined impact shown below:

Subsector	Lockdown impact
Private new build	~70-80% contraction
RM&I (private and public)	~60-70% contraction
Infrastructure	~50-70% contraction
Public new build	~50-60% contraction



Longer-term sector recovery

This forecast assumes the general success of the furlough scheme (with employment returning to long-term levels) and no long-term damage to UK capacity for work or restating of significant preventative measures (e.g. further lockdowns).

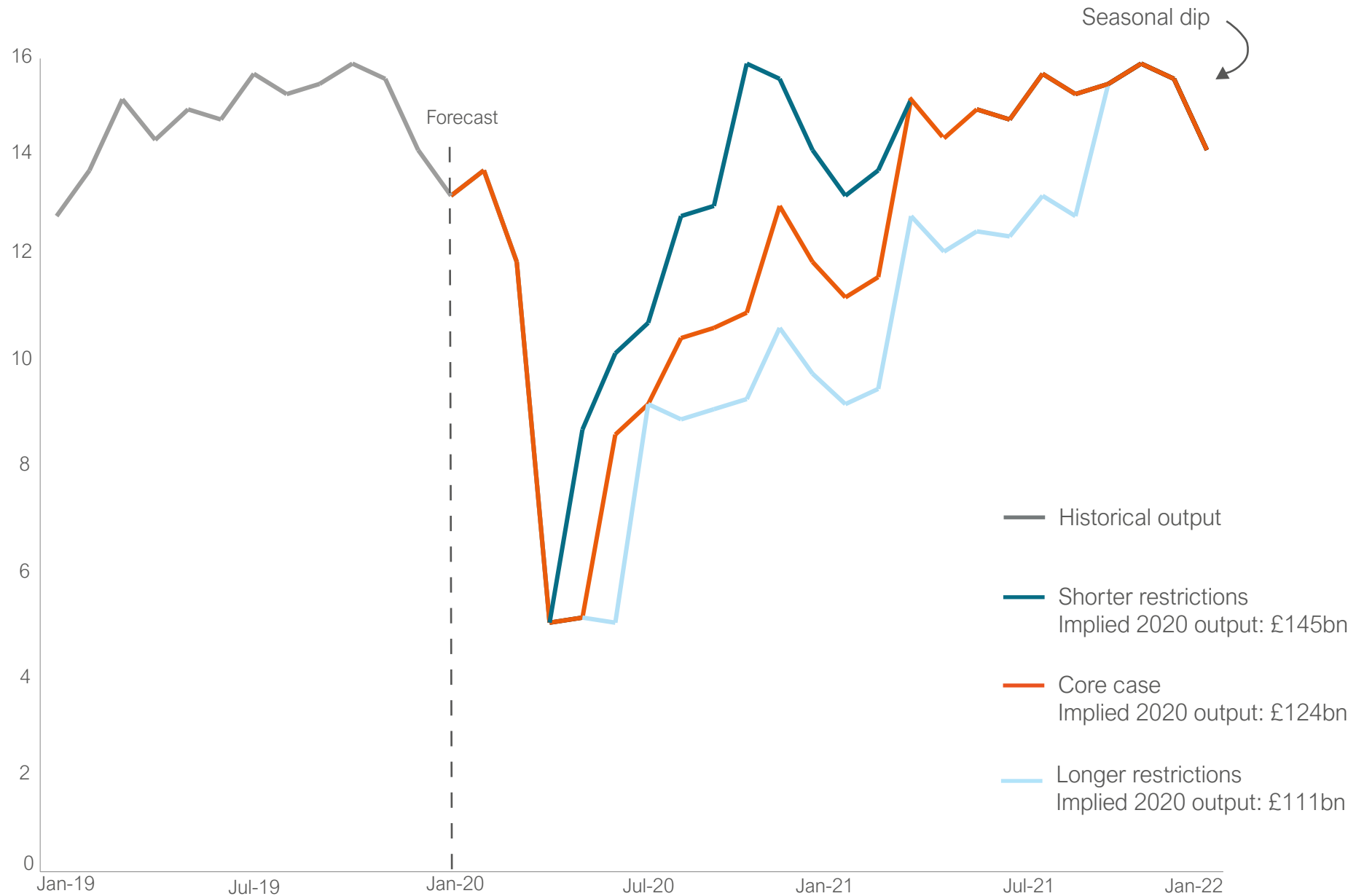
The risk of structural impact to the economy (bank lending rates, damage to the monetary system, etc) is not factored into our forecast here and should be considered as further potential downside.

In the medium-term (after the lifting of lighter restrictive measures), recovery is expected to be delayed by damage to product and service providers / sub-contractors (particularly SMEs), and will take several additional months to scale back up to previous levels of output.

This effect is more pronounced in scenarios where the duration of initial lockdown / restrictive measures is longer.

TOTAL CONSTRUCTION OUTPUT

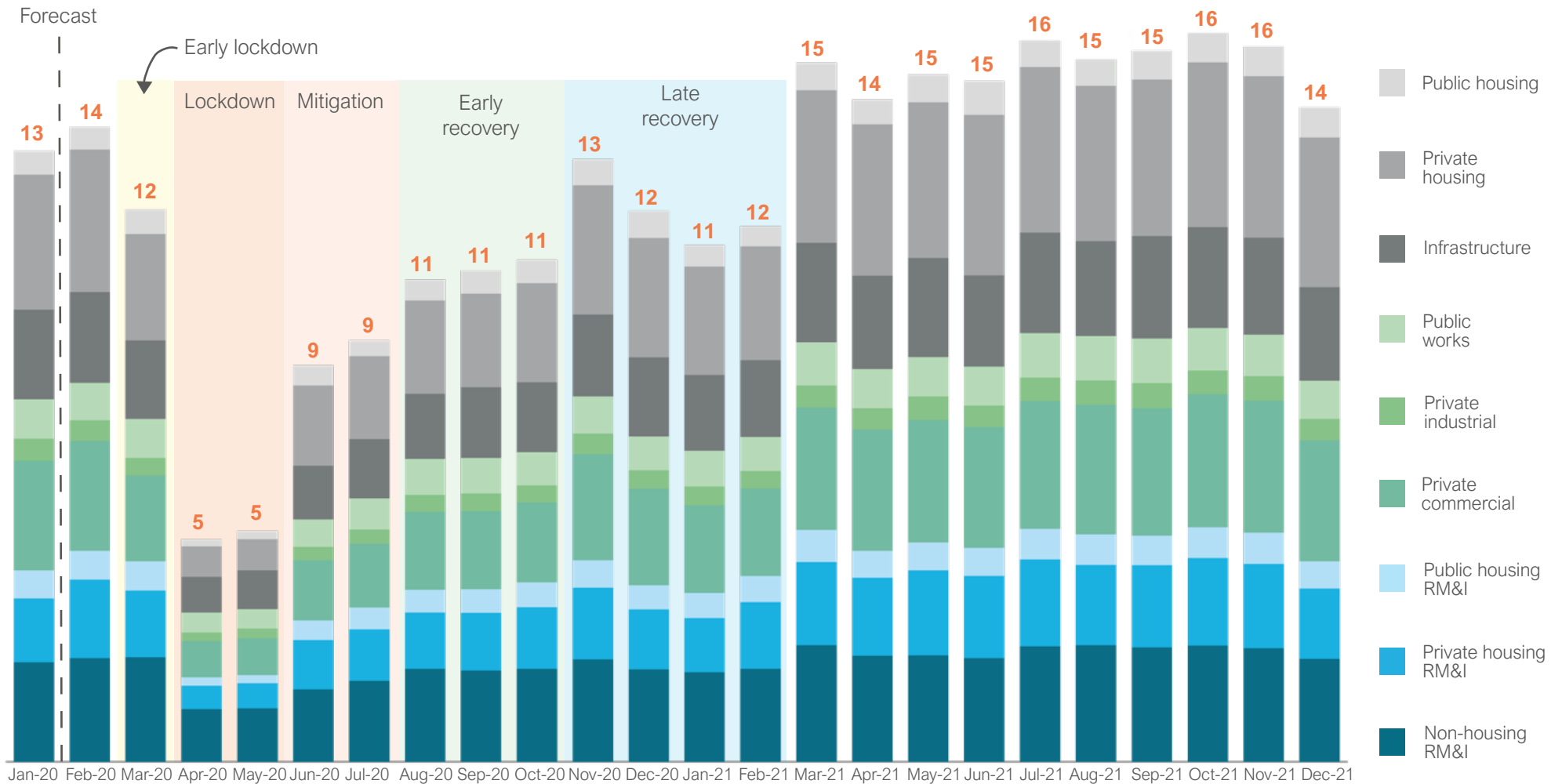
By case, Great Britain, £bn, current prices



CONSTRUCTION OUTPUT – CORE CASE

Monthly by sub-sector, Great Britain, £bn, current prices

CIL's core case models the effects of the pandemic lasting approximately a year, with site delays caused by lockdown and mitigation periods followed by a longer-term supply chain recovery.



GET IN TOUCH

At CIL, we study a range of services and products that go into the built environment to allow our clients to prioritise and focus on growth segments, locally and internationally.



James de La Salle
jdelasalle@cilconsultants.com
020 3829 2755



David Moody
dmoody@cilconsultants.com
020 3829 2700



Toby Fisher
tfisher@cilconsultants.com
020 3829 2722



cilconsultants.com