

Covid-19 construction briefing #3

The last week has seen a plateauing in the volume of delayed projects with the total value currently standing at £68bn. We provide some additional insight understanding activity within sectors towards the end of the briefing.

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

- **conditions in the UK economy,**
- **observations on activity in the construction industry, and**
- **insights drawn from our planning data.**

Planning information remains within normal activity levels, albeit at the lower end of typical volumes.

Our research team are operating at full capacity and constantly updating projects in real time to ensure our information is timely and accurate. We remain poised to respond as the situation changes.

Economic conditions

The most relevant economic news this week was the publication of IHS/Markit's Purchasing Managers' Indices for March. The index for construction fell at the steepest rate since the financial crisis in 2009, from 46 in February to 39.3 in March. With unemployment expected to steeply increase, expectations for April are for a further fall in activity.

While the next few months looks bleak, the hope remains that with increased public-sector investment and government support schemes starting to be taken up, the sector can recover lost momentum in the second half of 2020.

Economic forecasters' views are somewhat coalescing, with the short-term outlook for UK GDP likely to comprise of:

- a fall of around 2% in Q1, meaning that the pandemic has wiped more than a year's worth of growth in little over a month, and
- a further fall of 8-15% in Q2.

The difficulty is assessing what happens next: with movement restrictions likely in place until at least mid-May, it is uncertain how quickly normal activity will be able to resume. As mentioned in previous briefings, most forecasters assume a speedy return to normal activity, but the scientific consensus is increasingly moving away from V-shaped recovery scenarios to L- or W-shaped or even "corrugated" alternatives. Over the coming weeks it is becoming more likely that some in the economics community will need to revise their forecasts downwards.

Elsewhere in the world, China is taking its first tentative steps at easing movement restrictions, with no subsequent outbreaks so far, though it is very early in the process. Also, a small number of European countries with the most successful responses to the pandemic are starting to consider a minor easing of restrictions. A similar date for the UK appears a while away at the moment.

Construction industry

We continue to survey our construction industry colleagues and partners to understand their experiences on the ground. Our research team is building a comprehensive evidence base of observations.

The most frequent issue reported remains, somewhat unsurprisingly, customer closures and falls in demand. Around a third of respondents consider this the most challenging issue they are currently facing.

However other issues are also high in the minds of construction industry staff. The next largest issues are Government restrictions (21%), supply of materials (15%), business planning uncertainty (12%) and planning pipeline concerns (11%).

Over the last week there has undoubtedly been an increase in concerns over the supply of materials, with several sites stating they expect to run out of materials and products over the next 1-2 months.

Critical work on infrastructure, hospitals, schools and across the public sector appears to be continuing.

Different firms are experiencing a very wide variety of conditions:

- a number maintain they are operating as normal and have not seen any drop-off in activity,
- some are seeing activity pick up again after an initial lull, or are hopeful that activity will pick up shortly,
- however a majority are seeing a large drop in activity, with a majority furloughing staff to a wide variety of extents.

Construction project information

This week we have seen a plateauing of new delayed projects. The total number of projects stands at 4,301 with a total value of £68.3bn: a small increase from last week.

We have seen a small number of projects returning to site as contractors reopen, complying with social distancing guidelines, but they are not coming through in any significant volume so far. This has resulted in a small decrease in delayed projects under construction. We have also seen a small overall increase again in projects delayed in the planning process.

Our research team are operating at full capacity, refining and improving our information every day. Over the last week we have added a new categorisation on our data to take account of previously delayed projects returning to site.

Planning activity

Planning activity appears to be moving slightly downwards towards the lower band of normal activity for both new applications and decision updates. Planning information operating within this level, and we have seen a spike in decision update activity over the first two days of this week.

Projects being submitted for tender remain high with several high-value projects reaching this stage.

Contract awards for March was a total value of £3.8bn. Like the planning activity information, this is not a particularly low value: it is only the lowest since December 2019, and prior to that the lowest since April 2019. It also follows two months of very high award values: January and February saw total contract award values of £9.2bn and £7.6bn respectively.

March did see the smallest number of new contract awards since December 2018, meaning that we saw a small number of high value projects.

Impact by sector and region

As with last week, most Covid-19 project delays so far continue to be in the residential construction sector: 53% of delayed projects by value (57% by number). The residential sector therefore remains the most affected.

The changes over the week have been marginal: only a smaller number of projects have been delayed according to our research: we continue to react to events as they happen and a change in government policy or deterioration in economic conditions may further result in further closures.

It is certainly too early to say whether the growth in delayed projects has ceased: we will continue to update our data over the coming days which will hopefully provide some confidence and insight into what is happening on the ground.

The following table shows the change in delayed project value from last week to this week.

Table 1: Change in delayed project value

Sector	Value last week (£bn)	Value this week (£bn)	% change
Commercial & Retail	8.6	8.8	2%
Education	3.3	3.4	3%
Hotel, Leisure & Sport	2.7	2.7	1%
Industrial	2.3	2.4	2%
Infrastructure	14.8	14.8	0%
Medical & Healthcare	0.3	0.3	2%
Residential	35.8	35.9	0%
All sectors	67.7	68.3	1%

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

Table 2: 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	96	73	70	391	95	0	2,037	2,762
East of England	181	561	102	258	93	7	3,130	4,331
London	6,599	837	966	91	5,096	215	7,074	20,878
North East	79	85	55	328	116	0	1,776	2,439
North West	234	108	468	107	696	21	3,876	5,510
Scotland	849	1,045	573	189	7,649	61	6,270	16,636
South East	212	258	192	306	493	20	3,839	5,319
South West	169	94	68	168	194	9	2,573	3,275
Wales	25	120	8	40	146	0	666	1,004
West Midlands	93	171	114	348	78	7	2,049	2,861
Yorkshire & Humber	225	49	77	148	181	7	2,513	3,199
Great Britain	8,761	3,401	2,691	2,375	14,836	345	35,871	68,281

London remains the UK region with the largest value (£20.9bn) of delayed projects. Scotland closely following with £16.6bn of projects delayed, and the largest by number (1,298) of all UK regions. West Midlands and Yorkshire and Humber have seen the largest increases across the whole of the construction industry this week in delayed projects, though the rates are much lower compared to last week: +4% and +5% respectively. At the sector level this is due to a small number of high-value projects being delayed:

- for Yorkshire in the commercial, education, Leisure and Industrial sectors, and
- for West Midlands in the residential sector.

We have also started to analyse activity at the sub-sector level to test some hypotheses around where delays are occurring. So far, we have found:

- In the residential sector, halls of residence have been less impacted than other areas.
- There doesn't seem to be any difference between private residential, local authority or housing association projects: all have seen large-scale delays.
- The care sector appears to be relatively less affected than many other sectors.
- In the infrastructure sector, road projects appear to have the highest proportion of delays compared to the other sectors such as rail, marine and energy – though all sectors have seen delays.
- In the commercial and retail sector, offices and shopping centres have been disproportionately affected whereas food retailing and general retailing categories have seen less disruption.
- Warehouse construction has seen the lowest impact in the industrial sector
- In the hotel, food, leisure and sport sector, most delays are to Hotel construction projects.
- The public and civic sector (which includes emergency services, churches, civic centres, and museums) is less impacted than other sectors.

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.

Table 3: Variance of Covid-19 delays compared to baseline activity levels

% by project value	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	-5%	-5%	-2%	+2%	-11%	-4%	-1%	-4%
East of England	-4%	+4%	-2%	-1%	-10%	-3%	0%	-3%
London	+27%	+10%	+2%	-2%	+24%	+37%	-3%	+9%
North East	-2%	-2%	0%	+10%	-2%	-2%	+2%	0%
North West	-6%	-5%	+3%	-7%	-9%	-8%	-1%	-4%
Scotland	+5%	+20%	+12%	+4%	+36%	+6%	+10%	+15%
South East	-8%	-8%	-3%	-3%	-4%	-6%	-3%	-4%
South West	-2%	-5%	-5%	0%	-5%	-8%	-2%	-2%
Wales	-1%	0%	-3%	-1%	-2%	-5%	-1%	-1%
West Midlands	-3%	-4%	0%	+2%	-3%	-5%	-2%	-2%
Yorkshire & Humber	-1%	-5%	-3%	-4%	-15%	-1%	-1%	-4%
Great Britain	0%	-3%	-5%	-7%	+2%	-2%	+16%	

Impact by planning stage

As we have not seen major changes in the volume of delayed projects in the last week, there is no significant change in planning stage information: most projects delayed are those that are under construction.

The table below shows values and number of delayed projects at each construction stage.

Table 4: Covid-19 delays by construction stage

Project value	Value (£m)	Number of projects
Detail planning	81	6
Approval	91	8
Tender	10	6
Contract awarded	9,971	531
Under construction	57,895	3,722
All projects	68,048	4,273

Impact by project value

The average value of projects impacted by Covid-19 is concentrated in the £10-50m (£27.7bn of projects) and £100-500m (£24.5bn of projects) categories when considering project value.

When considering the number of projects, the most delays are in the £10-50m category (1,348 projects) and the £1-10m category (1,929 projects).

Table 5: Covid-19 delays by project value

Project value	Value (£m)	Number of projects
£1-10m	7,939	1,929
£10-50m	27,664	1,348
£50-100m	7,867	122
£100-500m	24,546	78
More than £500m	0	0
All projects	68,016	3,477

Next steps

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