

The Economic Landscape - Construction Scenarios

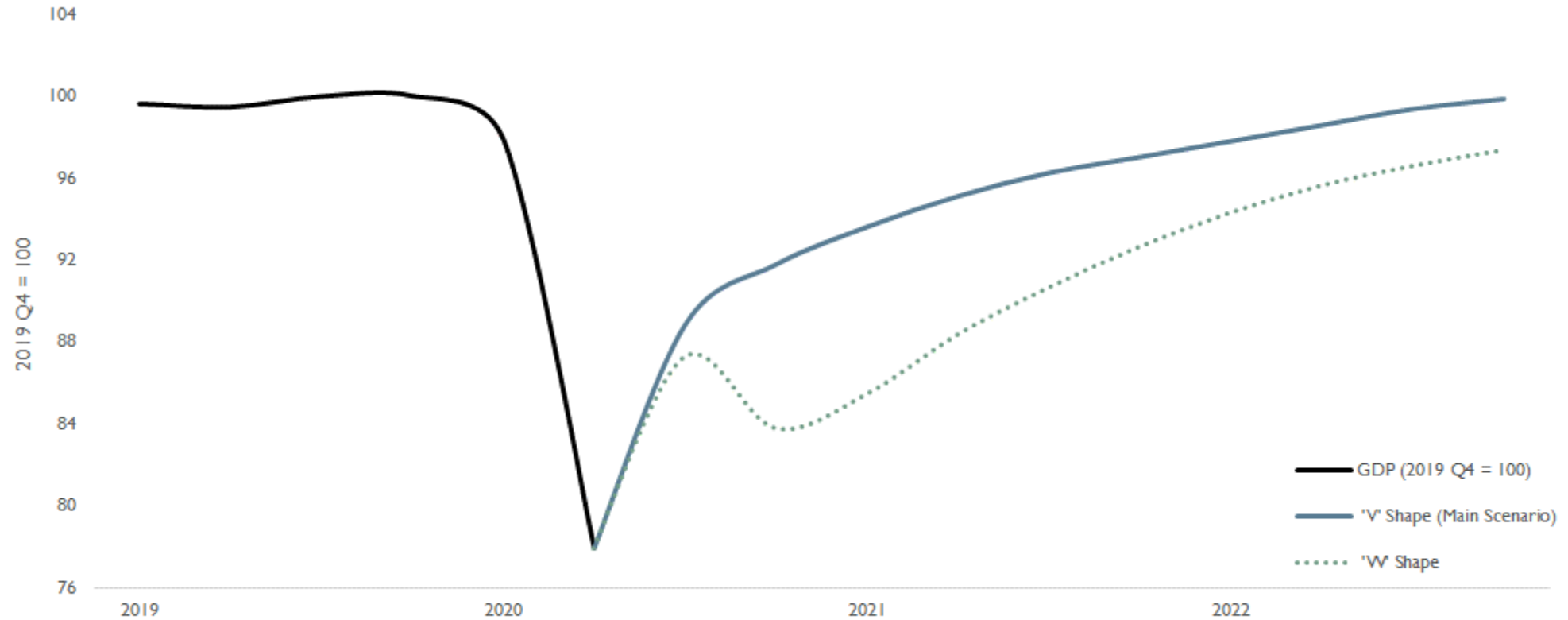
29 September 2020

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UK Economy

UK GDP Scenarios



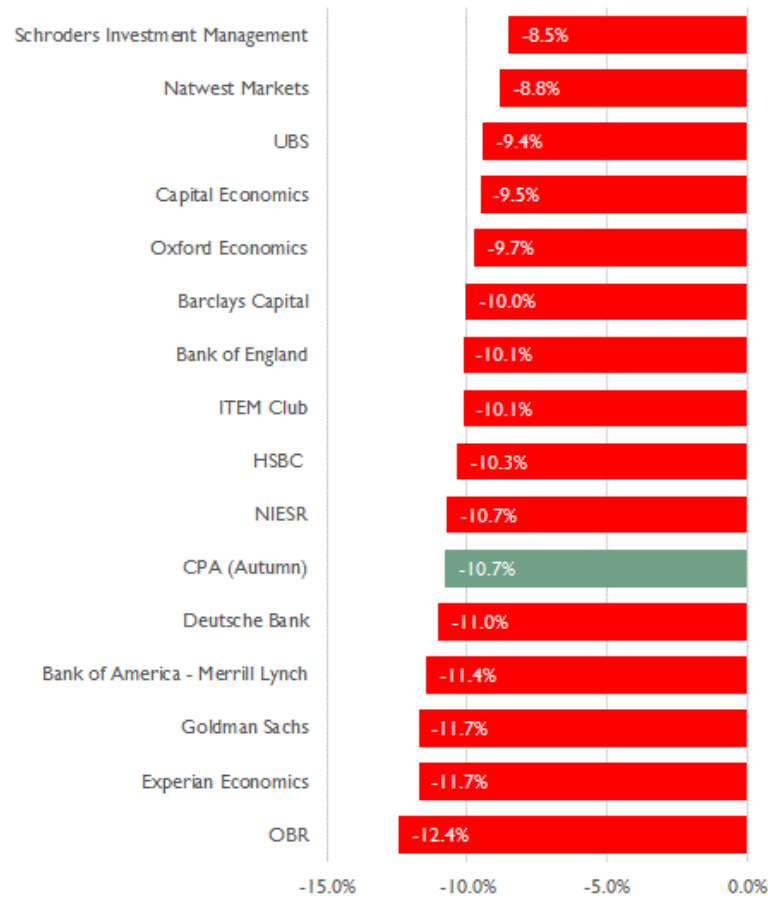
Source: ONS/CPA Estimates

V-shape; rapid recovery from a low base in June & Q3 before growth slows as unemployment rises after furloughing ends.

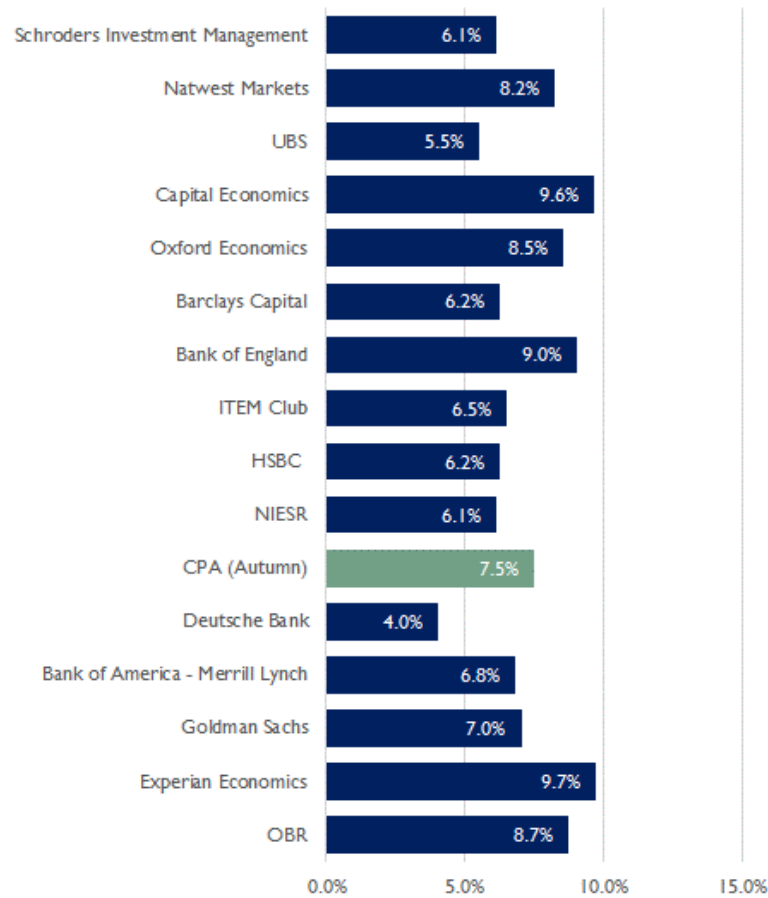
W-shape; recovery in June & Q3 before second wave, with colder weather, in the same strain before a vaccine or in a different strain leading to a nationwide lockdown. The lockdown has a higher degree of business continuity.

Latest UK Economic Forecasts & Scenarios

Expected Fall in UK GDP in 2020



Expected Rise in UK GDP in 2021



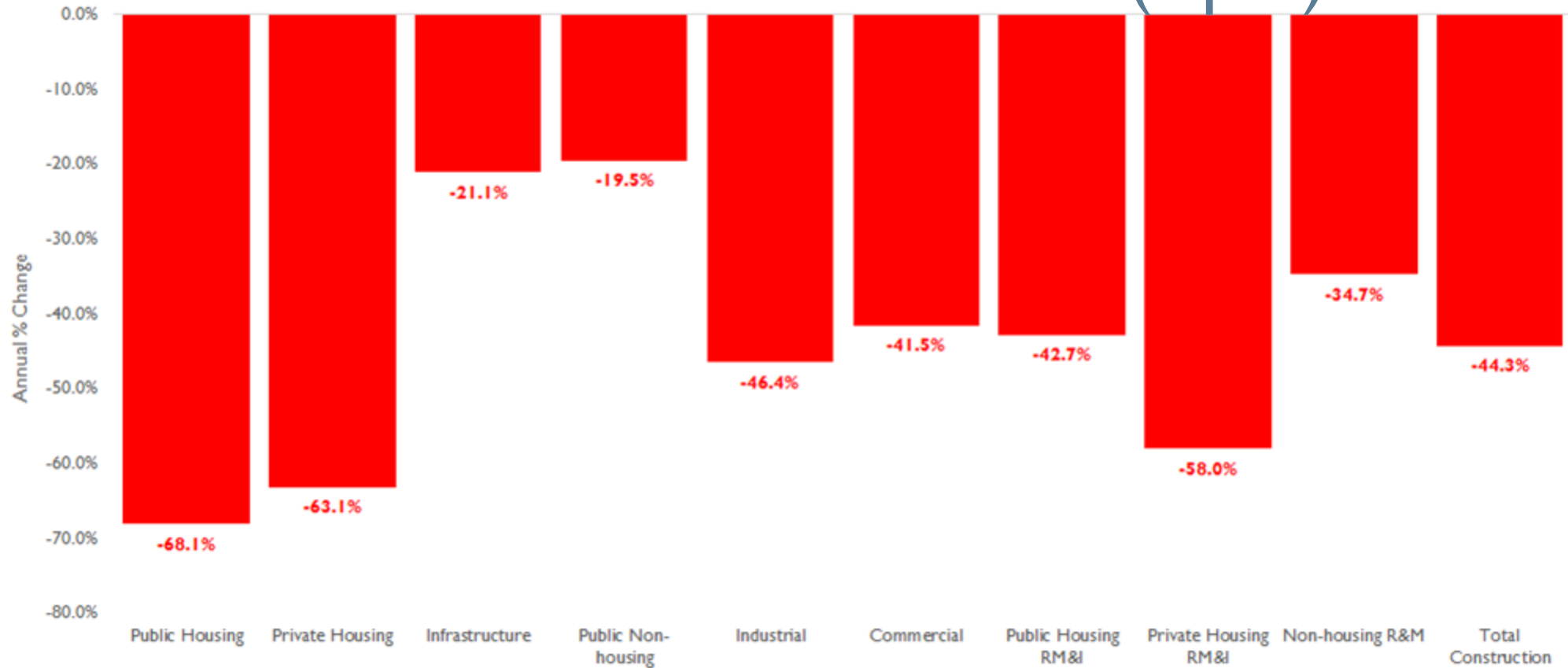
Source: HM Treasury, CPA

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The CPA main scenario anticipates GDP of -10.7% in 2020 & +7.5% in 2021. The most recent forecasts (last week) were from NIESR, which forecasts -10.1% in 2020, +6.1% in 2021 & return to 2019 levels only in 2023 & the EY ITEM Club, which forecasts -11.5% in 2020, +6.5% in 2021 & a return to 2019 levels only in 2024.

Construction

Construction in Lockdown (April)



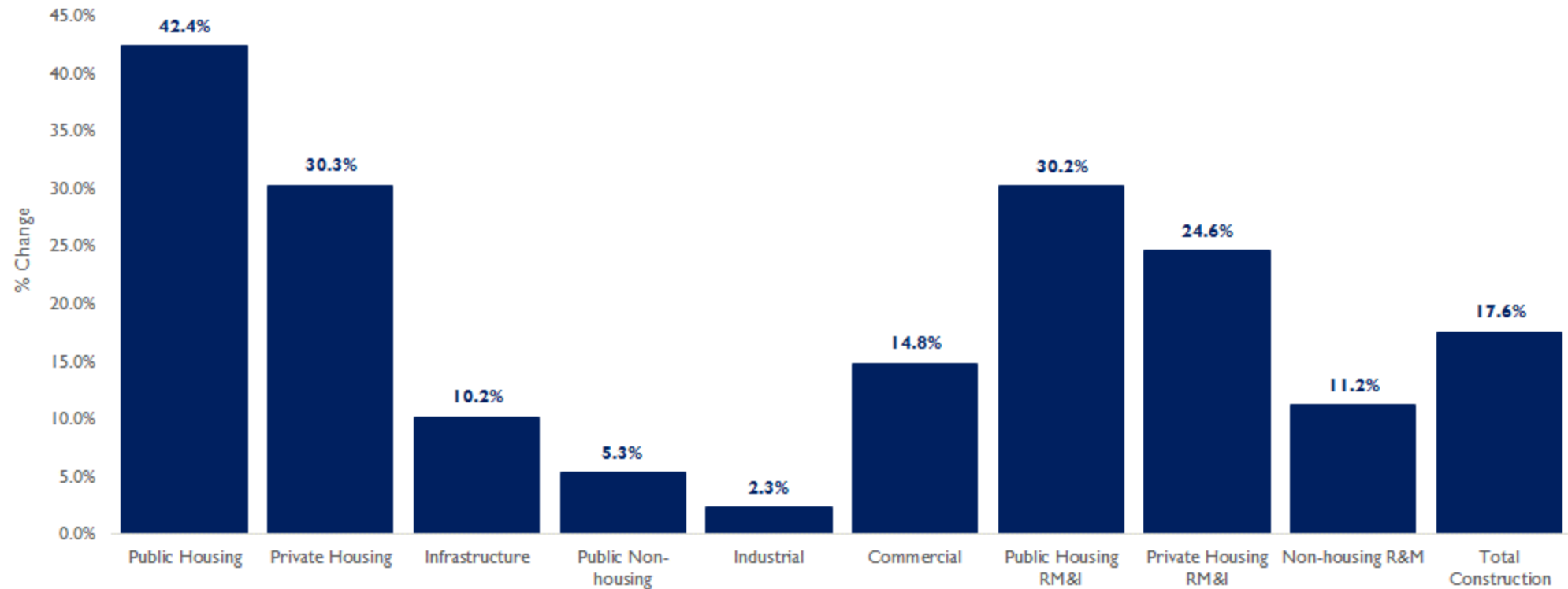
Source: ONS

Key Sectors:

- House Building – sites, sales offices & show homes shut in lockdown & many different trades operating in small spaces
- Commercial – Almost one-third of the UK commercial sector in Central London where it was difficult to operate safely
- RM&I – Social distancing a key issue but also products supply (most builders merchants were only partially open)

Construction Post-lockdown (July)

ONS Construction Output
(July 2020 vs June 2020)



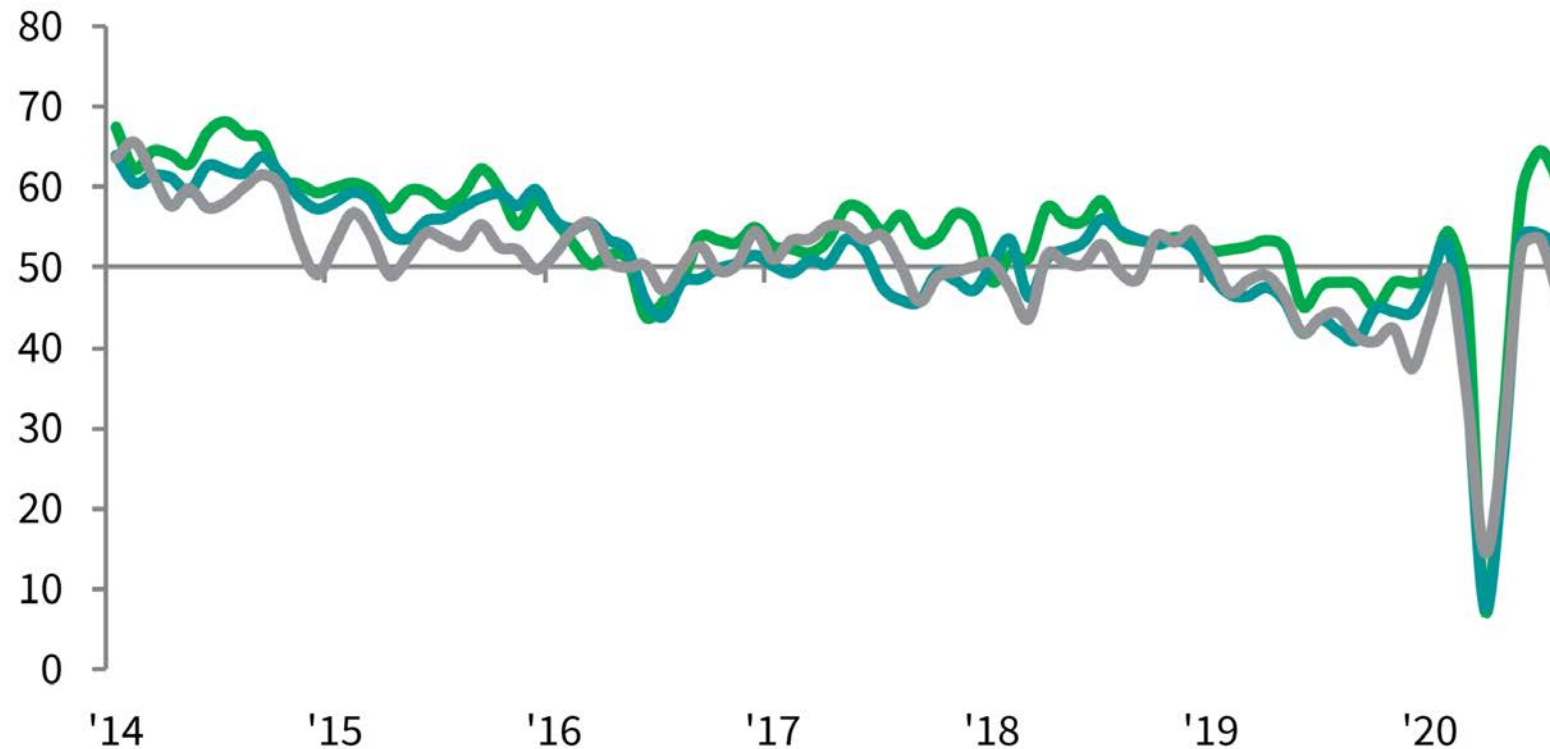
Source: ONS

Construction output in July was 17.6% higher than in June but still 12.8% lower than a year earlier as it recovers from the low levels of work in late March, April and May. Over half of the growth in construction output (55%) in July was driven by housing new build and rm&i but, given sharp falls in most sectors during the social distancing restrictions, output in July remained lower than a year ago in all sectors except infrastructure despite growth in June and July.

August IHS Markit/CIPS UK Construction

Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



The IHS Markit/CIPS UK and Construction PMI was 54.6 in August, down from 58.1 in July and the slower growth was attributed to uncertainty and a wait-and-see approach among clients limiting opportunities to secure new work. Residential continued to grow quickly whilst commercial slowed significantly and civil engineering activity fell.

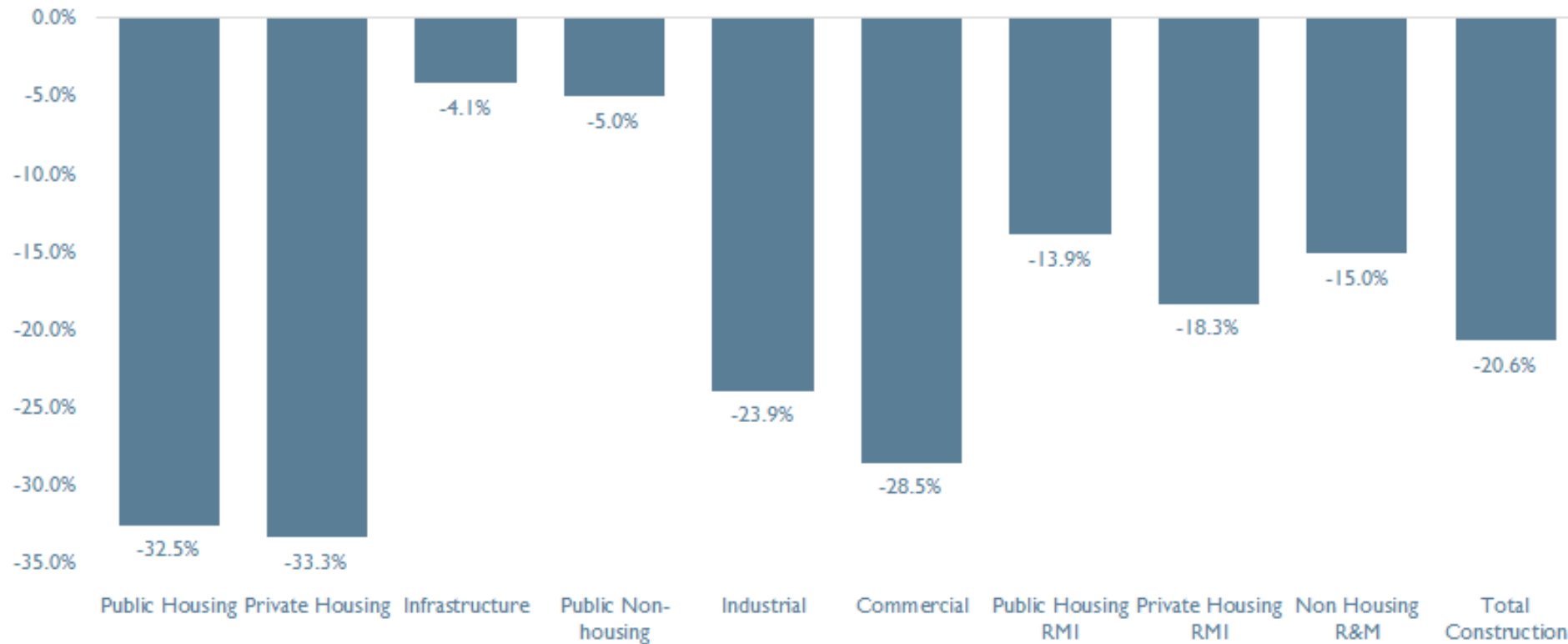
Recovery – Positives

- Activity appears to have got back on site quicker than anticipated & social distancing guidance on site isn't as strong as it was in April-May
- The furlough scheme has delayed sharp increases in unemployment so spending has partially recovered after social distancing restrictions eased
- Homeowners working from home has made it easier to undertake refurbishment projects & there is little sign of concern from them regarding having SME contractors in their home
- Housing policy – the Stamp Duty holiday (& Wales & Scotland equivalents) should boost housing demand until 31 March. The completion date for homes under the current Help to Buy extension to 28 February should prevent a drop off in completions during Q4
- Infrastructure – Clients with certain finance, a pipeline of major projects & frameworks
- Government policy – £1 billion for decarbonisation of public sector buildings & £2 billion for energy-efficient retrofit of the existing housing stock... but will it happen?

Recovery – Negatives

- Productivity on site is 10-15% lower so projects cost more and take longer but who will pay?
- We are increasingly hearing that main contractors and major house builders are asking specialists & sub-contractors to cut rates & cash flow is a big issues for many SMEs
- Anecdotally, some contractors reported activity slowed in the 2nd half of August although they were unsure if that was holidays, poor weather or the start of a slowdown
- After the initial flurry of activity restarting previously halted projects & pent-up demand, where will new demand for projects come from? Unemployment impacts?
- Long-term impacts on structurally changing work/spending patterns (where is the demand for new, additional commercial offices, retail & leisure space?) and households/firms may need to build in additional risk into spending/investment plans?
- Brexit uncertainty yet again – end of the implementation period is 31 December & we still do not know if there will be a Free Trade Agreement or ‘No Deal’ (a disorderly exit)

CPA Main Scenario Overall for 2020



Source: ONS/CPA Estimates

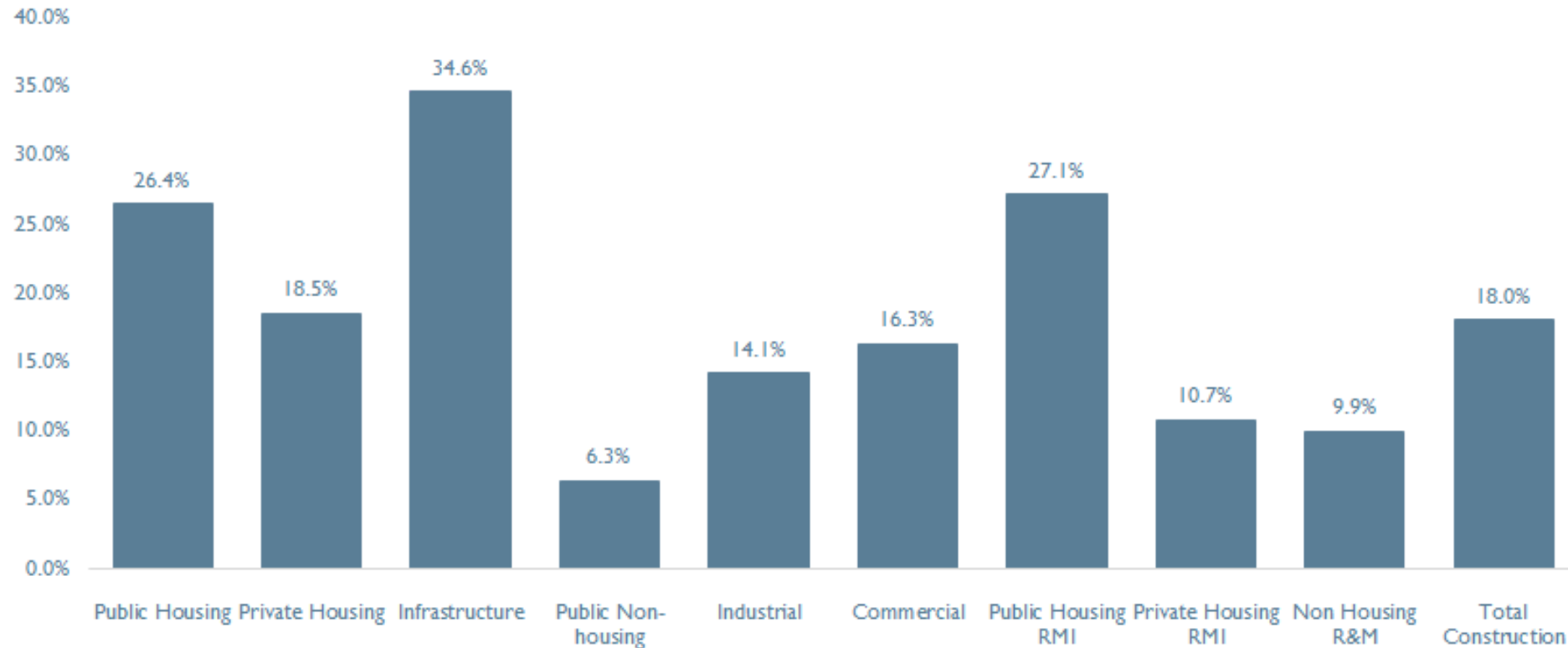
Key Sectors:

House Building – Recovering quickly from the low base in April but still a sharp fall overall this year

Commercial – Lower productivity means towers expected to finish in Q2 now finish in Q4 or 2020 Q1 & new projects?

Infrastructure – Activity on major projects and long-term frameworks with only minor disruption due to local authorities that lack resource & are focused on other areas such as social care

CPA Main Scenario Overall for 2021



Source: ONS/CPA Estimates

Key Sectors:

Housing – Government underpinning demand through stimulating the general housing market and new build in particular

Infrastructure – Government & regulated sectors underpinning demand plus HS2, the largest construction project in Europe

Public housing rm&i – Cladding remediation on high rise post-Grenfell Tower fire: £1 billion government funding allocated

Summary

- UK GDP forecast in the CPA main scenario anticipated to fall by 10.7% in 2020 but rise by 7.5% in 2021
- Construction activity has returned quicker than anticipated & productivity on site is less of an issue as social distancing has lessened on site but activity is still focused on completing developments (new work) or pent-up demand for refurbishments. What happens after?
- The main scenario for construction output has a 20.6% fall in 2020 and an 18.0% rise in 2021
- Key growth sectors in 2021 are infrastructure, public housing rm&i & house building
- Construction growth prospects heavily dependent on government projects, funding and policy stimulus
- **Key risks: Second Lockdown and Brexit**

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