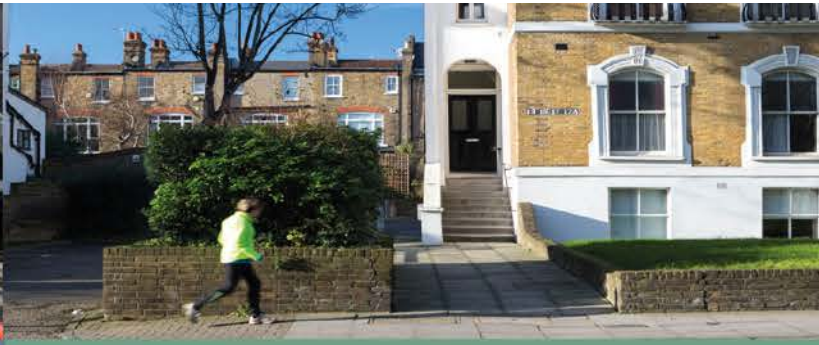


CPA Economics Webinar

1 June 2020



Noble Francis
Economics Director

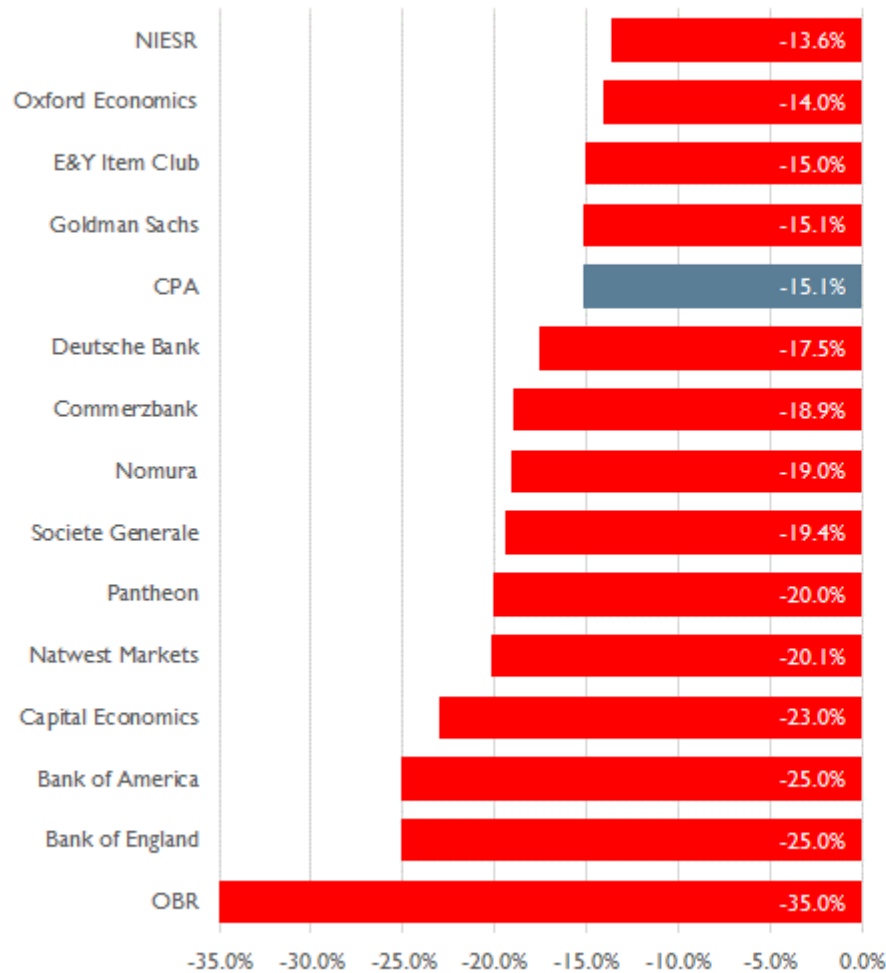
cpa | construction products
association



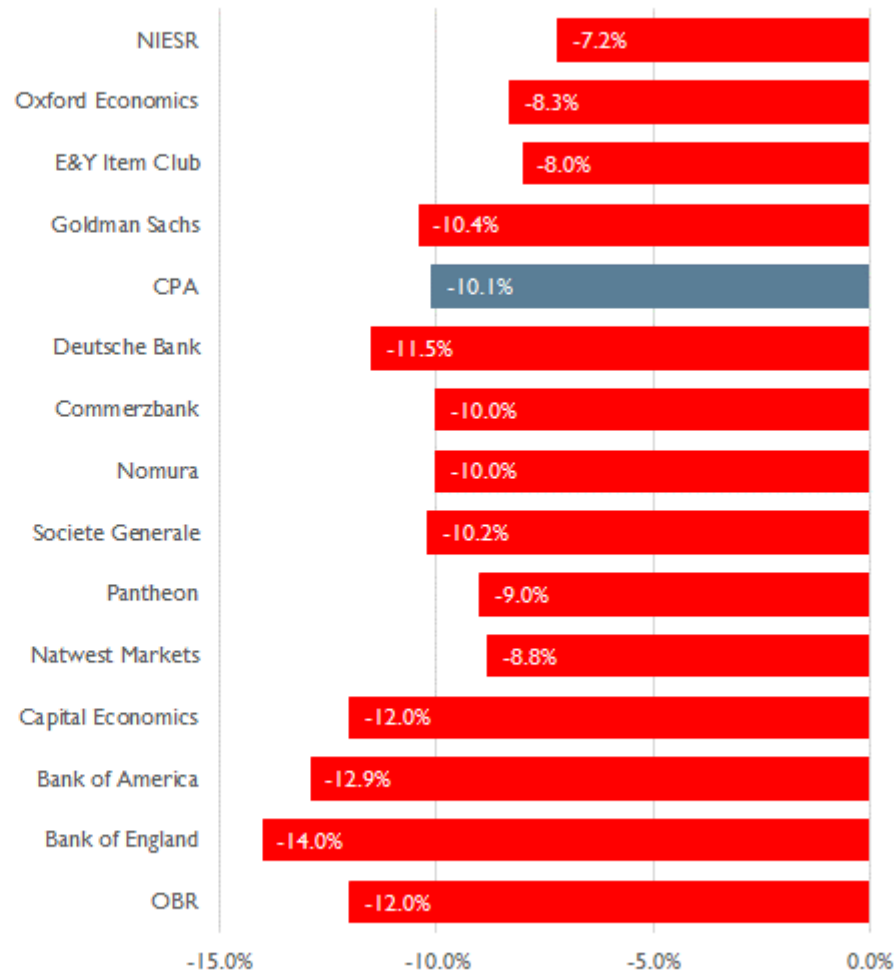
UK Economy

What is Going to Happen? Who Knows?

Expected Fall in UK GDP in 2020 Q2



Expected Fall in UK GDP in 2020



Source: HM Treasury

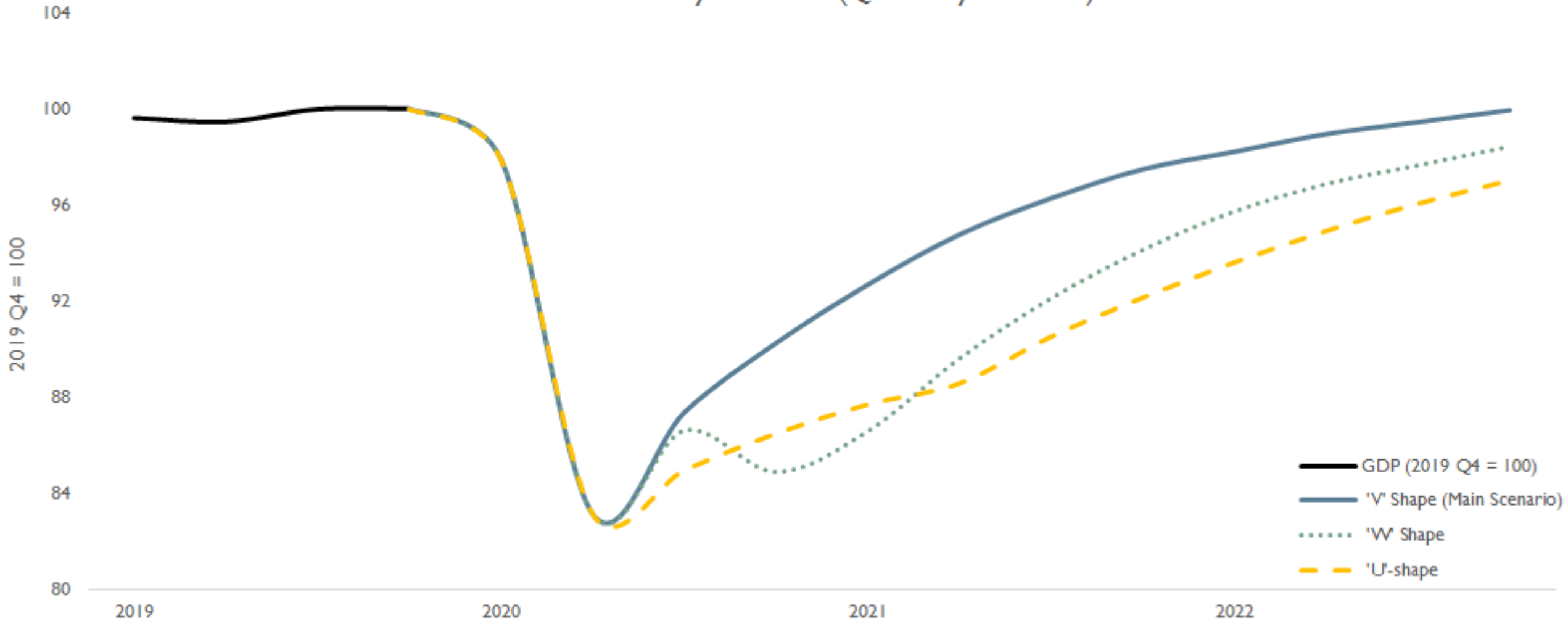
Source: HM Treasury

What Shape Recession and Recovery?

- Most forecasters are assuming the V-shaped
- V-shaped/Tick-shaped: Sharp decline in activity in March & Q2 and then recovery from June but a slower recovery
- U-shaped: Sharp decline in activity with only slow growth from June due to a cycle of easing and tightening social distancing restrictions due to further waves of COVID-19 until a vaccine is publicly available
- W-shaped: Sharp decline in March & Q2, recovery in Q3 and then a decline in Q4 if COVID-19 returns in the same strain without a vaccine or in a significantly different strain

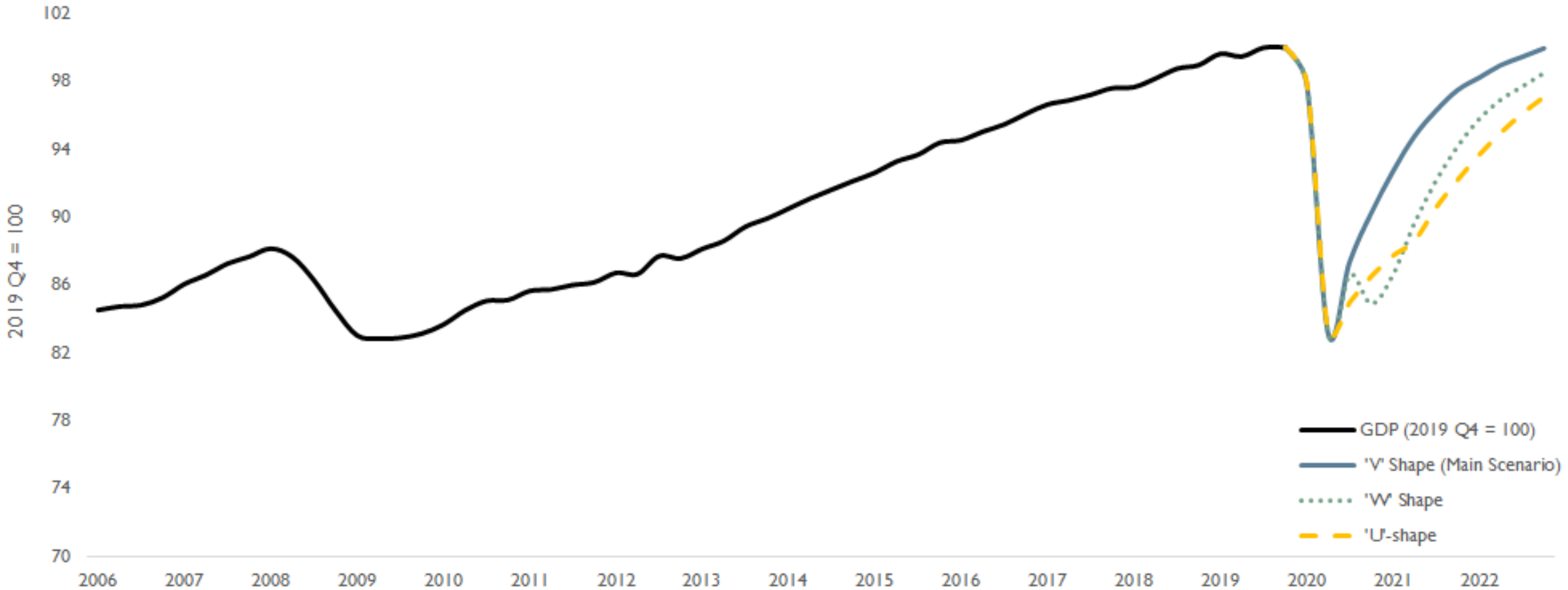
CPA Main Scenario

CPA UK Economy Scenarios (Quarterly UK GDP)



Long-term Context

CPA UK Economy Scenarios (Quarterly UK GDP)





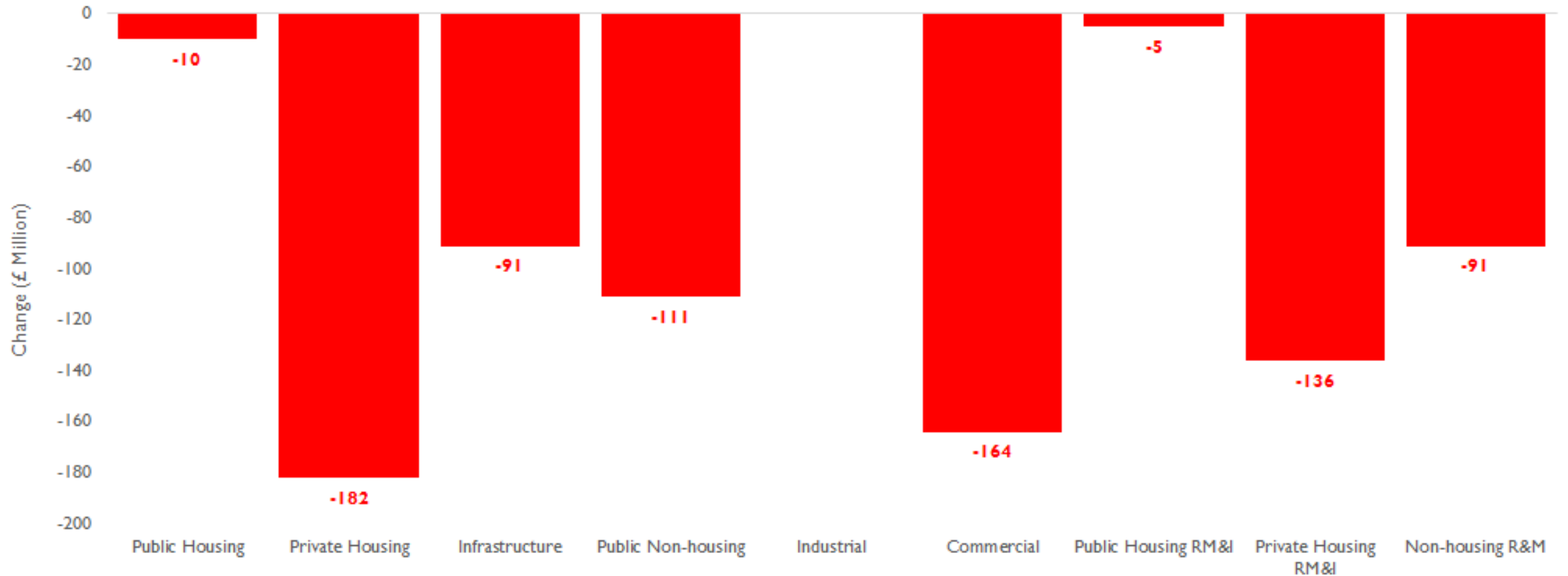
Construction Activity

What about Construction?

- Prior to the social distancing on 23 March construction activity was carrying on largely as per normal
- Work accelerated in early & mid March after the rain affected February
- Most major house builders shut down show homes, sales offices and construction sites after 23 March
- Housing improvements works have also largely stopped
- Most builders merchants shut on 24 March & as of 13 May only 23% fully open although 72% are partially open compared with 15% and 46% respectively two weeks ago

March Output

ONS Construction Output
(March 2020 vs February 2020)



Source: ONS

April PMI

Total Activity Index

sa, >50 = growth since previous month

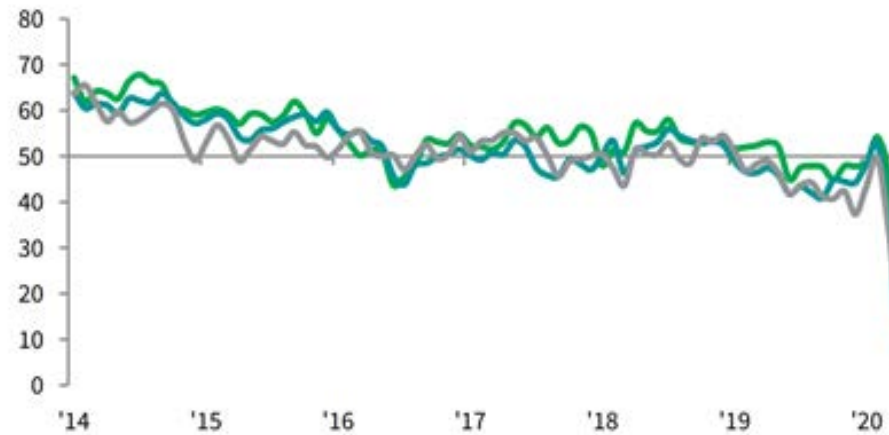


Source: IHS Markit / CIPS.

Activity Index by construction category

Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



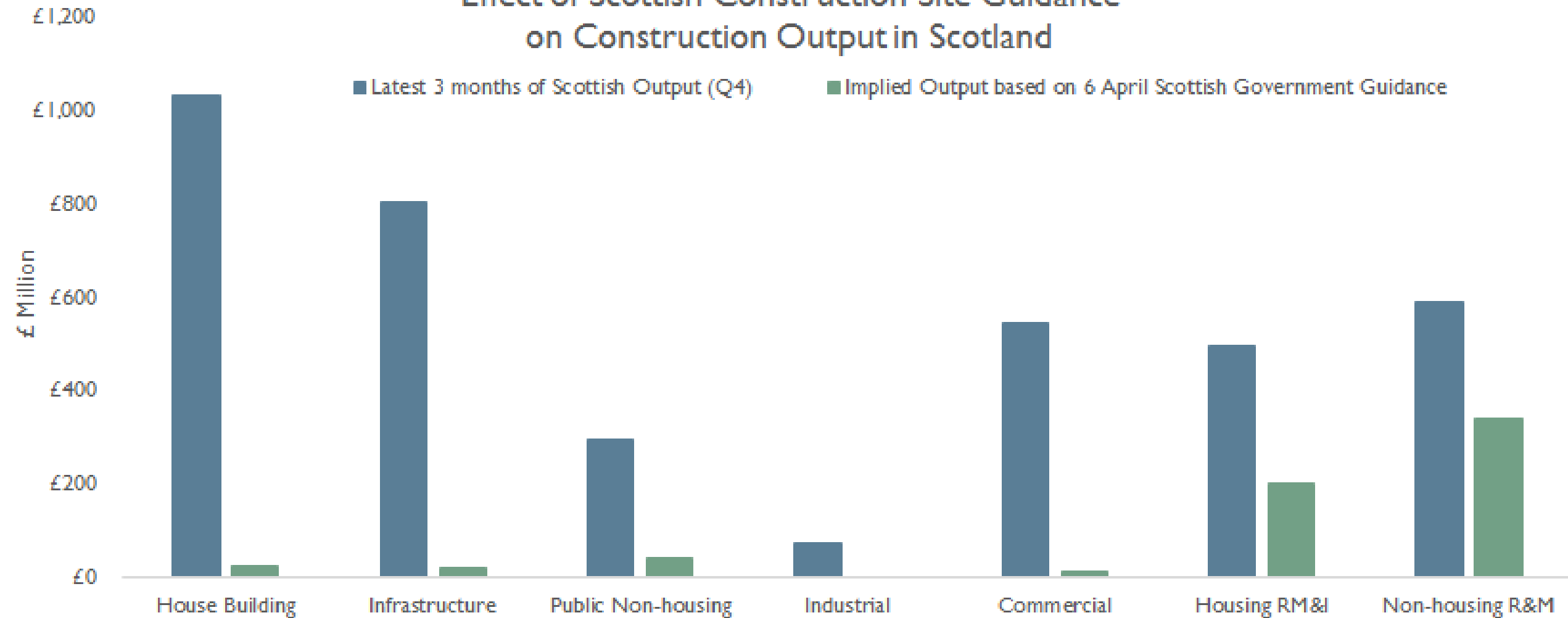
What Activity was Lost in April?

Anecdotally, the proportions of construction activity:

- 85% of house building
- 80% of commercial
- 60% of housing repair, maintenance and improvements
- 70% of Industrial
- 60% of infrastructure
- 40% of public sector (non-housing)

Scotland - A Special Case

Effect of Scottish Construction Site Guidance on Construction Output in Scotland



Source: ONS, CPA Estimates

Large Company Issues

- Large companies are better able to access to government policies
- Major housebuilders furloughed around 70-80% of their workforce
- Main contractors furloughed around 40% of their workforce
- Both housebuilders and contractors are furloughed employees back
- Main contractors are reopening sites selectively
- Major house builders reopening sites although the focus is on completions of halted developments not new starts

SME Issues

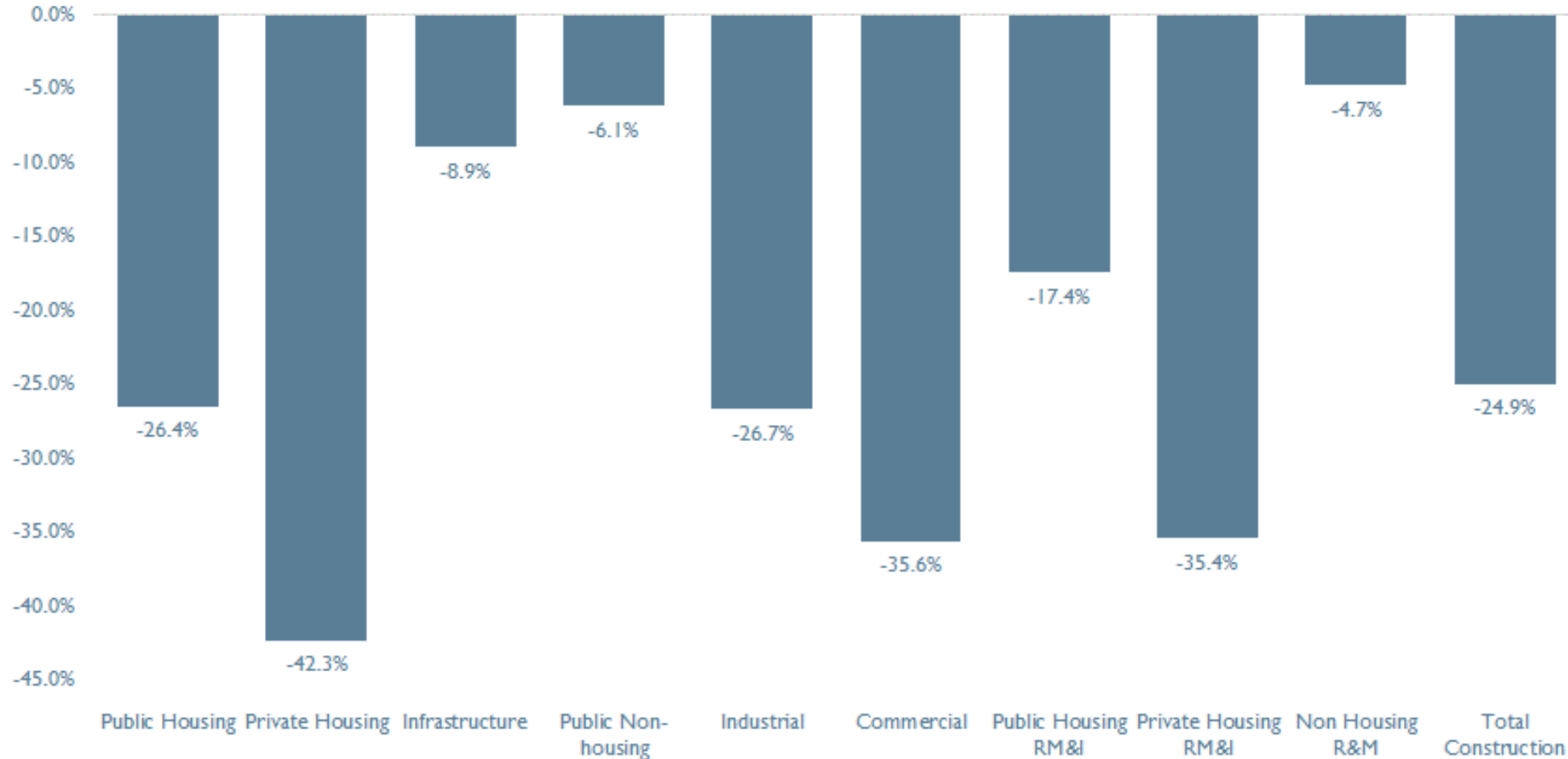
- The top 10 housebuilders employ 1 person for every 3 homes they build
- 86% of employment in construction is in SMEs
- Government announced loans to help SMEs but are the loans getting through? CBILS don't appear to be whilst Bounce Back Loans are
- SME issues may be particularly affected in May and June as demand fell in late March & April combined with delayed payment from main contractors
- Trade Credit Insurance (TCI) may become a big issue. Government has announced it will back TCI 100% but no details of the scheme

What does Recovery look like?

- Anecdotally, productivity on site is 30-40% lower due to SOP so existing projects will cost more and take longer. Who will pay?
- After the initial flurry of activity restarting previously halted projects, where will demand for new projects come from?
- Short-term impacts from unemployment rises initially (& post furlough)?
- Long-term impacts on structurally changing work/spending patterns and households/firms building in additional risk into spending/investment?

Main Construction Scenario

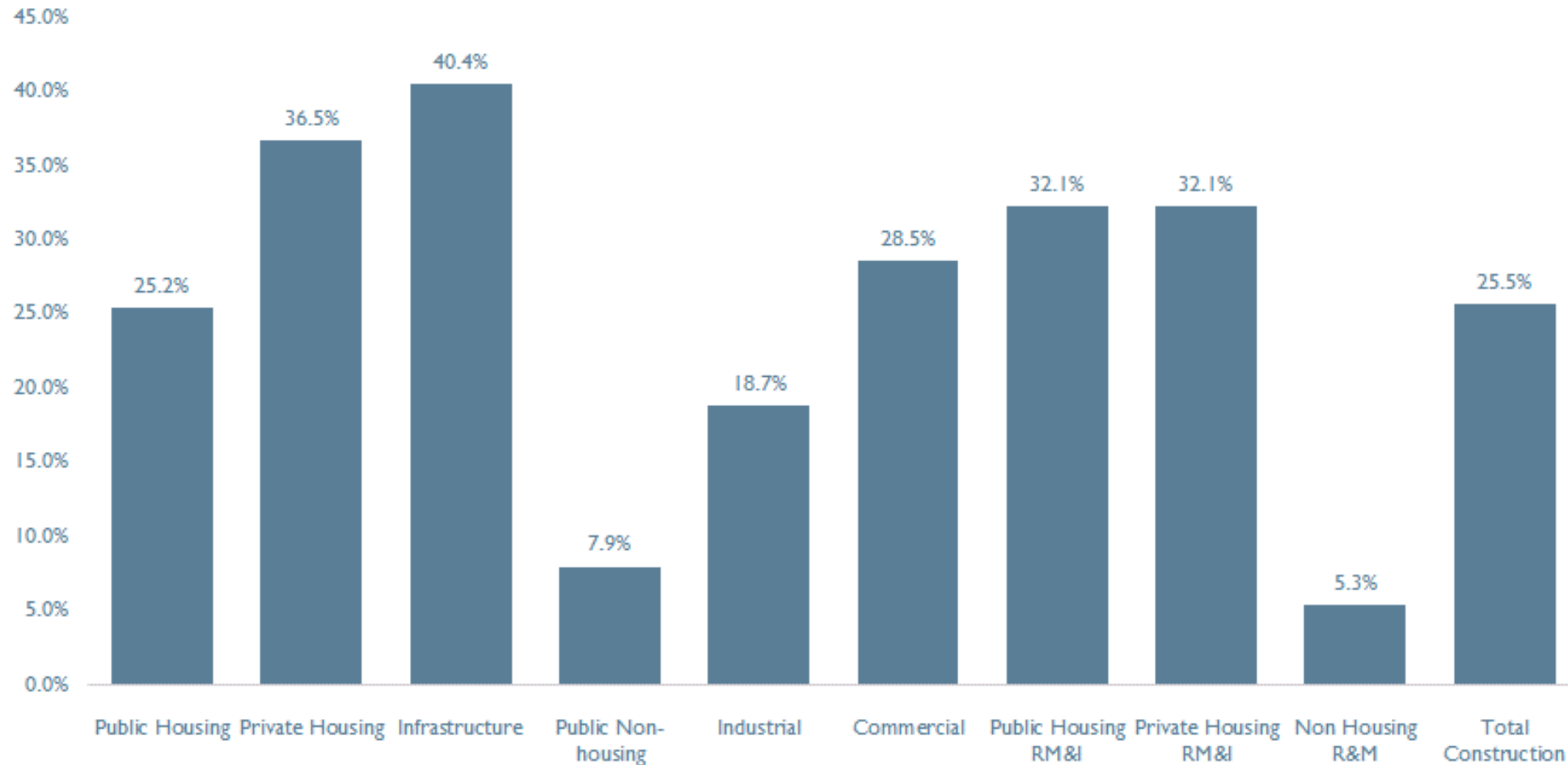
Construction Output for 2020 - Main Scenario



Source: ONS, CPA Estimates

Main Construction Scenario

Construction Output for 2021 - Main Scenario



Source: ONS, CPA Estimates



Any Questions?

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