

Covid-19 Scenarios – 25 September 2020

Noble Francis

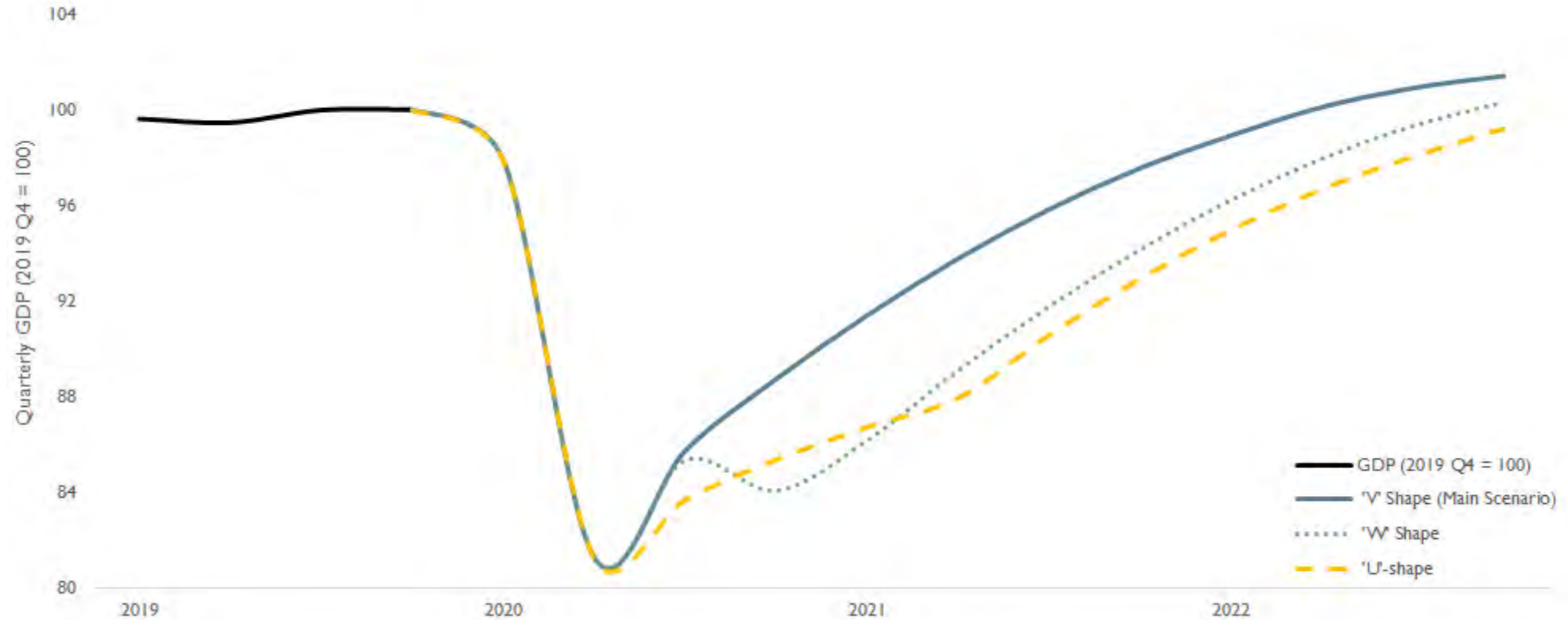
Economics Director – CPA

Honorary Professor – UCL Bartlett CPM



UK Economy

CPA Economic Scenarios



Source: ONS/CPA Estimates

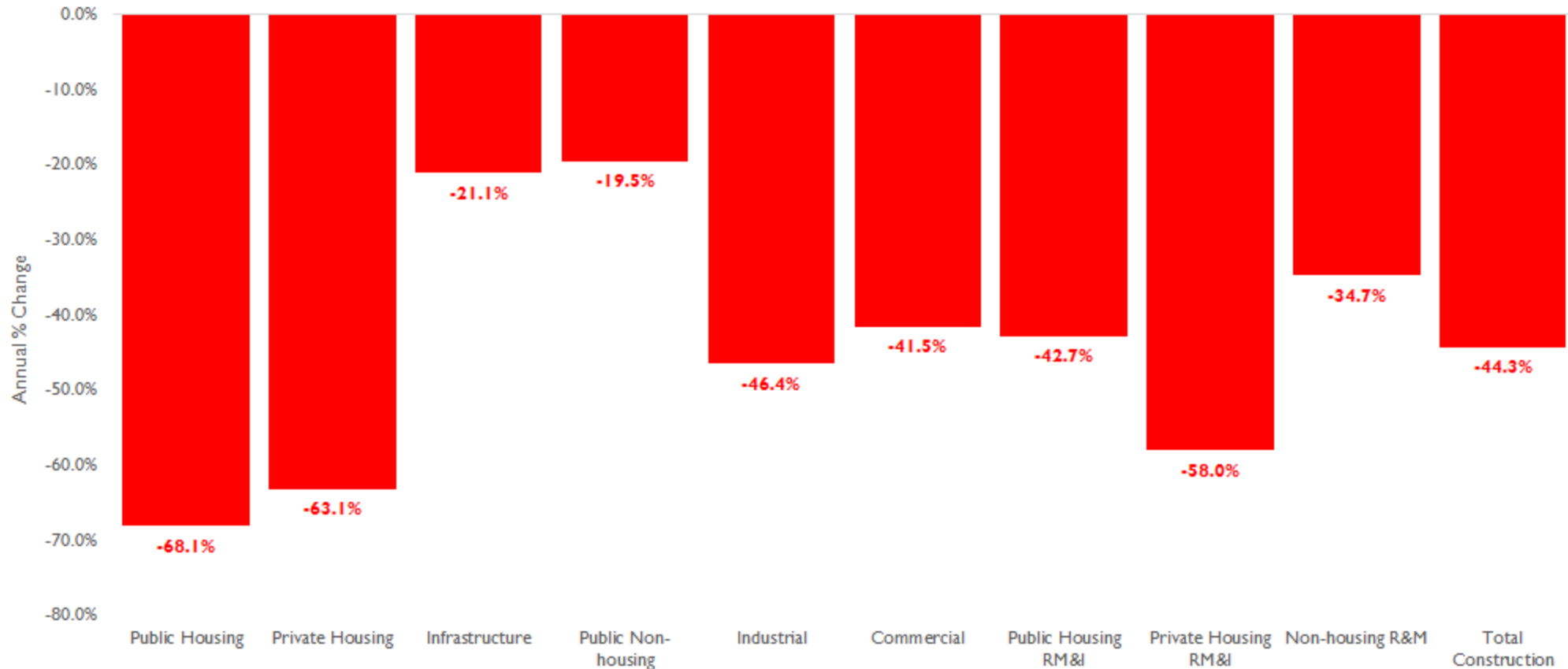
V-shape; rapid recovery from a low base in June & Q3 before growth rates slow.

U-shape; cycles of easing restrictions, further waves, local lockdowns then easing of restrictions... until a publicly-available vaccine in 2021. Local lockdowns have a higher degree of business continuity than in March-May.

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.

Construction

Construction Output in Lockdown



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

Infrastructure – least affected sector due to large sites where it is easier to operate safely & certainty of demand

Recovery – Positives

- Activity returned to site quickly & productivity is now less of an issue
- 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 – Stamp Duty (tax on home sales) holiday boosts housing demand until 31 March. 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

Government Assistance for UK Construction

'Build build build': Prime Minister announces New Deal for Britain

Prime Minister Boris Johnson will announce a "New Deal" which puts jobs and infrastructure at the centre of the government's economic growth strategy.

Published 30 June 2020
From: [Prime Minister's Office, 10 Downing Street](#)



- Prime Minister promises "New Deal" which delivers jobs, skills and infrastructure for Britain



Analysis of the National Infrastructure and Construction Procurement Pipeline 2020/21

June 2020

Roadmap to Recovery

An Industry Recovery Plan for the UK Construction Sector

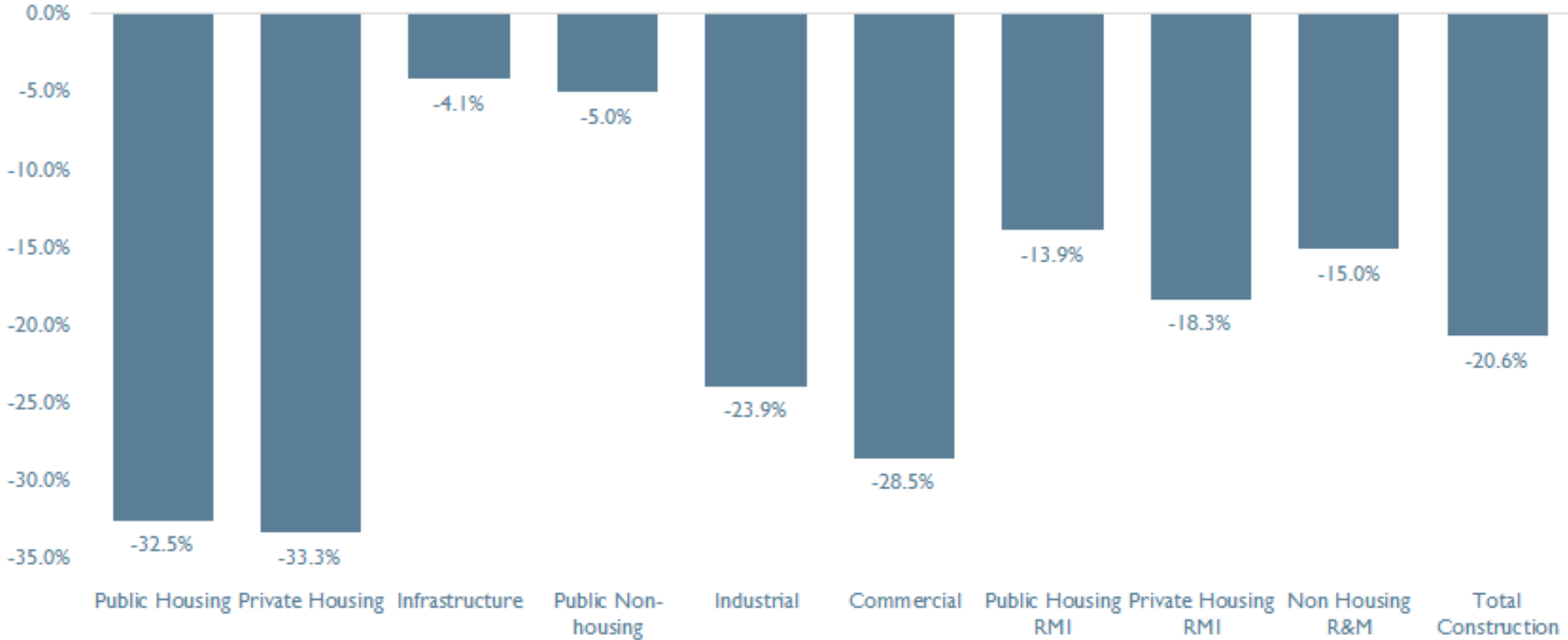


Construction Leadership Council

Recovery – Negatives

- Productivity on site is still 10-15% lower due to social distancing and other safety measures so existing projects cost more and take longer. Who will pay?
- Main contractors and major house builders are asking specialists & sub-contractors to cut rates & cash flow is a big issues for many SMEs
- After the initial flurry of activity restarting previously halted projects & pent-up demand, where will new demand for projects come from?
- Short-term impacts from unemployment rises after furloughing ends?
- 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 for 2020 (Summer)

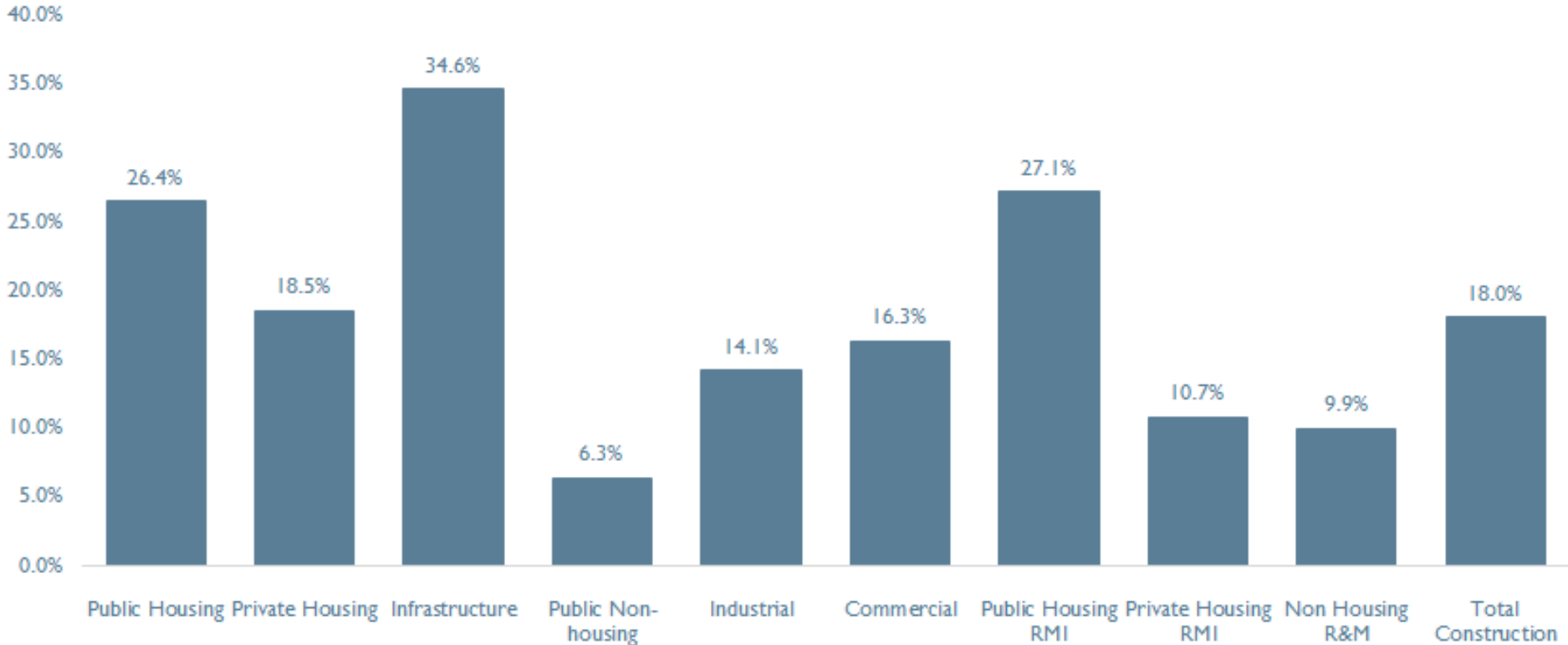


Source: ONS/CPA Estimates

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 for 2021 (Summer)



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 11.4% in 2020 but rise by 7.0% in 2021
- Construction activity has returned quickly to site & productivity 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 (refurbishments). What happens after this?
- The main scenario for construction output has construction output falling 20.6% in 2020 but rising 18.0% in 2021 but output only recovers to pre-Covid-19 2019 levels in 2022
- Key growth sectors in 2021 are infrastructure, public housing rm&i & house building
- Two key risks (potentially both in 2020 Q4) – Second lockdown & ‘No Deal’ Brexit

For Further Information Contact:

Email Noble.francis@constructionproducts.org.uk

Twitter [@noblefrancis](https://twitter.com/noblefrancis)
