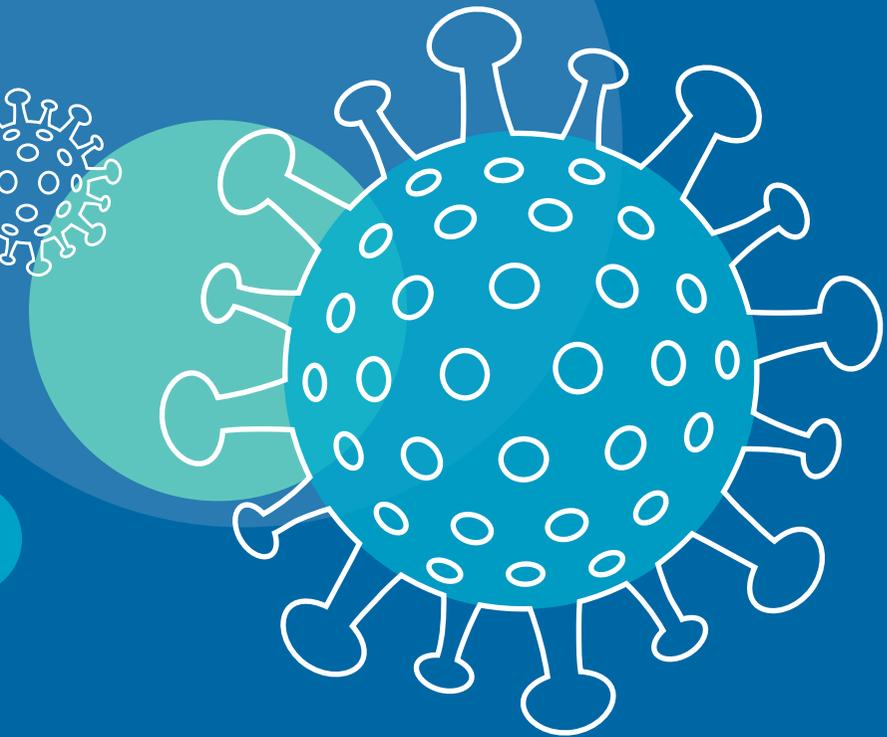




COVID-19

Impact on Supply Chain



Executive summary

For week commencing 26 May 2020

Around 200 countries have now been affected by Covid-19 with more than 5.5 million cases confirmed worldwide, circa 346,000 deaths and circa 2.2 million recoveries. Brazil now has the highest number of average daily deaths outside the US and the health crisis is shifting from Western Europe and North America to Latin America.

The FTSE 100 has been trading above 6,000-point mark since last week. The unemployment rate in the three months to March 2020 was announced at 3.9% and the inflation for April 2020 (12-month rate) at 0.9%¹. The unemployment rate does not yet reflect the impact of COVID-19 and the figure is expected to increase dramatically. About 7.5 million jobs are supported by the furlough scheme². While the inflation rate remains positive, it is falling away from the 2% target.

The Markit/CIPS Flash UK Composite PMI³ was released on Thursday. All the indexes are up for May 2020 compared to April 2020 but remain under the 50 point mark. The Flash UK Composite Output Index has increased to 28.9 from 13.8 in April with companies reporting a decline in new works and contracts.

The main supply chain risks remain:

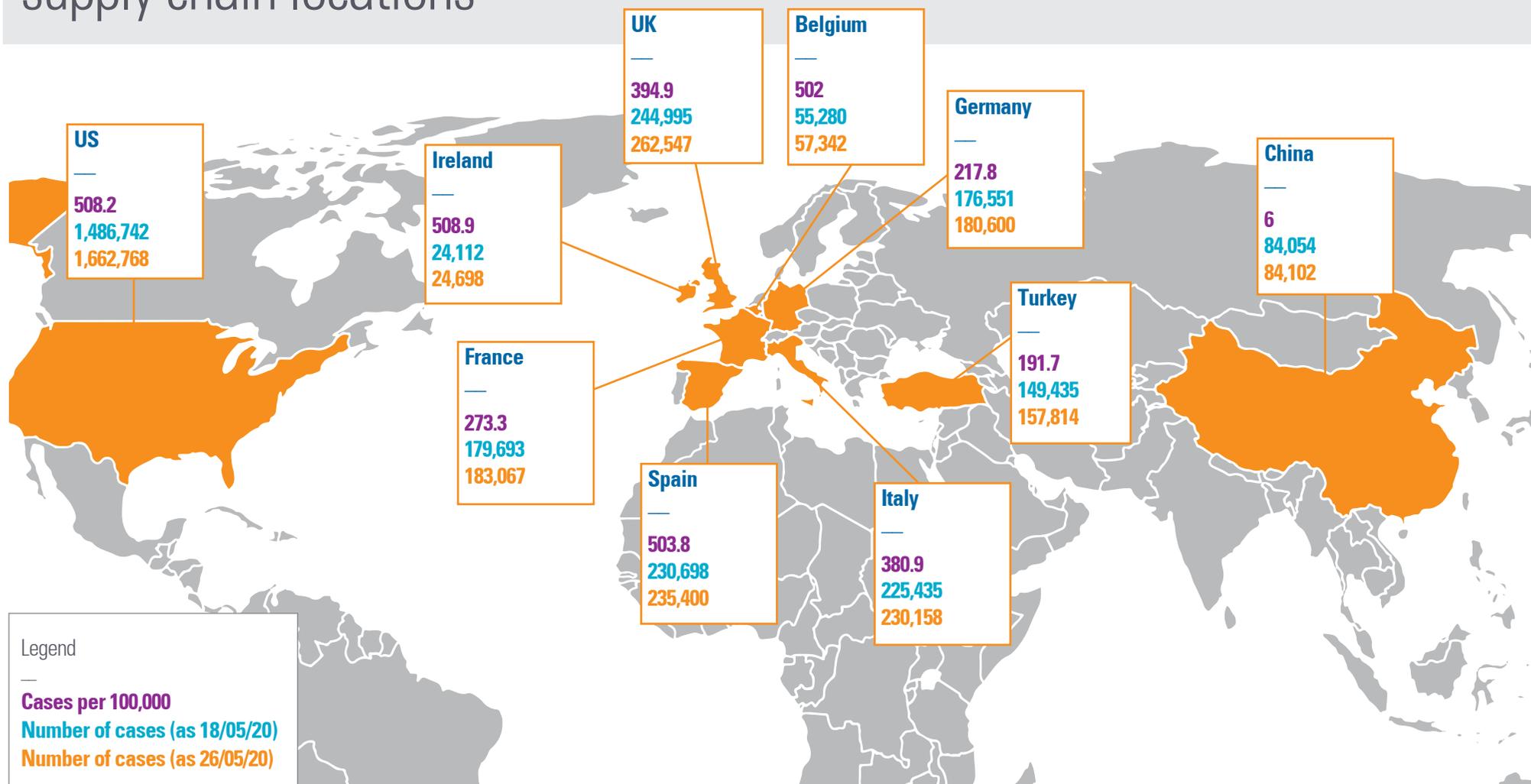
- » Insolvency in the supply chain
- » Disruption to supply chain logistics and transportation
- » Shortages and delays to delivery of materials due to reduce stocks availability
- » Reduced labour resources on site (employees, agency staff or subcontractor staff)

¹ <https://www.ons.gov.uk/>

² <https://www.theguardian.com/politics/2020/may/23/uk-firms-to-be-asked-to-pay-part-of-furloughed-staffs-wages-from-august>

³ <https://www.markiteconomics.com/Public/Home/PressRelease/c2c5efa8283e40a4b780ff8f45d9c9e2>

Impacted countries – supply chain locations⁴



For more information on the impact of Covid-19 per country, please refer to Financial Times article from 26/05/2020, here.

⁴ <https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138>

Impact by markets

Quarry products and surfacing – no change since 19/05

- » Our quarry and surfacing supply chain partners are operating between 30% (ready-mix & concrete) and 80% (aggregates & asphalt and contracting) capacity across UK, with geographical variations depending on customer demand.
- » Our supply chain has established a 'Critical Network' of assets with the purpose of providing access to materials across UK.
- » Forecasts for return to pre Covid-19 volumes are fluid; currently ranging from Q4 2020 to Q2 2021.
- » It is critical that Balfour Beatty shares project needs. This will enable the supply chain to help manage their assets.

Subcontractors – updated 19/05

- » Concerns have been raised across the industry regarding the medium to long term impact on subcontractors. SME are particularly at risks of bankruptcy however Government funds have started to be released but this still remains a risk.
- » There is potential to have supply issues in earth-moving sub-contracts towards 2021 due to high profile work (HS2) taking capacity in plant operatives and earthwork supervisors specifically.
- » Currently there are no capacity issues in the market.

Steel Reinforcement – no change since 19/05

- » Demand is down c. 80% and new business is down c. 90%. Current framework rate for Cut & Bent reduced to £480 from £500 per tonne, as a result of normal winter down-turn exacerbated by Covid-19 lockdown.
- » Prefabricated supply chain is fully operational with lead times between 15 to 20 working days. Overall demand is down by c. 60%.
- » Supply chain expects to see an influx of delayed projects starts along with planned projects in 2020. This will likely result in significant price increases of c. 15 to c. 20%.

Building Fabric and Envelope – updated 26/05

- » Key Drylining manufacturers are open on a reduced capacity and in line with anticipated demand and government guidelines. Some suppliers have increased product stock and distribution capacity as of this week 26/05.
- » Drylining and insulation distributors continue to operate at reduced capacity however more branches are opening steadily as demand increases. Distributors are committed to prioritising supply to critical projects and deliver to non-critical sites where capacity and availability of materials allow. For plasterboard and plaster, distributors describe that allocation has increased from the previous week. There are extended lead times for various insulation product.
- » Timber material suppliers continue to run at a reduced number of branches open across the UK.. Direct contact by phone or email is required with national sales teams or local branches prior to placing orders on a delivery only basis. PEFC or FSC wood specifications sources are available through select building merchants.
- » Aluminium curtain walling, windows and door profile manufacturers continue to operate and supply materials; some at a reduced capacity. Minimal impacts to projects are expected as manufacturers have good levels of stock (built up for Brexit) and continue to supply operating fabricating subcontractors.

PPE and hygiene products – no change since 19/05

- » PPE and hygiene products have been impacted by the requirement to support the NHS. Certain dusk masks such as FFP2 are easier to secure although guidance is to continue to social distance 2 metres.
- » Face coverings are now advised for working in enclosed spaces where social distancing is not possible. Face coverings can be made at home. Made from cloth, they cover the nose and mouth, and are intended to protect others against inadvertent transmission of the virus from coughing or sneezing – not the user.

Building merchants – updated 26/05

- » Our strategic building merchants are operating a reduced capacity and service at between 20% to 50% capacity across UK. Overall market demand mirrors this capacity.
- » Civils & Merchants supply chain is slowly de-furloughing staff and increasing production.

Labour – updated 26/05

- » Government payments of furlough pay is running smoothly.
- » Projects are starting to open across the industry and focus has been on enabling projects with health and safety rigour
- » Key vendors are requesting timeline information of projects re-opening to source the right labour at the right time due to market demand.

M, E & P – updated 26/05

- » The MEP supply chain is slowly de-furloughing staff and increasing production as the focus moves away from 'only essential projects' with more sites recommencing work.
- » Stock levels in Wholesalers remains very good. Sales staff continue to work from home using IT to process orders and call on customers.

FM, Plant & Fleet – no change since 19/05

Plant – The plant industry continues to operate and support the industry.

Fuel – Brent Crude Oil rose slightly week on week and is now sitting at \$32 per barrel.