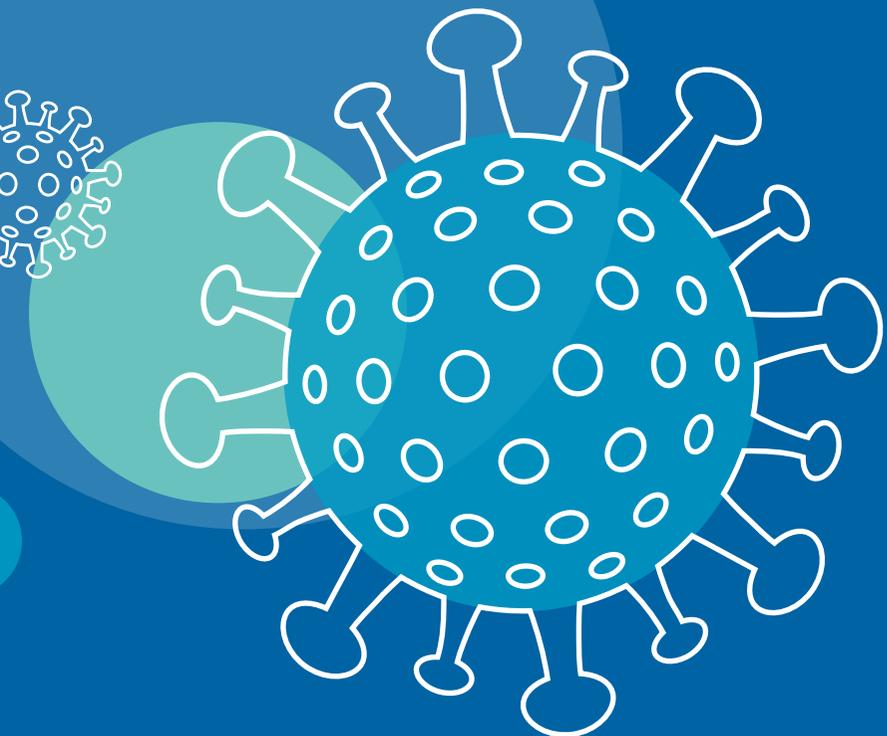




# COVID-19

## Impact on Supply Chain



## Executive summary

For week commencing 20 July 2020

14.5 million cases of COVID-19 have been confirmed worldwide, circa 606,000 deaths and circa 8.1 million recoveries. The number of new cases ratio per 100,000 remains high in the US, Brazil, South Africa, Saudi Arabia and Sweden.

The UK GDP grew by 1.8% in May 2020 compared to April, with the construction sector seeing an increase of 8.2%<sup>1</sup>. The economy shrank by 19.1% in the previous three-month period (March to May 2020) compared to the previous December to February. In that period, the construction sector GDP reduced by 29.8% contributing to 1.83% in the overall reduction of GDP. The Chinese GDP grew by 3.2% in the second quarter of 2020 following a record regression in the first quarter (-6.8%).<sup>2</sup>

According to the Office of National Statistics, the UK unemployment rate remains at 3.9% in the three months to May 2020<sup>3</sup>. Due to the governmental schemes to protect employment, the rate is not a true reflection of the impact of COVID-19 on the labour market condition. The number of people in work in the UK fell by 126,000 in the three months to May 2020. Between March to May 2019 and March to May 2020, the total actual weekly hours worked in the UK decreased by 16.7%. For April to June 2020, the number of vacancies in the UK have dropped by 59.9% compared to a year ago.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate stabilised at 0.8% in June 2020, compared to 0.7% in May 2020.<sup>4</sup>

OPEC+ agreed last week to reduce the supply cuts of 9.7 million barrels per day by 2 million barrels per day starting in August until December, as the economy slowly recovers.<sup>5</sup>

### The main supply chain risks remain:

- » Insolvency in the supply chain (high)
- » 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)

<sup>1</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2020>

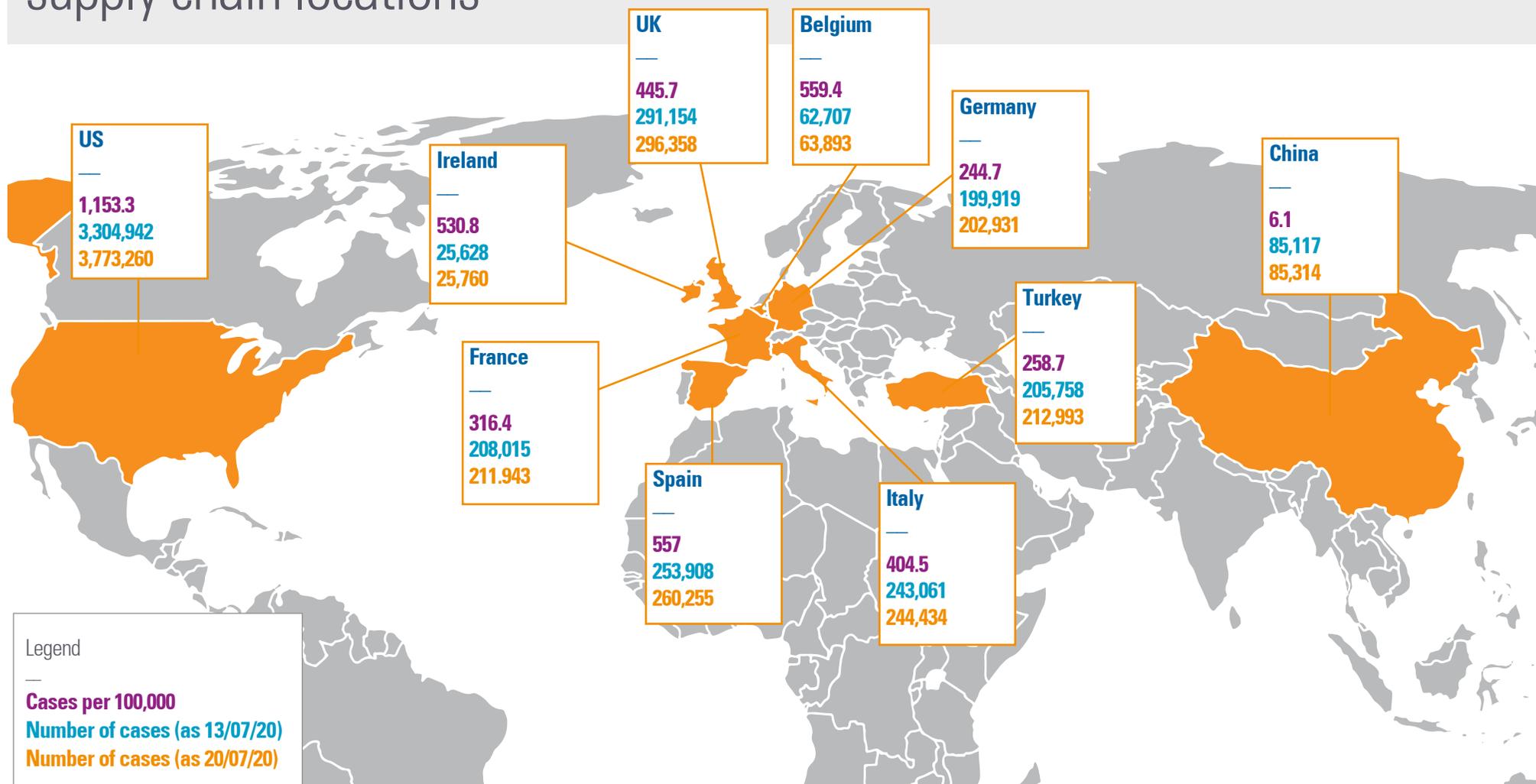
<sup>2</sup> <https://www.bbc.co.uk/news/business-53399999>

<sup>3</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest#hours-worked>

<sup>4</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest>

<sup>5</sup> <https://www.reuters.com/article/us-oil-opec/opec-eases-record-oil-cuts-as-economy-recovers-from-pandemic-idUSKCN24G0YY>

# Impacted countries – supply chain locations<sup>6</sup>



For more information on the impact of Covid-19 per country, please refer to Financial Times article from 20/07/2020, here.

<sup>6</sup><https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138>

## Impact by markets

### **Steel Reinforcement** – updated 20/07

- » Current framework rate for Cut & Bent reduced to £468 per tonne.
- » Market activity was low for Q2 2020; very few projects started and supply chain competed aggressively to secure available work.
- » Early signs for July are positive with the market showing signs of recovery. Intelligence is that demand will not recover completely until 2021.
- » With HS2 on the horizon and impetus from various government initiatives offering a stimulus to the construction market, it is expected that steel price will start to increase as this work hits market.
- » There is also a concern that as the Brexit deadline approaches there is still no clarity on how this will impact the import of steel. If there is a delay or limits to imports, this will likely further increase costs.
- » The new EU steel import quotas were released 1st July. A significant difference from previous quotas is that the new year will be managed quarterly rather than annually.
- » This increases risk associated with additional 25% tariff as result of 'used' quota.

### **Quarry products and surfacing** – updated 20/07

- » Our quarry and surfacing supply chain partners are now operating between 60% (ready-mix & concrete) and 85% (aggregates & asphalt and contracting) capacity across UK, with geographical variations depending on customer demand.
- » Supply chain has established a 'Critical Network' of assets with the purpose of providing materials across UK. All major quarries are now operating at 100%.
- » Forecast for return to pre Covid-19 volumes is optimistic.
- » As a result, key non-operational staff are returning to work from furlough; c. 80% have returned to work.
- » Tendering activity remained high in H1 2020. Infrastructure has operated at c. 80% of expected outputs. Building sectors are significantly impacted & market sentiment suggests up to 3-year recovery period.

### **Labour** – updated 20/07

- » Government payments of furlough pay are running smoothly.
- » Engaging key labour suppliers to understand impact of the new VISA scheme post-Brexit.
- » Labour only agencies are working to ensure the on-going safety of all provided staff to maintain site productivity and access to labour.

**Building Fabric and Envelope** – no update since 13/07

- » Key Drylining manufacturers are open on a reduced capacity and in line with anticipated demand and government guidelines. Manufacturers have increased product stock and distribution capacity. .
- » 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 confirm that material allocation is increasing weekly. There are extended lead times for various insulation products
- » Timber material suppliers continue to run at a reduced number of branches open across the UK. There are signs of price inflation although suppliers believe it is opportunist rather than core fundamentals driving up prices. 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.

**FM, Plant & Fleet** – no update since 13/07

- » **Plant** – Within the Rail industry we have started to see some of the smaller players exit the market or be acquired by bigger players<sup>7</sup>.
- » **Fuel** – The construction industry is pushing for the Diesel rebate removal which is due to double the cost of red diesel in 2 years to be extended to at least 2023 to allow for more economic recovery<sup>8</sup>.
- » **PPE** – There are a substantial number of counterfeit face masks on the market which claim to be of a KN95 standard. These masks provide an inadequate level of protection and come accompanied by fake or fraudulent paperwork<sup>9</sup>.

**Subcontractors** – no update since 22/06

- » 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 the earth moving sub-contract towards 2021 due to high profile work (HS2) taking capacity in plant operatives and earthwork supervisors specifically. Currently there seems to be no issue in the market with work in London/M4 corridor for example continuing in line with Covid-19 Site Operating Procedures.

**M, E & P** – no update since 13/07

- » Stock levels in M & E Wholesalers remains very good.
- » Some wholesalers are beginning to announce redundancies and store closures.
- » Manufacturers are generally increasing production as they slowly move staff out of furlough.
- » Some manufacturers are beginning to restructure their sales forces to accommodate the new ways of working post-Covid with a higher use of IT and less face to face appointments as is likely in the future.

**Building merchants** – no update since 13/07

- » Our strategic building merchants are operating a reduced capacity and service between 70% to 85% capacity across UK. Overall market demand mirrors this capacity.
- » Civils & Merchants supply chain is slowly de-furloughing staff and increasing production.

<sup>7</sup> <https://www.readypower.com/readypower-rail-services-ltd-acquire-road-rail-vehicle-rv-assets-of-holyrail-ltd/>

<sup>8</sup> <https://www.theconstructionindex.co.uk/news/view/construction-industry-presses-for-red-diesel-extension>

<sup>9</sup> [https://www.hse.gov.uk/safetybulletins/use-of-face-masks-designated-qn95.htm?utm\\_source=govdelivery&utm\\_medium=email&utm\\_campaign=qn95-safety-alert&utm\\_content=textlink](https://www.hse.gov.uk/safetybulletins/use-of-face-masks-designated-qn95.htm?utm_source=govdelivery&utm_medium=email&utm_campaign=qn95-safety-alert&utm_content=textlink)