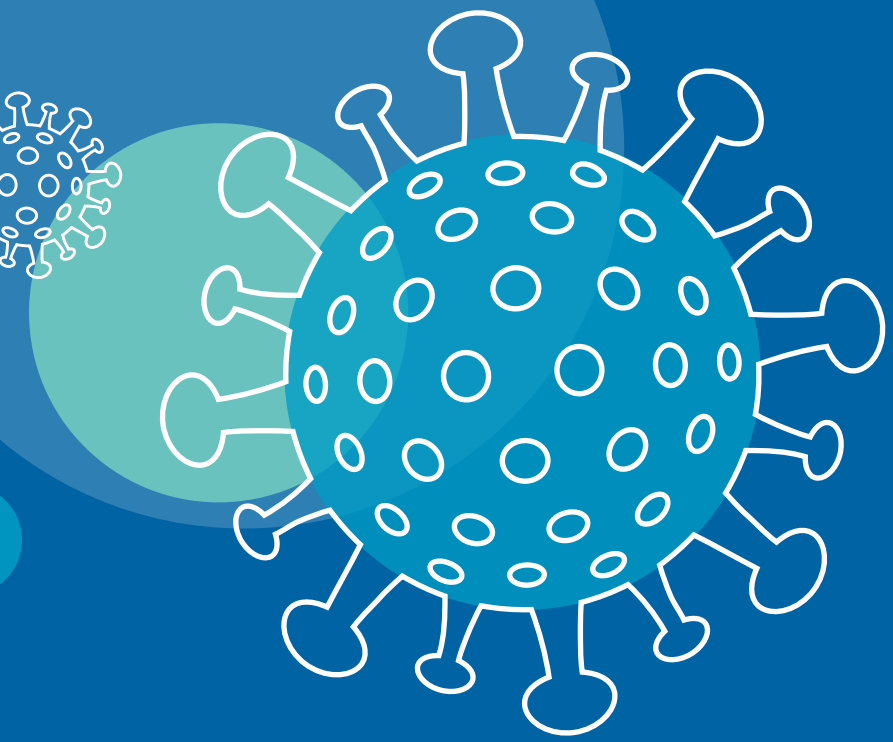
COVID-19

Impact on Supply Chain



Executive summary

For week commencing 01 September 2020

25.5 million cases of COVID-19 have been confirmed worldwide, circa 850,000 deaths and circa 16.8 million recoveries. Most of the deaths are currently coming from the US (17%) and countries in Latin America (43%), while the number of cases raises in India[1]. The UK continue to monitor countries number of cases and right to enter in the UK without quarantine to avoid a second wave.

The Office of National Statistics has published the CPIH 12-month inflation for July 2020, announcing an increase to 1.1% compared to 0.8% in June. The British pound continues to strengthen compared to the US dollar, reaching $1.34, from previous lowest point in March at $1.15.[2]

The last IHS Markit publications have shown growth in the Eurozone manufacturing sector[3] (51.7 in August). While Italy, Ireland and Germany have scored between 52 and 53, Spain and France have stagnated. The US is also showing signs of recovery with the US Composite Output Index at 54.7 in August[4]. Finally, the UK has registered the sharpest increase in private sector since October 2013, with a Flash UK Composite Output Index at 60.3 in August[5].

The main supply chain risks remain:

» Insolvency in the supply chain (high)

» Disruption to supply chain logistics and transportation

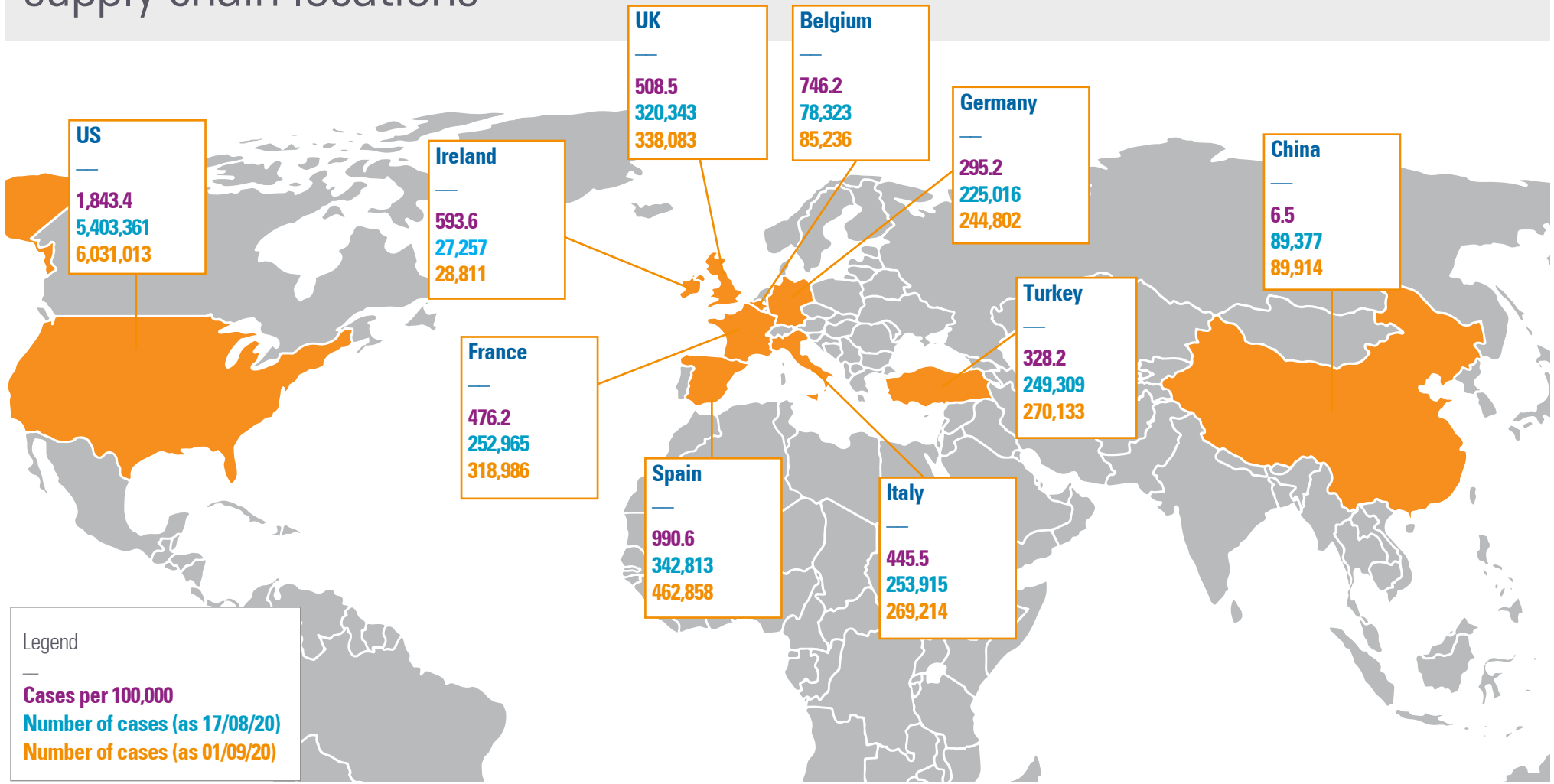
» Shortages and delays to delivery of materials due to reduce stocks availability

» Reduced labour resources on site (employees, agency staff or subcontractor staff)

[1] https://www.ft.com/content/a2901ce8-5eb7-4633-b89c-cbdf5b386938
[2] https://tradingeconomics.com/united-kingdom/currency
[3] https://www.markiteconomics.com/Public/Home/PressRelease/da9d077c03bd4e8885908454036d930d
[4] https://www.markiteconomics.com/Public/Home/PressRelease/b8fe1953311a43c795488641e8b75bb7
[5] https://www.markiteconomics.com/Public/Home/PressRelease/cb9e40f687064dd2b0cbc9324d5dd4ae

Balfour Beatty

Impacted countries – supply chain locations[5]



For more information on the impact of Covid-19 per country, please refer to Financial Times article from 01/09/2020, here.

[5] https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138

Impact by markets

Steel Reinforcement – updated 01/09

- Current framework rate for Cut & Bent circa £468 per tonne.
- Market activity was low in Q2 2020; very few projects start-ed and supply chain competed aggressively to secure available work.
- Early signs for Q3 are positive with market showing signs of recovery. Intelligence is that demand will not recover completely until 2021, as a result of HS2 and various other government initiatives offering a stimulus to the construction market.
- Rates for Cut & Bent are expected to increase in line with demand.
- 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 previously reported is that the new year will be managed quarterly rather than annually.

Building merchants – no update since 17/08

- Our strategic building merchants are operating a reduced capacity and service between 80% to 90% capacity across UK. Overall market demand mirrors this capacity.
- Civils & Merchants supply chain is slowly de-furloughing staff and increasing production.

Quarry products and surfacing – updated 01/09

- Our quarry and surfacing supply chain partners are now operating between 80% (ready-mix & concrete) and 90% (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 and Tarmac expect to exceed re-forecast in H2 2020. Recovery is slower in Wales & Scotland.

Labour – no update since 17/08

- Analysis of existing supply chain being undertaken to understand placement, rate and margin geographically to support access to labour.
- Agencies back to BAU in providing labour.

Building Fabric and Envelope – updated 01/09

» 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. It is expected that the allocation process for plasterboard will end from 3rd August 2020 however the allocation of products of other manufacturers continue to remain until further notice. Due to the high demand, the allocation for plaster will continue to remain in place.

» 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.

» Insulation manufacturers have notified and issued price increases of up to 15% for a particular range of product that will take affect from 2nd November 2020.

» 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 – updated 01/09

» **Fuel** – CPA are reviewing their policy and position with Construction companies to support comment back to the Treasury on the impending Fuel rebate removal in April 2022 (reference emails from CPA to multiple BB employees for comment).

» **Plant** – There seems to be no more supply issues in the market with most providers now operating in full capacity.

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 17/08

» Stock levels in M & E Wholesalers remains good.

» Manufacturers are generally increasing production as they slowly move staff out of furlough.

» As manufacturers and suppliers restructure their sales forces to accommodate the new ways of working post-Covid; with a higher use of IT, redundancies are prevalent and will likely be for several months to come.

» Copper prices are up 40% since April and up more than 10% in July because of mine supply disruptions, primarily in South America, according to IHS Markit. While global consumption is lower and is expected to stay lower than where we were at the beginning of the year, lower mine production more than offsets the weaker demand in our market balance calculations. We now see a surplus of less than 100,000 tonnes in 2020. It is this tighter market outlook along with Chinese demand optimism and the weaker US dollar that has driven copper prices higher over the past three months.