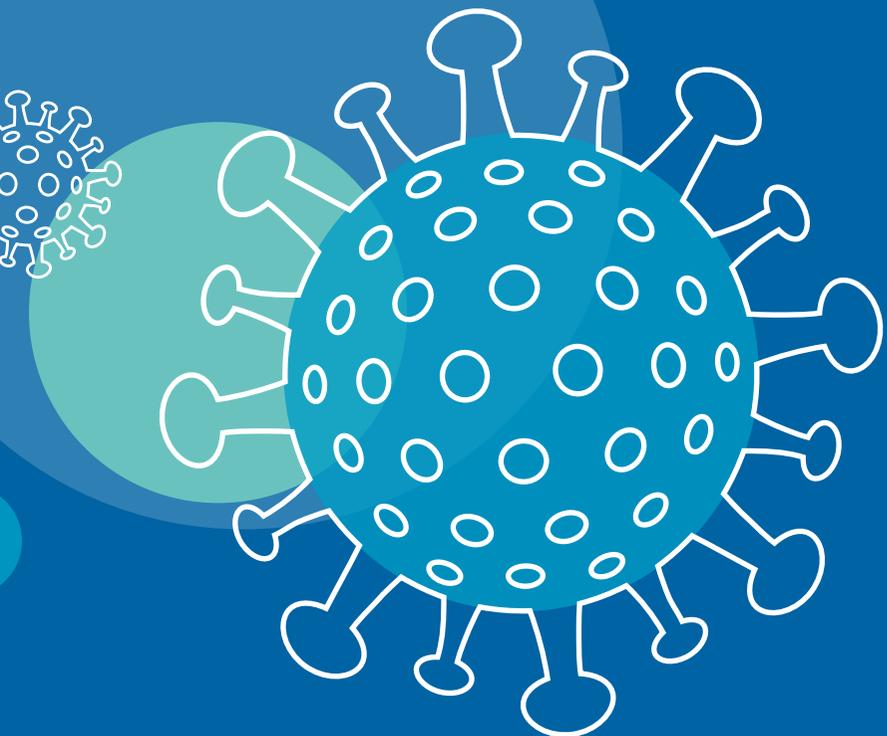




COVID-19

Impact on Supply Chain



Executive summary

For week commencing 28 September 2020

33 million cases of COVID-19 have been confirmed worldwide, circa 997,000 deaths and circa 22.8 million recoveries. Most of the deaths are currently coming from the US (13%) and countries in Latin America (38%), while the number of cases and death continues to rise in India¹.

Early estimates for August 2020 from Pay As You Earn (PAYE) Real Time Information (RTI) indicate that the number of payroll employees fell by 2.4% (695,000 employees) compared with March 2020². For May to July 2020, the unemployment rate has increased to 4.1%. Between February to April 2020 and May to July 2020, the total actual weekly hours worked in the UK decreased by 93.9 million. The average actual weekly hours fell by 2.8 hours in the quarter from May to July compared to February to April 2020.

The annual inflation rate (CPIH) has fallen from 1.1% in July to 0.5% in August 2020³. The largest contribution came from recreation and culture and the prices falling in restaurants and cafes.

The IHS Markit/CIPS Flash UK Composite Output reduced to 55.7 in September 2020 from 59.1 in August⁴. The Flash UK Services Business Activity Index fell from 58.8 to 55.1 this month. The Flash UK Manufacturing PMI followed a similar trend moving from 55.2 to 54.3.

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)

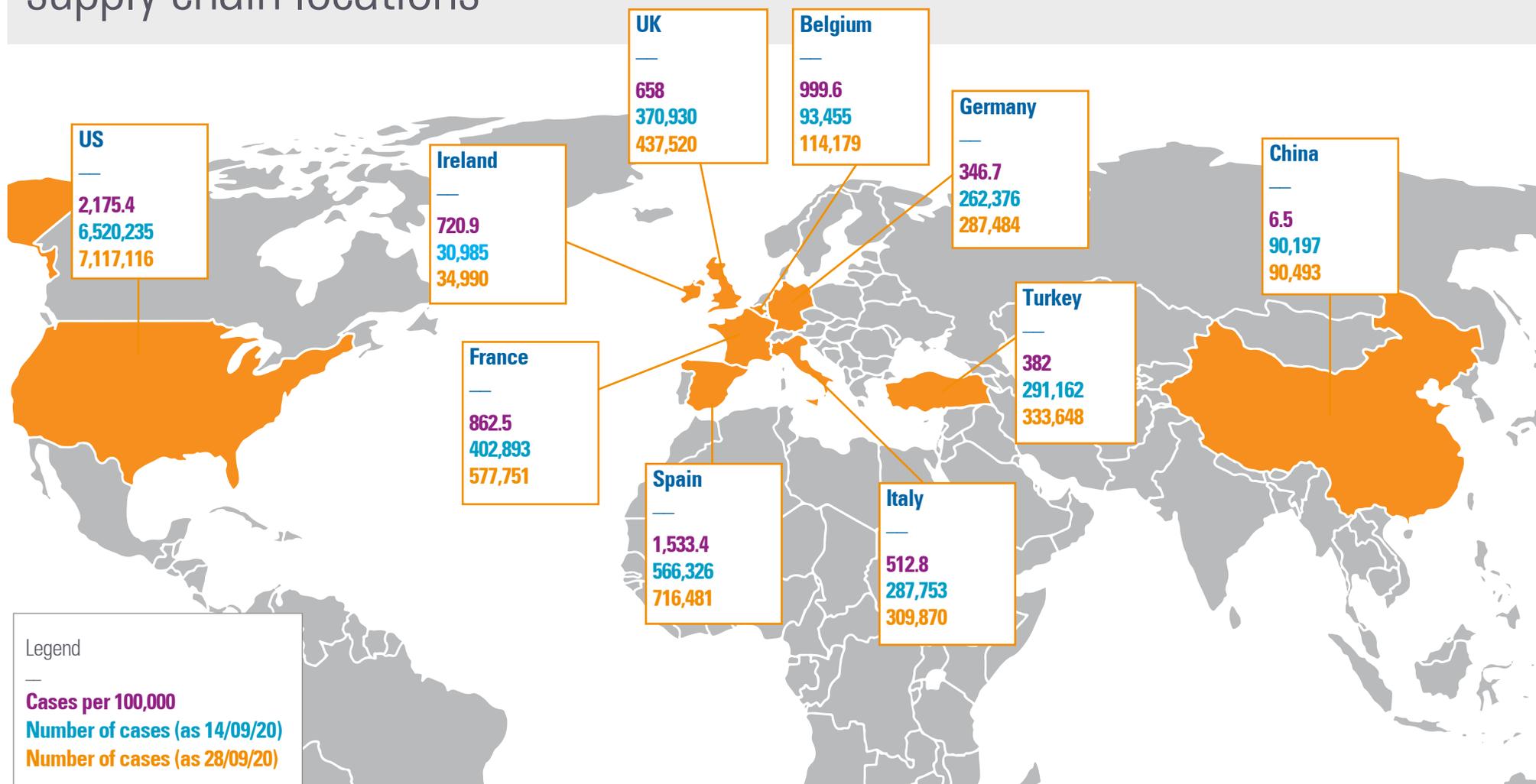
¹ <https://www.ft.com/content/a2901ce8-5eb7-4633-b89c-cbdf5b386938>

² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork>

³ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2020>

⁴ <https://www.markiteconomics.com/Public/Home/PressRelease/600a279e6825459e92a31041ed25acc0>

Impacted countries – supply chain locations⁵



For more information on the impact of Covid-19 per country, please refer to Financial Times article from 28/09/2020, here.

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

Impact by markets

Steel Reinforcement – updated 28/09

- » Current framework rate for Cut & Bent circa £468 per tonne.
- » Market activity remains low in Q3 2020; few projects started and supply chain competed aggressively to secure available work.
- » Demand unlikely to recover 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.

Building merchants – updated 28/09

- » Our strategic building merchants are operating a reduced capacity and service between 85% 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 28/09

- » Our quarry products and surfacing 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%.
- » Some businesses are currently reviewing business structure and looking to do more from less, with regards to quarries, asphalt and ready-mix plants. This is because they are achieving budget with circa 10% less asset open.
- » Forecast for return to pre Covid-19 volumes is optimistic and strategic supply chain is on track to exceed re-forecast in H2 2020. Recovery is slower in Wales & Scotland.

Building Fabric and Envelope – updated 28/09

- » 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. The allocation process for plasterboard has now ended. Due to the high demand, the allocation for plaster will continue to remain in place.
- » The majority of Drylining and insulation Distribution branches are open although restructuring due to Covid-19 has seen some branches close. Distributors are committed to prioritising supply to critical projects and deliver to non-critical sites where capacity and availability of materials allow. For 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% - 20% that will take affect from 2nd November 2020.
- » The majority of Timber material suppliers' branches are 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 or collection 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 28/09

- » **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 Balfour Beatty employees for comment).
- » **Plant** – There seems to be no more supply issues in the market with most providers now back 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 – updated 28/09

- » Stock levels in M & E Wholesalers remains good.
- » Manufacturers are generally increasing production.
- » Copper prices are level this month. This is the first level month since a continual upward trend from April 2020.