(Updated – 17 July 2020)

UK Economic and Construction Update

Latest Information

1) UK 'Points-based' Immigration Plans:

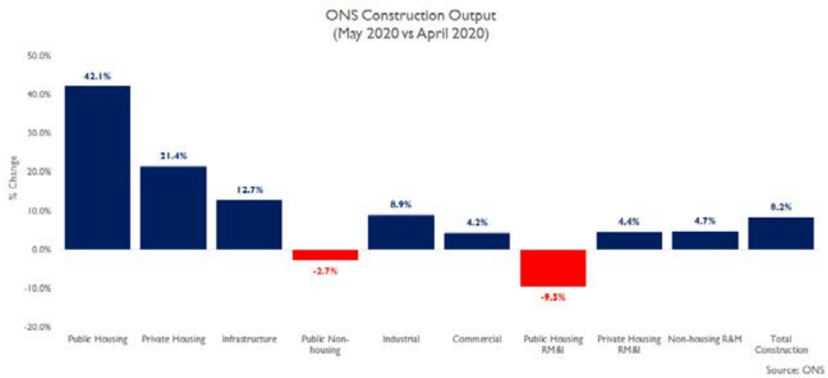
The proportion of non-UK labour working in construction is higher than most industry sectors. In particular, this is the case in London, were non-UK labour has been 50% in recent years. Previous concerns highlighted by many Trade Associations including the CPA were that most construction trades would not qualify to apply as a 'Skilled Worker' given their RQF skill level although this has been changed for most trades although some construction workers such as labourers, plant operatives, demolition workers and dry liners still do not qualify. 'Skilled Worker' applicants need a job offer from a licensed sponsor, meet the minimum skill level and speak English to an "acceptable standard". However, the requirement for a specific job offer makes it problematic for construction given the reliance on sole traders. In addition, it is worth noting that the 'going rate' for most construction trades is below the minimum level of salary allowable for the job offer (see Table 27 of the Plans).

2) ONS Construction Output for May:

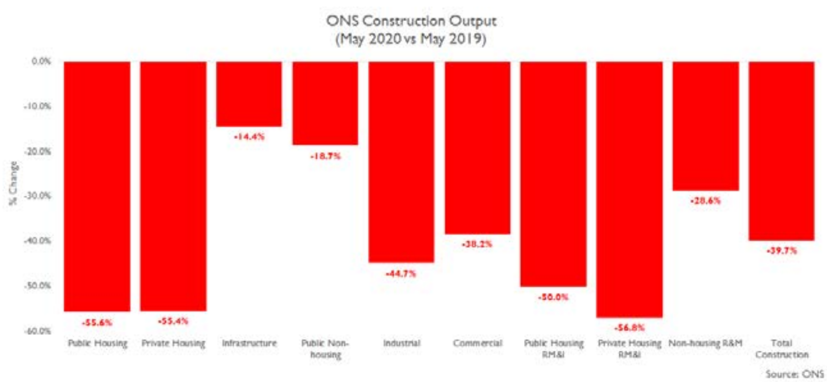
Total construction output in May 2020 was 8.2% higher than in April 2020 but still 38.8% lower than pre-COVID-19 February 2020 and 39.7% lower than a year earlier. However, note that as with March and April's construction output data, May's output is likely to be an overestimate of activity, and consequently, an underestimate of the decline compared with a year ago due to fall in the response rate to the ONS construction output survey and survivor bias (the firms responding to the survey are those operating) whilst those not operating are unlikely to be submitting responses.

Source: Office for National Statistics – Construction Output and Employment

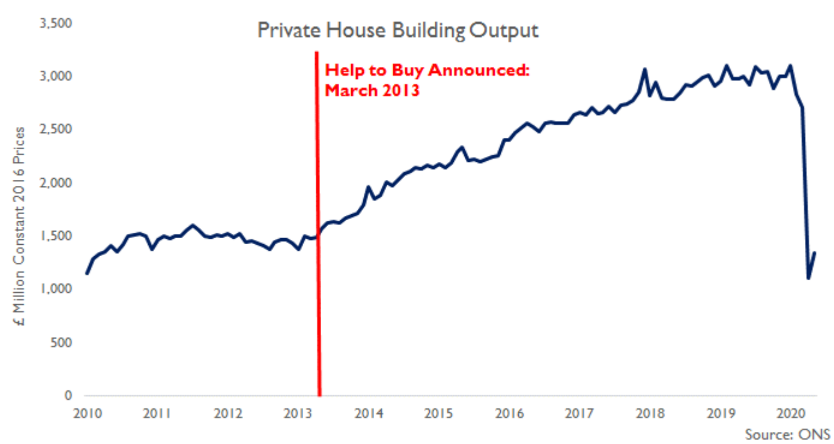
Within May's 8.2% construction output growth, house building and infrastructure were the fastest growing sectors whilst activity in public non-housing and public housing rm&i fell.

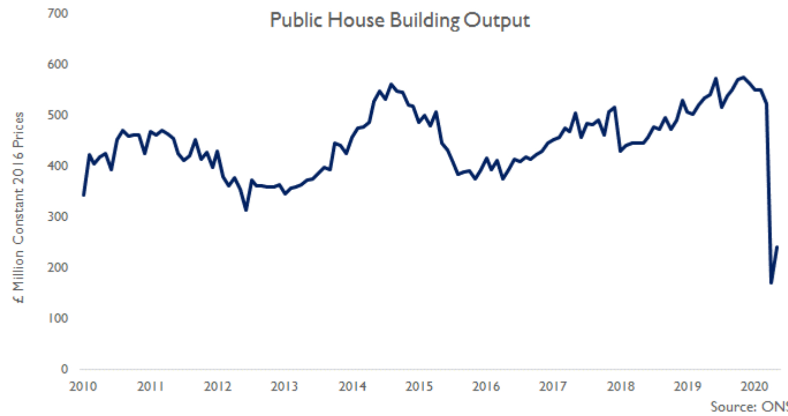


May 2020's output was still 39.7% lower than a year ago with all sectors still badly affected even though activity has been getting back to site since late April/early May. The housing and housing rm&i sectors, which account for 43% of total construction, were all 50% lower than a year ago or worse, which shows that the rise in house building output compared with April was a sharp rise in activity from a low base.

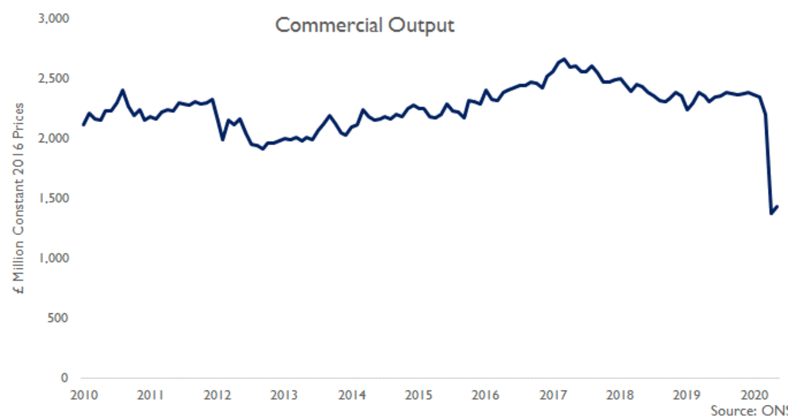


Private house building output in May was 21.4% higher than in April but 55.4% lower than a year ago as house builders started to get back on site focusing on completing developments. Public housing output in May was 42.1% higher than in April but 55.6% lower than a year ago and it is intuitively strange that ONS data have shown public housing worse affected than private housing in the restrictions but **note a structural change** in the data. ONS states that since April, housing associations are treated as private housing not public, which exaggerates the fall in public housing and underestimates the fall in private.

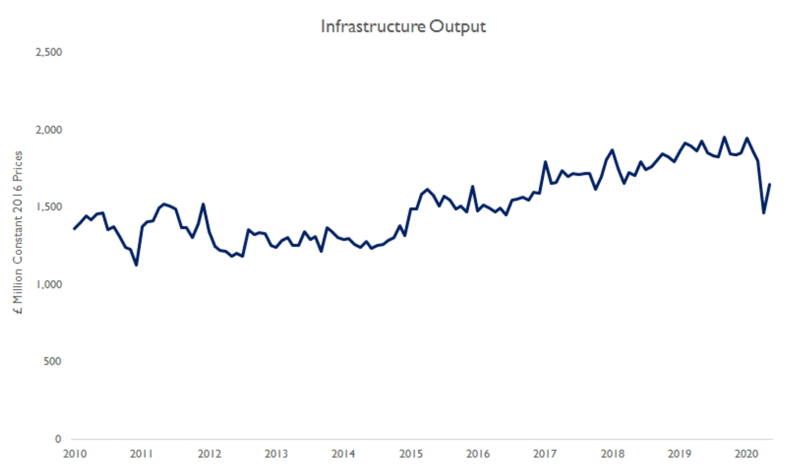




Commercial output rose by 4.2% in May 2020 compared with April as work started to get back on site finishing off offices, retail & leisure projects that had been stopped in April but commercial output remained 38.2% lower than a year ago. Commercial output will rise further in June, July & August as work accelerates to finish existing projects but the key issue will be the demand for new, additional commercial offices, retail and leisure space in the next 18 months given the excess space currently.

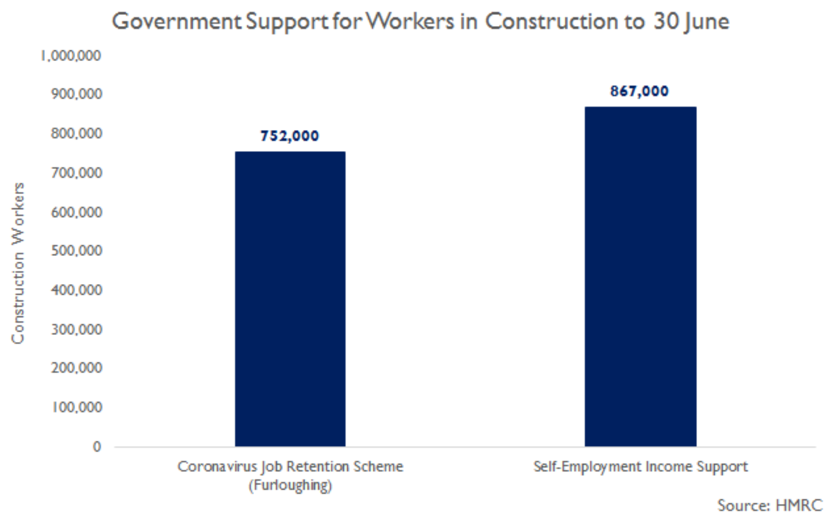


Infrastructure output rose 12.7% in May and was 14.4% lower than a year ago. Activity continued during the restrictions as it is easier to enact social distancing and other safety measures on large sites. Activity is expected to rise further in the next few months given public and regulated sector clients keen to push on with work and with certainty over funding with the exceptions of rail (outside of HS2) and airports.



3) HMRC Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme statistics:

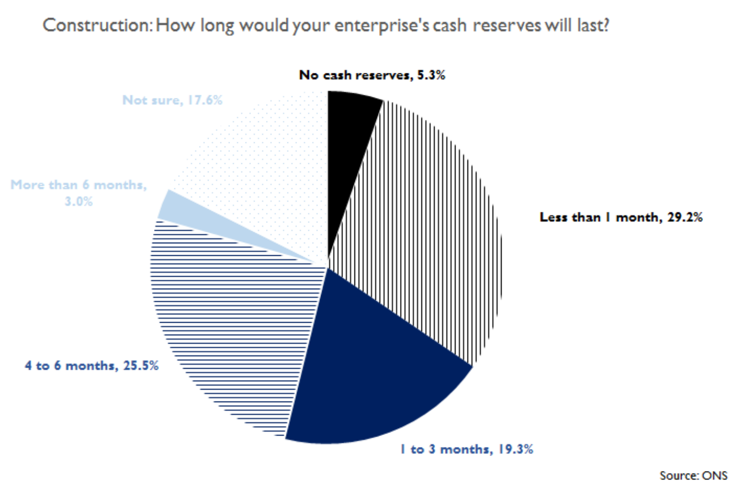
In UK construction, 752,000 workers have been furloughed between March the end of June (59% of those eligible with 75% of employers using it) & 867,000 workers have claimed for the Self-Employment Income Support to the 30 June according to the HMRC.



Construction is the 5th largest in terms of industries using the furlough scheme but 1st in terms of industries using the self-employment income support, highlighting the reliance of the UK construction industry on sole traders. This is particularly the case in London where 39% of all self-employed people using the income support were in construction.

4) ONS Construction Cash Reserves:

The latest ONS quick survey into the impacts of COVID-19 on businesses across all sectors in the two weeks to 28 June across 434 construction firms (81% of which were construction SMEs). 53.8% of construction firms reported having cash reserves lasting 3 months or fewer compared with 39% reported four weeks ago and another 18% were unsure how long their reserves would last compared with 19% two weeks earlier.



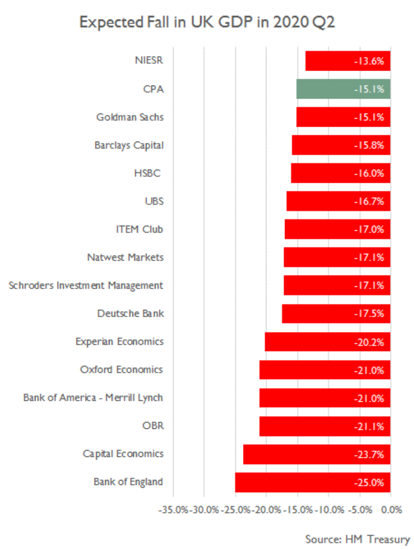
5) [Homebuyers' tax holiday](#) in Wales:

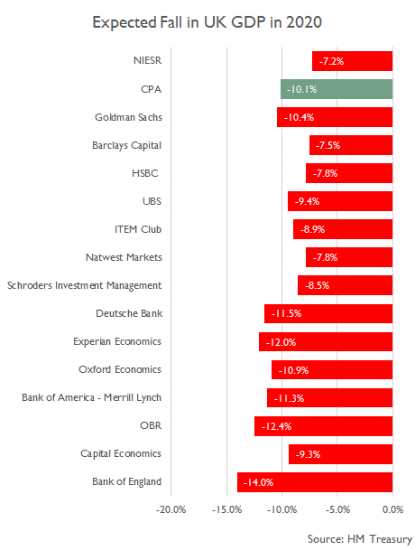
The Welsh Government has introduced a Homebuyers' tax (equivalent to Stamp Duty) holiday in Wales from 27th July until 31 March 2020. The Homebuyers' tax holiday in Wales accounts for around 80% of homebuyers but will not apply to purchases on additional properties including buy to let and second homes unlike in England and Northern Ireland.

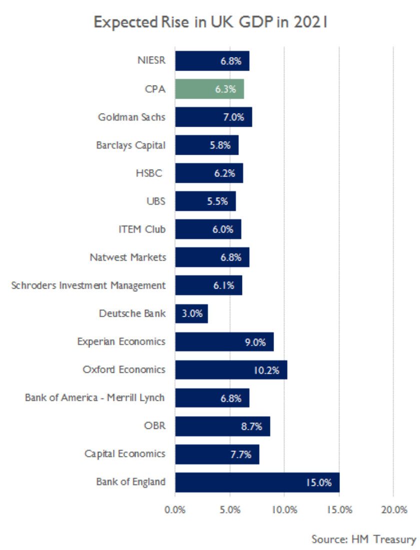
6) [HM Treasury Comparison of Independent UK Economic Forecasts](#) for July 2020:

The latest UK economic forecasts and scenarios from the main City and Non-City forecasters highlights that there has been a further significant downgrade to GDP forecasts over the past month, primarily due to sluggish economic data for May, particularly from the Services sector (which accounts for over three-quarters of the UK Economy). The median forecast is now -17.1% for Q2 and -9.9% for 2020 overall.

The one exception to the revisions downward is the latest [Office for Budget Responsibility (OBR) scenario](#), which had previously assumed that social distancing restrictions would last for three months and so originally had GDP in Q2 falling by 35% in its Coronavirus Scenario. This fall has now been revised up to -21% for Q2. However, the OBR now anticipates that there will be medium-term damage done to the UK economy whereas it had previously assumed that UK GDP would return to pre-COVID-19 levels at the end of this year. Now, its main scenario expects UK GDP returning to pre-COVID-19 levels by the end of 2022.





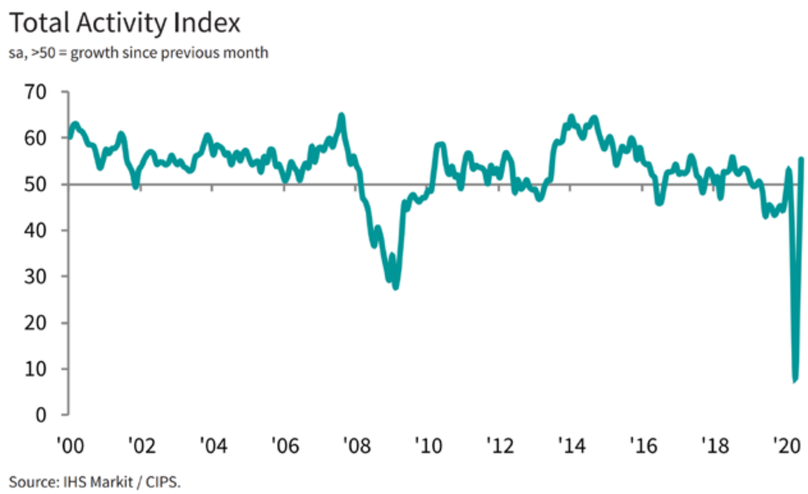


The downward revision of most economic forecasts recently has meant that the CPA's main scenario from Spring is towards the more optimistic end of the forecasts and scenarios. In the light of May's disappointing Services and GDP data, it is likely that the CPA's main scenario for Summer will be revised down by around 2 percentage points from -15.1% to around -17% for 2020 with the main direct impact of this on the services sector not construction output.

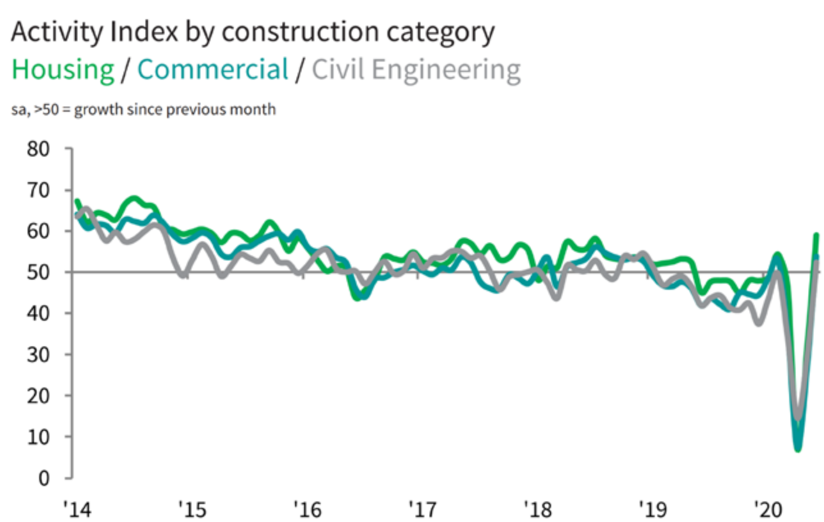
EXISTING INFORMATION

The IHS Markit/CIPS UK Construction PMI was published on 6 July.

The overall construction PMI was 55.3 in June compared to 28.9 in May, a considerable improvement in construction activity from a low base in May and, in particular, April. In the PMI in June, activity rose from a low base during April and May in house building, commercial and civil engineering as activity returned to site on projects that were halted due to social distancing and other safety measures with the fastest rise in house building activity.



Around 46% of firms noted a rise in housing activity whilst 27% reported a fall. Commercial and infrastructure activity also rose in June but not as quickly as housing. The rise in commercial activity in June reflects activity returning to site on some projects halted during social distancing restrictions but some sites were still closed in London where social distancing was still difficult on site and workers were travelling in on the tube. The rise in infrastructure activity in June was slower than in housing and commercial but more infrastructure activity had continued throughout lockdown as social distancing and other safety measures are often easier to enact on large infrastructure sites.



The Chancellor announced the Summer Economic Statement, A Plan for Jobs. The key policies relevant to construction are in the CPA Weekly Notes special although there are a few points worth highlighting:

- For the £1 billion for energy-efficient retrofit of public buildings for one year, it is highly optimistic that the majority of this will be able to be spent within the time given local authority resource constraints for applying for the finance, procuring contractors and getting activity on the ground
- For the £2 billion for private homeowners to do energy-efficient retrofit under the Green Homes Grant, it is expected that this will start in September, which raises concerns about whether this means that there will now be a hiatus in spending on energy-efficient retrofit until. In addition, the lack of published detail means that there remains uncertainty as to what products will be covered and also how the scheme will ensure that the work will be undertaken to a quality standard. However, our expectation is that homeowners would have to undertake a full energy efficiency upgrade designed to deliver EPC band C and use qualified, registered tradespeople with TrustMark.

Construction Site Working Hours – The UK government published draft guidance on 26 June of its plan to introduce flexible construction site working hours. New legislation is being introduced swiftly to allow contractors to comply with social distancing requirements by allowing staggered starts and finishes. The bill is expected to pass through all legislative stages on 29 June, after which local authorities will get only 14 days to rule on extended working hours applications or the application will be deemed to have been passed. Local authorities have been told that they should not refuse applications to extend working hours until 9pm on weekdays without clear reasons and for sites without residential neighbours, 24-hour working may be allowed. Any extended working hours can remain in place until next April.

Scottish Construction Guidance – Revised Scottish Guidance published on 22 June states that construction activity in Scotland has moved to Phase 3 of the Construction Scotland Restart Plan, in which construction sites in Scotland may operate where safe distancing can be maintained between workers.

Phase 0 – Planning
Phase 1 – COVID-19 pre-start site preparation
Phase 2 – Soft start (only where physical distancing can be maintained)
Phase 3 – Steady state (only where physical distancing can be maintained)
Phase 4 – Steady state (where physical distancing can be maintained and/or with PPE use)
Phase 5 – Increasing density / productivity

Phases 4 and 5 cover the resumption of tasks requiring workers to operate within two metres of each other while wearing suitable PPE, followed by a full return to work with safeguards in place. Restrictions on property transactions will be lifted from 29 June.

Construction activity has historically had a strong correlation with economic growth but tended to be three times more volatile. As a result, a 10% fall in UK GDP during 2020 would generally imply a fall of 30% in construction output.

However, this contraction has been different to past recessions in that activity declined at a quicker rate and is expected to last for a shorter time whilst the greatest impacts are in sectors that have not stopped due to restrictions such as services whilst construction has been allowed to continue. Even where construction activity is continuing or restarting, productivity has fallen.

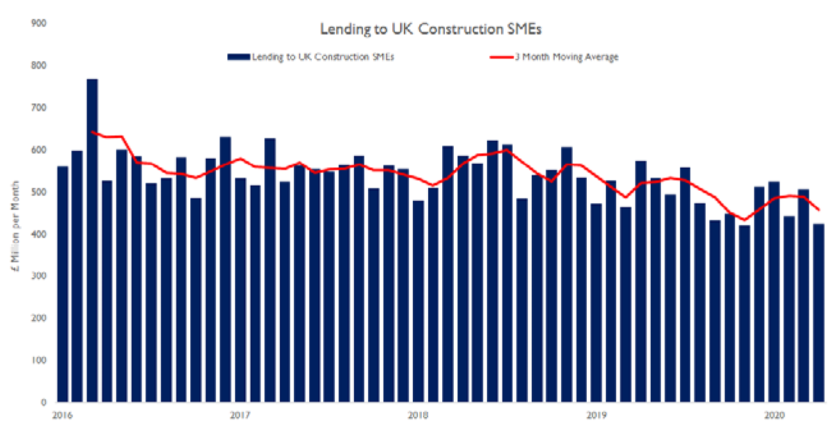
The indications CPA has from contractors is that on site productivity where SOP are adhered to had fallen by 30%-40%, depending on the development in May but the indications are in July that the easing of social distancing restrictions has meant productivity on many sites is often only 10-15% lower than pre-COVID-19.

The key problems for construction are that 86% of employment is in SMEs and 41% is self-employment so the majority of business models are based almost entirely on cash flow and few assets. This means a sharp fall in demand would lead to a sharp rise in unemployment, administrations and liquidations, particularly following on from the slowdown in construction activity at the end of 2019.

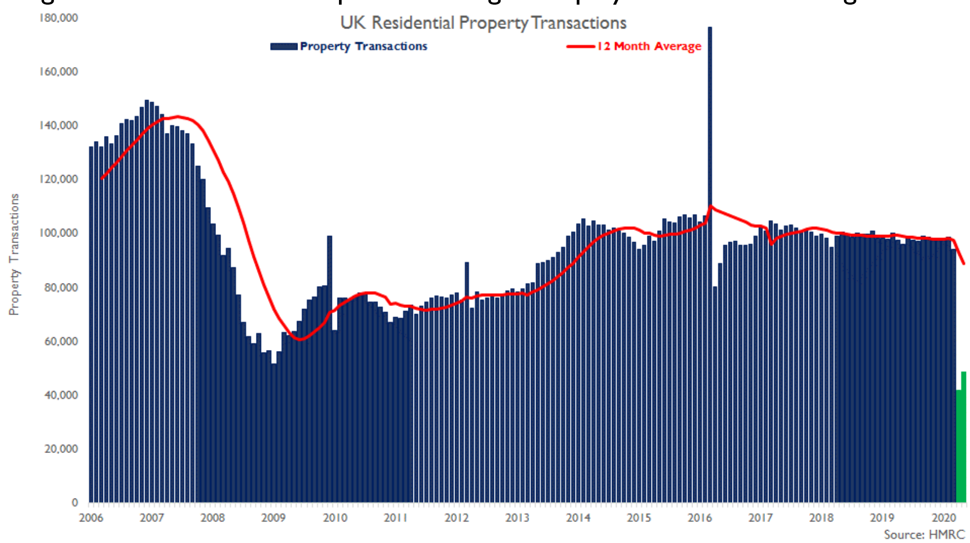
The negative impacts of both declining activity and delayed payments on the activity since 23 March is likely to be felt by SMEs primarily in June and July. In addition, there are also concerns that, as in previous recessions, an increase in administrations and insolvencies may lead to difficulties in trade-credit insurance, meaning that firms would have to pay suppliers up front, leading to further cash flow issues for SMEs that may occur later in the year.

In spite of the Government's loan schemes, lending to construction SMEs was £423 million in April, 16% lower than in March and 26% lower than one year earlier according to Bank of England data.

This suggests that either SMEs did not need the additional finance as they were not undertaking projects or that lenders reduced lending to construction SMEs and also used the government backed lending schemes such as the Coronavirus Business Interruption Loans scheme at the expense of general lending, which is where lenders are more exposed. It is also worth noting lending to construction SMEs appears to have been on a gradual downward trend over the last two years.

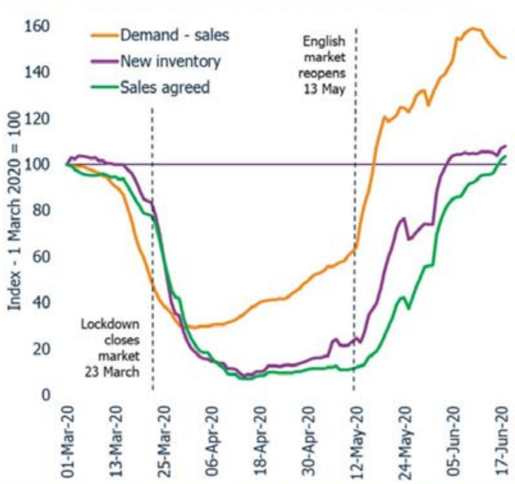


[Property transactions](#) – There were 48,450 UK residential property transactions in May 2020 according to HMRC data published on 21 June. This is 16.0% higher than April 2020 but still 49.6% lower than May 2019. Looking at the longer-term context, UK residential property transactions in May 2020 were still 6.2% lower than at the lowest point in the financial crisis, which was January 2009. But, May's transactions do not fully reflect the state of housing demand due to social distancing restrictions affecting the housing market only starting to be eased on 13 May plus pent-up demand (pre-COVID-19 transactions in progress being put on hold). So, a 'new normal' level of transactions is only likely to be clear towards the end of the year as transactions, enacted after social distancing restrictions began to ease, go through combined with the impacts of rising unemployment as the furlough scheme finishes.



The latest Zoopla housing market report, [published](#) 24 June, indicates that demand (enquiries to an agent regarding a specific property) has fallen 8% over last two weeks from a high base but is still 40% higher than pre-COVID-19. New sales agreed lag demand and has returned to pre-COVID-19 levels, recovering most strongly in northern England - Leeds, Sheffield and Manchester whilst the recovery in sales has been weaker in Bristol, Newcastle and Cambridge. This may not be solely due to demand-side factors but also the supply of homes for sale.

Fig.3 – Demand starts to fall back off a high base



Source: Zoopla Research – 7 day rolling average - data to 18/6

Fig.4 – New sales agreed compared to February 2020

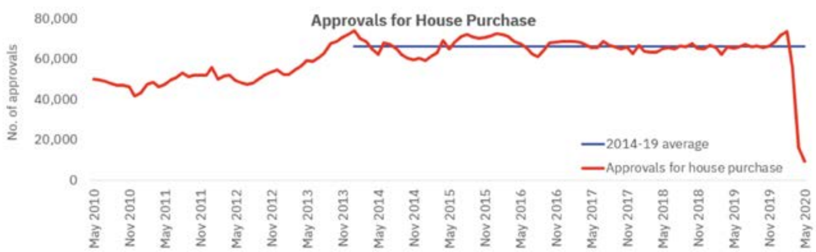
Source: Zoopla Research – comparing 2 weeks to 14/6 against Feb 2020 average sales rate

[Mortgage Approvals](#) – Bank of England data show mortgage approvals for house purchase fell to 9,300 in May, 41.5% lower than 15,900 recorded in April and 86% lower than the average level seen between 2014 and 2019. 2020 Q2 approvals are on track to fall 70% compared with Q1.

Money & Credit – Mortgage Approvals (Seasonally Adjusted)

	Latest Data	Monthly Change	Annual Change	Period
No. of Approvals for House Purchase	9,273	-41.5%	-85.8%	May 2020
No. of Approvals for Remortgaging	30,368	-11.0%	-37.0%	

The number of mortgage approvals for house purchase fell a further 41% in May and are now 86% below the average level seen in 2014-2019. Remortgaging approvals fell by 11%.



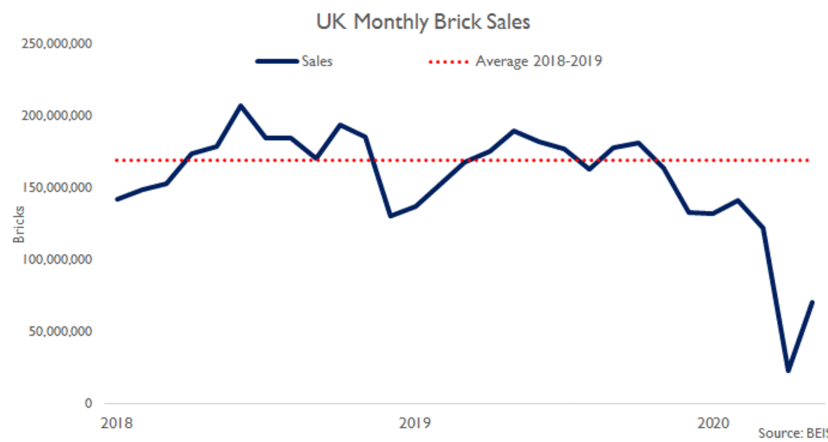
[Mortgage Rates](#) – Mortgage rates rose in May for most mortgages. The average rate for a two-year fixed rate mortgage with a 95% loan-to-value ratio was 3.17% compared with 3.02% although the lack of mortgage availability was a greater issue than the rate.

Secured Lending (Mortgage) Rates

	Latest Data	Monthly Change*	Annual Change*	Period
2 Year Fixed Rate at 60% LTV	1.32%	0.00%	-0.24%	May 2020
2 Year Fixed Rate at 75% LTV	1.42%	0.04%	-0.23%	
2 Year Fixed Rate at 85% LTV	1.82%	0.13%	0.01%	
2 Year Fixed Rate at 90% LTV	1.94%	0.06%	-0.25%	
2 Year Fixed Rate at 95% LTV	3.17%	0.09%	0.24%	
2 Year Fixed Rate at 75% LTV	1.42%	0.04%	-0.23%	
3 Year Fixed Rate at 75% LTV	1.68%	0.05%	-0.11%	
5 Year Fixed Rate at 75% LTV	1.70%	0.03%	-0.29%	
10 Year Fixed Rate at 75% LTV	2.37%	-0.03%	-0.20%	

The [Nationwide House Price](#) index reported that UK house prices fell by 1.4% in June after the 1.7% fall in May. June's house price index was also 0.1% lower than one year earlier. However, the CPA has highlighted previously, note that Nationwide's data is based on 'offer prices' not transaction prices and also that the Bank of England statistics reveal that there were only 9,300 mortgages in May (see Point 1) so these house price indices are based on very low activity.

BEIS monthly materials indices – UK monthly brick sales, a potentially useful proxy for house building activity, in April 2020 were 87% lower than a year ago and in May 2020 brick sales were still 63% lower than a year earlier but more than double April's sales.



UK monthly concrete block sales in April 2020 were 74.8% lower than a year ago and in May 2020 were 45% lower than a year earlier, more than double April's sales, pointing to less of a decline in April and a similar rapid recovery than brick sales.